ELITES, EXTRACTION AND STATE AUTONOMY: PAKISTAN AND U.S. IN COMPARISON

BY

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A dissertation submitted to Area Study Centre for Africa, North and South America, Quaid-e-Azam University, Islamabad, in partial fulfillment of the requirements for the degree of –

DOCTOR OF PHILOSOPHY

IN

AMERICAN STUDIES

Area Study Centre for Africa, North and South America, Quaid-e-Azam University, Islamabad
To

The cherished memory of my brother – Muhammad Ashraf Zahid –

Who made lives – including mine!
Acknowledgements

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# Table of Contents

<table>
<thead>
<tr>
<th>Chapter #</th>
<th>Title</th>
<th>Page #</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Introduction</strong></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td><strong>Chapter 1</strong></td>
<td>Theoretical Framework</td>
<td>16</td>
</tr>
<tr>
<td>Section I</td>
<td>Introduction</td>
<td>16</td>
</tr>
<tr>
<td>Section II</td>
<td>State Autonomy</td>
<td>19</td>
</tr>
<tr>
<td>Section III</td>
<td>Elite Capture in Pakistan</td>
<td>31</td>
</tr>
<tr>
<td>Section IV</td>
<td>Elites’ Rational Actor Dilemma</td>
<td>48</td>
</tr>
<tr>
<td>Section V</td>
<td>Equilibrium Consensus Subsistence State</td>
<td>57</td>
</tr>
<tr>
<td>Section VI</td>
<td>Elites and Extraction in the U.S.</td>
<td>61</td>
</tr>
<tr>
<td>Section VII</td>
<td>Conclusion</td>
<td>70</td>
</tr>
<tr>
<td><strong>Chapter 2</strong></td>
<td>State and Extraction</td>
<td>73</td>
</tr>
<tr>
<td>Section I</td>
<td>Introduction</td>
<td>73</td>
</tr>
<tr>
<td>Section II</td>
<td>Theoretical Underpinnings</td>
<td>76</td>
</tr>
<tr>
<td>Section III</td>
<td>State-Building and Extraction</td>
<td>80</td>
</tr>
<tr>
<td>Section IV</td>
<td>State-building and Extractive System</td>
<td>84</td>
</tr>
<tr>
<td>Section V</td>
<td>Extraction and Polity of Pakistan</td>
<td>88</td>
</tr>
<tr>
<td>Section VI</td>
<td>State-building and Disaggregated Approach</td>
<td>125</td>
</tr>
<tr>
<td>Section VII</td>
<td>State and Extraction in the U.S.</td>
<td>127</td>
</tr>
<tr>
<td>Section VIII</td>
<td>Conclusion</td>
<td>143</td>
</tr>
<tr>
<td><strong>Chapter 3</strong></td>
<td>System Domination: Strategic Alliance Formation</td>
<td>148</td>
</tr>
<tr>
<td>Section I</td>
<td>Introduction</td>
<td>148</td>
</tr>
<tr>
<td>Section II</td>
<td>Alliance Formation – Historical Context</td>
<td>149</td>
</tr>
<tr>
<td>Section III</td>
<td>Duopoly Operational Paradigm</td>
<td>157</td>
</tr>
<tr>
<td>Section IV</td>
<td>Duopoly Tactical Mechanics</td>
<td>163</td>
</tr>
<tr>
<td>Section V</td>
<td>Revenue Function Domination</td>
<td>167</td>
</tr>
<tr>
<td>Section VI</td>
<td>United States IRS</td>
<td>181</td>
</tr>
<tr>
<td>Section VII</td>
<td>Conclusion</td>
<td>188</td>
</tr>
<tr>
<td><strong>Chapter 4</strong></td>
<td>System Domination: Historical Perspective – Incremental Approach</td>
<td>191</td>
</tr>
<tr>
<td>Section I</td>
<td>Introduction</td>
<td>191</td>
</tr>
<tr>
<td>Section II</td>
<td>Incremental Approach - Concept</td>
<td>192</td>
</tr>
<tr>
<td>Section III</td>
<td>Pre-Independence Predilections</td>
<td>193</td>
</tr>
<tr>
<td>Section IV</td>
<td>Scramble to Power 1947-1960</td>
<td>199</td>
</tr>
<tr>
<td>Section V</td>
<td>Consolidation of Gains 1960-1970</td>
<td>208</td>
</tr>
<tr>
<td>Section VI</td>
<td>Flirtation with Socialism 1970-1980</td>
<td>218</td>
</tr>
<tr>
<td>Section VII</td>
<td>Ideological Polarization 1980-1990</td>
<td>222</td>
</tr>
<tr>
<td>Section VIII</td>
<td>Rattling of the Polity 1990-2000</td>
<td>226</td>
</tr>
<tr>
<td>Section IX</td>
<td>Squandering of the Opportunity 2000-2010</td>
<td>229</td>
</tr>
<tr>
<td>Section X</td>
<td>Economico-Political Meltdown 2010-2015</td>
<td>234</td>
</tr>
<tr>
<td>Section XI</td>
<td>Capsule History of U.S. Tax System</td>
<td>237</td>
</tr>
</tbody>
</table>
# Chapter 5

**System Domination: Historical Perspective – Shock Approach**

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Introduction</td>
<td>252</td>
</tr>
<tr>
<td>II</td>
<td>Tax Reforms – Theoretical Underpinnings</td>
<td>254</td>
</tr>
<tr>
<td>III</td>
<td>Methodology</td>
<td>259</td>
</tr>
<tr>
<td>IV</td>
<td>Tax Reforms in Pakistan</td>
<td>260</td>
</tr>
<tr>
<td>V</td>
<td>Initial Attempts</td>
<td>263</td>
</tr>
<tr>
<td>VI</td>
<td>Taxation Enquiry Committee, 1957-61</td>
<td>267</td>
</tr>
<tr>
<td>VII</td>
<td>Commission on Taxation and Tariff, 1964-66</td>
<td>287</td>
</tr>
<tr>
<td>VIII</td>
<td>Taxation Commission, 1970-74</td>
<td>305</td>
</tr>
<tr>
<td>IX</td>
<td>National Taxation Reforms Commission, 1985-87</td>
<td>329</td>
</tr>
<tr>
<td>X</td>
<td>Taxation Reforms Committee, 1990-91</td>
<td>353</td>
</tr>
<tr>
<td>XII</td>
<td>Commission on Tax Reforms, 1997-98</td>
<td>385</td>
</tr>
<tr>
<td>XIII</td>
<td>Task Force on Tax Administration, 2000-01</td>
<td>395</td>
</tr>
<tr>
<td>XIV</td>
<td>Capsule History of U.S. Tax Reforms</td>
<td>405</td>
</tr>
<tr>
<td>XV</td>
<td>Conclusion</td>
<td>411</td>
</tr>
</tbody>
</table>

# Chapter 6

**System Domination: Elitist Compartmentalization of Information State**

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Introduction</td>
<td>415</td>
</tr>
<tr>
<td>II</td>
<td>Theoretical Underpinnings</td>
<td>418</td>
</tr>
<tr>
<td>III</td>
<td>Secrecy – The Elitist Connection</td>
<td>421</td>
</tr>
<tr>
<td>IV</td>
<td>Standard Information Aggregation Model</td>
<td>432</td>
</tr>
<tr>
<td>V</td>
<td>Informetrics: Rules of the Game</td>
<td>437</td>
</tr>
<tr>
<td>VI</td>
<td>Exchange of Information and International Connections</td>
<td>479</td>
</tr>
<tr>
<td>VII</td>
<td>Elitization of “Right to Information”</td>
<td>482</td>
</tr>
<tr>
<td>VIII</td>
<td>Secrecy and U.S. Tax System</td>
<td>489</td>
</tr>
<tr>
<td>IX</td>
<td>Conclusion</td>
<td>494</td>
</tr>
</tbody>
</table>

**Conclusion**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>598</td>
</tr>
</tbody>
</table>

**Annexure-I**

<table>
<thead>
<tr>
<th>Annexure</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>510</td>
</tr>
</tbody>
</table>

**Annexure-II**

<table>
<thead>
<tr>
<th>Annexure</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>II</td>
<td>511</td>
</tr>
</tbody>
</table>

**Bibliography**

<table>
<thead>
<tr>
<th>Bibliography</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>513</td>
</tr>
</tbody>
</table>
# Abbreviations

<table>
<thead>
<tr>
<th>Abbreviations/Acronyms</th>
<th>Nomenclature/Titles</th>
</tr>
</thead>
<tbody>
<tr>
<td>AY</td>
<td>Assessment Year</td>
</tr>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>ADF</td>
<td>Asian Development Fund</td>
</tr>
<tr>
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</tr>
<tr>
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<td>Automatic Exchange of Information</td>
</tr>
<tr>
<td>AERC</td>
<td>Applied Economics Research Centre</td>
</tr>
<tr>
<td>AITC</td>
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</tr>
<tr>
<td>AMLA</td>
<td>Anti-Money Laundering Act</td>
</tr>
<tr>
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<td>Anti Narcotics Force</td>
</tr>
<tr>
<td>ANP</td>
<td>Awami National Party</td>
</tr>
<tr>
<td>AOP</td>
<td>Association of Persons</td>
</tr>
<tr>
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<td>Asia Pacific Group</td>
</tr>
<tr>
<td>ARC</td>
<td>Agrarian Reforms Committee</td>
</tr>
<tr>
<td>BE</td>
<td>Bureaucratic Elites</td>
</tr>
<tr>
<td>BCO</td>
<td>Banking Companies Ordinance</td>
</tr>
<tr>
<td>BPS</td>
<td>Basic Pay Scale</td>
</tr>
<tr>
<td>BSA</td>
<td>Bank Secrecy Act</td>
</tr>
<tr>
<td>CBR</td>
<td>Central Board of Revenue</td>
</tr>
<tr>
<td>CBRDT</td>
<td>Central Board of Direct Taxes</td>
</tr>
<tr>
<td>CC</td>
<td>Competition Commission of Pakistan</td>
</tr>
<tr>
<td>CCFR</td>
<td>Cabinet Committee on Finance and Revenue</td>
</tr>
<tr>
<td>CGT</td>
<td>Capital Gains Tax</td>
</tr>
<tr>
<td>CI</td>
<td>Consumer International</td>
</tr>
<tr>
<td>CNIC</td>
<td>Computerized National Identity Card</td>
</tr>
<tr>
<td>COAS</td>
<td>Chief of Army Staff</td>
</tr>
<tr>
<td>CoD</td>
<td>Charter of Democracy</td>
</tr>
<tr>
<td>CPDI</td>
<td>Center for Peace and Development Initiatives</td>
</tr>
<tr>
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<td>Common Reporting Standard</td>
</tr>
<tr>
<td>CSA</td>
<td>Civil Services Academy</td>
</tr>
<tr>
<td>CSO</td>
<td>Central Statistical Office</td>
</tr>
<tr>
<td>CSP</td>
<td>Civil Services of Pakistan</td>
</tr>
<tr>
<td>CSS</td>
<td>Central Superior Services</td>
</tr>
<tr>
<td>CTG</td>
<td>Commerce &amp; Trade Group</td>
</tr>
<tr>
<td>CTR</td>
<td>Commission on Tax Reforms</td>
</tr>
<tr>
<td>CTT</td>
<td>Commission on Taxation and Tariff</td>
</tr>
<tr>
<td>CVT</td>
<td>Capital Value Tax</td>
</tr>
<tr>
<td>DCIT</td>
<td>Deputy Commissioner of Income Tax</td>
</tr>
<tr>
<td>DCO</td>
<td>District Coordination Officer</td>
</tr>
<tr>
<td>DFIIs</td>
<td>Development Financial Institutions</td>
</tr>
<tr>
<td>DHA</td>
<td>Defense Housing Authority</td>
</tr>
<tr>
<td>DMG</td>
<td>District Management Group</td>
</tr>
<tr>
<td>DTC</td>
<td>Model Double Taxation Convention</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
</tr>
<tr>
<td>---------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>E&amp;D</td>
<td>Efficiency and Discipline</td>
</tr>
<tr>
<td>EC</td>
<td>Election Commission</td>
</tr>
<tr>
<td>ECC</td>
<td>Economic Committee of the Cabinet</td>
</tr>
<tr>
<td>ECP</td>
<td>Election Commission of Pakistan</td>
</tr>
<tr>
<td>ED</td>
<td>Establishment Division</td>
</tr>
<tr>
<td>F/Y</td>
<td>Financial Year</td>
</tr>
<tr>
<td>FATCA</td>
<td>Foreign Account Tax Compliance Act</td>
</tr>
<tr>
<td>FBR</td>
<td>Federal Board of Revenue</td>
</tr>
<tr>
<td>FE</td>
<td>Foreign Exchange</td>
</tr>
<tr>
<td>FERA</td>
<td>Foreign Exchange Regulation Act</td>
</tr>
<tr>
<td>FGCM</td>
<td>Field General Court Martial</td>
</tr>
<tr>
<td>FMU</td>
<td>Financial Monitoring Unit</td>
</tr>
<tr>
<td>FOI</td>
<td>Freedom of Information</td>
</tr>
<tr>
<td>FSP</td>
<td>Foreign Service of Pakistan</td>
</tr>
<tr>
<td>FTO</td>
<td>Federal Tax Ombudsman</td>
</tr>
<tr>
<td>FTS</td>
<td>Final Tax Scheme</td>
</tr>
<tr>
<td>FY</td>
<td>Financial Year</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GNP</td>
<td>Gross National Product</td>
</tr>
<tr>
<td>GOP</td>
<td>Government of Pakistan</td>
</tr>
<tr>
<td>GOP</td>
<td>Grand Old Party (U.S.A)</td>
</tr>
<tr>
<td>GST</td>
<td>General Sales Tax</td>
</tr>
<tr>
<td>ICA</td>
<td>Intra Court Appeal</td>
</tr>
<tr>
<td>ICAP</td>
<td>Institute of Chartered Accountants of Pakistan</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>IFIs</td>
<td>International Financial Institutions</td>
</tr>
<tr>
<td>IHC</td>
<td>Islamabad High Court</td>
</tr>
<tr>
<td>IJI</td>
<td>Islami Jamhoori Ittehad</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>INGO</td>
<td>International Non-Governmental Organization</td>
</tr>
<tr>
<td>IRS</td>
<td>Inland Revenue Service</td>
</tr>
<tr>
<td>ITA</td>
<td>Income Tax Act</td>
</tr>
<tr>
<td>ITO</td>
<td>Income Tax Officer</td>
</tr>
<tr>
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<td>Income Tax Return</td>
</tr>
<tr>
<td>JUP-F</td>
<td>Jamiat Ulema-e-Pakistan-Functional</td>
</tr>
<tr>
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</tr>
<tr>
<td>LHC</td>
<td>Lahore High Court</td>
</tr>
<tr>
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<td>Lahore University of Management Sciences</td>
</tr>
<tr>
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<td>Military Elites</td>
</tr>
<tr>
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</tr>
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</tr>
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<tr>
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</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>NADRA</td>
<td>National Data Registration Authority</td>
</tr>
<tr>
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</tr>
<tr>
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</tr>
<tr>
<td>NIA</td>
<td>National Information Aggregator</td>
</tr>
<tr>
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</tr>
<tr>
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</tr>
<tr>
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</tr>
<tr>
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</tr>
<tr>
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<td>Osama Bin Laden</td>
</tr>
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<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OGRA</td>
<td>Oil and Gas Regulatory Authority</td>
</tr>
<tr>
<td>OMG</td>
<td>Office Management Group</td>
</tr>
<tr>
<td>OSA</td>
<td>Official Secrets Act</td>
</tr>
<tr>
<td>PAA</td>
<td>Pakistan Army Act</td>
</tr>
<tr>
<td>PAAS</td>
<td>Pakistan Audit and Accounts Service</td>
</tr>
<tr>
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<td>Public Accounts Committee</td>
</tr>
<tr>
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</tr>
<tr>
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<tr>
<td>PC</td>
<td>Planning Commission</td>
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<tr>
<td>PCRWR</td>
<td>Pakistan Council for Research on Water Resources</td>
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<td>PCS</td>
<td>Pakistan Customs Service</td>
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<td>PCS</td>
<td>Provincial Civil Service</td>
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<tr>
<td>PEMRA</td>
<td>Pakistan Media Regulatory Authority</td>
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<tr>
<td>PERA</td>
<td>Protection of Economic Reform Act</td>
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<tr>
<td>PICIC</td>
<td>Pakistan Industrial Credit and Investment Corporation</td>
</tr>
<tr>
<td>PIDE</td>
<td>Pakistan Institute of Development Economics</td>
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<tr>
<td>PILDAT</td>
<td>Pakistan Institute of Legislative Development and Transparency</td>
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<tr>
<td>PIUs</td>
<td>Produced index Units</td>
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<tr>
<td>PML-N</td>
<td>Pakistan Muslim League-Nawaz</td>
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<tr>
<td>PML-Q</td>
<td>Pakistan Muslim League-Quaid-e-Azam</td>
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<tr>
<td>PNA</td>
<td>Pakistan National Alliance</td>
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<tr>
<td>PPP</td>
<td>Pakistan Peoples Party</td>
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<td>PRAL</td>
<td>Pakistan Revenue Automated Limited</td>
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<td>PSE</td>
<td>Public Sector Entity</td>
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<td>PSP</td>
<td>Police Service of Pakistan</td>
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<tr>
<td>PTI</td>
<td>Pakistan Tehrik-e-Insaf</td>
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<tr>
<td>PTR</td>
<td>Presumptive Tax Regime</td>
</tr>
<tr>
<td>QSO</td>
<td>Qanoon-i-Shahadat Order</td>
</tr>
<tr>
<td>RCTG</td>
<td>Railways (Commercial &amp; Transportation) Group</td>
</tr>
<tr>
<td>RMTRC</td>
<td>Resource Mobilization and Taxation Reform Commission</td>
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<tr>
<td>RTI</td>
<td>Right to information Law</td>
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<td>SAS</td>
<td>Self Assessment Scheme</td>
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<td>SBP</td>
<td>State Bank of Pakistan</td>
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<td>SECP</td>
<td>Security and Exchange Commission of Pakistan</td>
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<tr>
<td>SG</td>
<td>Secretariat Group</td>
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<tr>
<td>SITE</td>
<td>Sindh Industrial Trade Estate</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>SLIC</td>
<td>State Life Insurance Corporation</td>
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<tr>
<td>SNASCF</td>
<td>Sub-committee of National Assembly Standing Committee on Finance</td>
</tr>
<tr>
<td>SRO</td>
<td>Statutory Regulatory Order</td>
</tr>
<tr>
<td>SSSCF</td>
<td>Sub-committee of Senate Standing Committee on Finance</td>
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<tr>
<td>ST&amp;FE</td>
<td>Sale Tax and Federal Excise</td>
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<td>STA</td>
<td>Sales Tax Act</td>
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<tr>
<td>STC</td>
<td>Sales Tax Committee</td>
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<td>TARP</td>
<td>Tax Administration Reform Project</td>
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<td>TC</td>
<td>Taxation Committee</td>
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<td>TEC</td>
<td>Taxation Enquiry Committee</td>
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<td>TFC</td>
<td>Term Finance Certificate</td>
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<td>TFC</td>
<td>Tax Facilitation Center</td>
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<td>TFTA</td>
<td>Task Force on Tax Administration</td>
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<td>TIEA</td>
<td>Tax Information Exchange Agreement</td>
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<td>TIP</td>
<td>Transparency International Pakistan</td>
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<tr>
<td>TOR</td>
<td>Term of Reference</td>
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<tr>
<td>TRC</td>
<td>Taxation Reforms Committee</td>
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<tr>
<td>TRO</td>
<td>Tax Recovery Organization</td>
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<tr>
<td>U.S.A</td>
<td>United States of America</td>
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<tr>
<td>UDHR</td>
<td>Universal Declaration of Human Rights</td>
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<tr>
<td>UHNW</td>
<td>Ultra High Net Worth</td>
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<tr>
<td>UHNWIs</td>
<td>Ultra High Net Worth Individuals</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Fund</td>
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<tr>
<td>US/USA</td>
<td>United States of America</td>
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<tr>
<td>U.S.TP</td>
<td>U.S. Taxpayers Party</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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<tr>
<td>VCR</td>
<td>Videocassette Recorder</td>
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<tr>
<td>WAPDA</td>
<td>Water and Power Development Authority</td>
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<tr>
<td>WB</td>
<td>World Bank</td>
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<tr>
<td>WHT</td>
<td>With Holding Tax</td>
</tr>
<tr>
<td>YOY</td>
<td>Year-on-Year</td>
</tr>
<tr>
<td>ZTBL</td>
<td>Zarai Taraqiati Bank Ltd.</td>
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Introduction

“In their dealings with the State: when there is an income tax, the just man will pay more and the unjust less on the same amount of income; and when there is anything to be received the one gains nothing and the other much.”

Plato, “The Republic”

The role of pressure and interest groups, faction management, extractive system, elite capture, system domination, system reforms, governance deficit, and institutional secrecy and their linkages with state conduct and its autonomy are all quite developed disciplines in their own right and respective fields. These variables, which collectively underpin any analysis of the state and its conduct, however, manifest differently in different states and in different periods of history. Such an analysis would become even more interesting if the comparison is between a developing and a developed country – contextually Pakistan and U.S, respectively, while seemingly Pakistan figures prominently in the discussion.

The U.S. Secretary of State, Hillary Clinton’s pointed harangue that “Pakistan itself must take immediate and substantial action to mobilize its own resources, … pass meaningful reforms that will expand its tax base … (and) that the economically affluent and elite in Pakistan support the government and people of Pakistan,” on the one hand, is a taunting expression of the international community’s fatigue with infinitely recurrent refilling of Pakistan’s bottomless begging bowl, and on the other, a muffled but telling articulation of the single most important malaise of Pakistan’s political economy – below-par performance of its revenue function. The New York Times, in 2010, remarked: “The

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problem starts at the top. The average net worth of Pakistani members of Parliament is $900,000, with its richest member topping $37 million, according to a December study by the Pakistan Institute of Legislative Development and Transparency in Islamabad.”

In the same vein, a couple of years later, the UK House of Commons-International Development Committee (IDC) bluntly exhorted: “If the Pakistan government is unwilling to take action to increase its revenues and improve services for its people, it cannot expect the British people to do so in the long run. We cannot expect the citizens of the UK to pay taxes to improve education and health in Pakistan if the Pakistan elite is not paying income tax.”

This realization on the part of Pakistan’s external stakeholders i.e. countries and multilateral frameworks with interest in Pakistan, that its internal stakeholders were not contributing enough as cost of keeping the state afloat, had started to crystallize as far back as 1965, when the Commission on Taxation and Tariff (CTT), lamenting the then Tax/GNP ratio of only 9 per cent, observed that “This has been adversely commented on in some international forums as lack of domestic effort on the part of a country which is relying on foreign aid.” Likewise, in Pakistan’s domestic circles, too, it is the subject of every tea-time parlance that the rich do not pay taxes as much as they are required to.

**Statement of the Problem**

If the tax-to-GDP ratio of a given country, by any means, is a barometer of its extractive function’s performance, then Pakistan’s extractive function has historically performed far

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5 The engagement and bargaining between Pakistan's internal and external stakeholders has been formulated elaborately in chapter 1.

below the demand put on it; even below its true potential. The historical data of Pakistan’s tax-to-GDP ratio is plotted in the Annexure.

It is apparent that Pakistan’s tax-to-GDP ratio has historically hovered around – slightly under or above – 10 per cent – except in the late 1970s and early 1980s, and again in the late 1980s and in early 1990s when the tax-to-GDP ratio touched the figure of 13/14 per cent. While the former spike in tax-to-GDP ratio was because of larger share of customs duties in the overall tax-mix\(^7\), the latter was due to the introduction of wholesale withholding tax provisions coupled with income-presumptivization of gross receipts – particularly in respect of construction, service and supply contracts. Thus, apart from those two periods of aberrational spikes, Pakistan’s extractive performance has been pretty much dismal.

There are innumerable bland and run-of-the-mill explanations of such a sustained and indefensible below par performance of Pakistan’s tax system. The National Taxation Reforms Commission (NTRC) established in 1985, put the tax system’s problems as “the three basic maladies i.e. tax evasion, smuggling and corruption … (which) are interrelated and one feeds on the other.”\(^8\) Shahid Hussain, Chairman, Task Force on Tax Administration summarized the tax system’s five maladies in terms of following five sets of problems:

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\(^7\) On April 4, 2015, Dr. Kaiser Bengali, at the “International Conference on Sustainable Development: Issues and Challenges” held at the Fatima Jinnah Women University, Rawalpindi, argued that the economic boom of late 1970s was, inter alia, due to the start of returns on major public sector investments undertaken during PPP's first regime i.e. 1972-77, including but not limited to, Tarbela Dam, Mangla Dam, National High Way, and Pakistan Steel Mills etc.

\(^8\) Cited in Ehtisham Ahmad, "The Political Economy of Tax Reforms in Pakistan: The Ongoing Saga of the G.S.T, 2010," p. 6, Bonn.
First, legal and administrative changes are frequent and ad hoc, which result in taxpayers having insufficient knowledge of their obligations and tax collectors having substantial discretionary powers.

Second, major tax policy changes are not accompanied by adequate changes in administrative framework.

Third, the relationship between the taxpayer and tax collector is largely adversarial.

Fourth, organization, business processes, systems, facilities and budget have not kept pace with the growing demands on tax administration.

Fifth, the management of human resources is severely deficient. Most tax officials are not paid a living wage; nobody is paid a middle class wage. For most, honesty is an impossible proposition. Most of the 33000 persons employed in the tax administration are in lower ranks with low productivity and are a drag on the system.\(^9\)

Then there are a host of other factors, it has been posited, which affect tax compliance – by implication – tax collection, that include tax illiteracy; complexity of the tax code; mis-declaration of incomes; broadening of the tax base; rampant corruption in the tax administration; mistrust and misgivings about use of tax money; de jure taxation and de facto taxation; restoration of the taxpayers’ self-esteem; apprehension of tax evaders; certainty of tax codes; automation of tax machinery; and dissemination of tax information.\(^{10}\) Likewise, complex laws, outdated processes, inefficient tax machinery,

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\(^{10}\) Ibid.
policy impediments, state of ad-hocism, and (multiple) administrative problems were reckoned to be the bane of the tax system in need and search of a dire reform.\footnote{Hassan Kamran Bashir, “Strengthening Tax Reform Architecture in Pakistan : A Few Suggestion” (Unpublished LLM Thesis, Havard Law School, 2006).} Thus, the problem that the state of Pakistan faces, and which this study primarily is concerned with, is that despite there being enough potential in the economy, it is unable to extract at sufficient levels so as to be able to discharge its avowed responsibilities as a functional state, and this is primarily because Pakistani elites do wield requisite legislative and policy formulation powers to shift their own fiscal burden on to the marginalized masses. The U.S. will be brought in to heighten and sharpen the analysis, as well as add a comparative dimension.

**Theoretical overview**

This study derives its rationale from a couple of inter-related orientations that currently cloak Pakistan’s tax system. Firstly, that the conventional analyses carried out so far of the extractive function’s under-performance, largely lack in construct validity in that they do not capture all factors that may, in reality, be at work, and misplace importance on certain others which, despite being relevant, may not be as important as positioned. A significant amount of support for the assumption comes from the fact that mere listing of the generalized problems has neither helped the polity overcome them despite repeated attempts at reforming the tax system, nor has a solution to the problem emerged on the horizon. Moreover, the generic causes of the tax system’s under-performance as aforementioned could well be applied to any organization inflicted with the kind of malaise that Pakistan’s extractive function is inflicted with. Secondly, the hugely low significance that the polity attaches to its extractive function, which when translates into
action bits of various kinds, not only results in under-allocation of resources for the revenue collection arm, but also creates all the right incentives for the tax machine to mis- or under-perform. The significance or the so-called polity’s sensitivity (to extraction) index may be defined as total amount of resources allocated to the extractive function including to the analysis and study of its various dimensions and the juxtapositioning of extractive function within a broad set of issues and priorities by state institutions as well as other societal organizations. Thus, the premise that the study develops is that Pakistan’s acute fiscal failure is due to the reason that the state’s extractive function is deficient and incapacitated, and that it has been kept so intentionally, deliberately and systematically.

The notion that the tax system is deficient in legal instruments is not altogether new. Ahmed et al. posited in 1991 that “In Pakistan … there is a tension between the expenditures that have evolved over some forty years independent governance and the ability of successive administrations to raise the requisite revenues. This has much to do with the limitations of the tax instruments inherited from the immediate colonial past. These instruments may have been appropriate for a government with low revenue requirements, concentrating on administration and defense. The independent governments, however, had more ambitious objectives, particularly concerning the promotion of development. ‘Development investment’ became an important concept and claim on public funds.”12 He goes on to amplify this aspect in the following fashion: “In the post-colonial period, with the unabated emphasis on defence and administration, the perceived requirements of development investment have placed growing pressure on an

increasingly inadequate set of revenue instruments.” The study, however, extends the argument and takes the position that tax system is deficient not only in policy instruments but also in enforcement instruments – and that both these deficiencies are not inherent in the tax system itself but have been deliberately brought about by the Pakistani elites simply to manipulate the system and benefit themselves.

These orientations then underpin a broad set of six inter-related propositions all of which – one way or the other – converge to explain the causal connection between Pakistan’s kept-weak tax system, a beleaguered state, and the elites with stakes and an ability to pursue them.

Proposition No. 1

Pakistani elites systematically keep the tax policy rigged and tax system weak through various orchestrated machinations in order to reap the maximum gains of the economic growth – a pattern which pre-dates the creation of the country and is noticeable through all periods of its history.

Proposition No. 2

Extraction is fundamentally critical and intrinsically essential function of the state – inseparable from the very process of state-building – and clearly distinguishable from a host of other functions that a state professes to perform, but that importance was never allocated to this function due to the ulterior interests (elitist manipulations) being at work.

Proposition No. 3

Pakistan’s tax system is in-equitable, and class-ridden, which, inter alia, is evidenced by the state’s lateral predilections towards an extended quasi-direct and indirect taxation regimes at the expense of healthy and wholesome direct taxation, and reliance on other
(non-tax) means of resource-generation – howsoever, harmful that might be to the process of state-building in the long run.

Proposition No. 4
The elites, inter alia, use the ‘generalist’ cadres of civil service of Pakistan as their foot-soldiers to monopolize the tax policy formulation process and control the tax system so as to ensure continuation of the economic status quo, which genetically happens to be pro-rich and anti-poor, from which angle it could be an innovative approach to analyze the performance of Pakistan’s extractive function from the perspective of the individuals who presided over it at various junctures of history.

Proposition No. 5
The unholy alliance between the elites and the ‘generalist’ cadres is largely responsible for a weak institutional framework of the state, its overall economic handling, as well as the perverse control of its extractive system.

Proposition No. 6
A study of the U.S. tax system from different angles, within the theoretical framework developed to analyze Pakistan’s tax system and its below par performance, can illuminate the discussion and help draw important conclusions.

These assumptions run as an undercurrent through the length and breadth of the study – both explicitly and implicitly – and provide the foundations of the theoretical framework developed in chapter 1. The theoretical framework developed in chapter 1 is then expanded, and operationalized to converge on politico-philosophical issues like state autonomy or the lack of it, and with the process of state-building in Pakistan. A concise but all-compelling examination of the U.S. extractive system in respect of all strands of
the theoretical framework illuminates the intellectual debate towards the end of each chapter.

**Scope of the study**

The time period covered by the study is Pakistan’s history in entirety. However, for purposes of providing robust anchors to the arguments developed, it even draws on the pre-partition days. Likewise, when it comes to the U.S., the entire U.S. history is surveyed with a view to gleaning on important incidents, ideas, decisions falling within the framework of the study. “It appears that the Pakistani state apparatus undergoes bursts of reformative activity and reassessment at five to ten years interval.”13

The study is pretty much uni-focal and primarily consecrates itself to the analysis of Pakistan’s extractive function, and in the wake of its failure, its ramifications for the other functions i.e. executive, allocative, redistributive, and regulative functions. The unity of focus is no way restrictive or constrictive since performance of state’s extractive function directly affects performance of all of its other functions. The study is as concerned with rhetoric, political statements, and even written down policy documents and reports as with the intentions at work behind all of them, and the actual performance, structure and functioning of the Pakistani state in the context of its extractive function.

The study and the framework of analysis have their limitations. The study, by way of creating space for its own analysis, tends to put aside all the traditional analyses, which does not mean that all of them stand discounted or discredited. They may have an element of construct validity about them, but would require fresh appraisal by other researchers. Moreover, this primarily being a conceptual study, does not get into rigorous

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data-based or econometric analysis, which may also be considered by other students of Pakistan and U.S. tax systems.

Methodology

The main concern of the study is to unravel and lay bare various causal mechanisms at work in the below par performance of Pakistan’s extractive function. The essential component of the inquiry is the behavior of the people in possession of riches and their attitude towards the state, and the interplay between the two. Thus, the approach adopted is fundamentally analytical with an overwhelming content of interpretation duly buttressed by quantitative evidence. At certain level, the study takes the “what” and “where” as given ontological realities, and is almost wholly given to explaining “why” and “how” – the system domination, marginalization of the people and a brute elite capture of a hapless captive state. There is no one monolithic methodological model; instead, each chapter devises its own tools as best suited to analyze the empirical evidence and extract most meaningful explanations and conclusions. For instance, chapter 1, while developing the theoretical framework of the study, also brings in evidence from eclectic sources to lend credence to the narrative. Chapter 2 builds on the theoretical framework and connects extractive function in Pakistan and U.S. with the process of state building. The societal agents are analyzed to determine how much importance they attach to the state’s extractive function, which, in turn, determines its performance. Chapter 3 collects evidence from the bureaucratic landscape of Pakistan to argue that the collusive arrangement between elites and the generalist cadres of Pakistan’s civil service is at the bottom of much of the malaise, the country is suffering from. Chapter 4, which looks to operationalize the theoretical framework, undertakes
historical survey of Pakistan and U.S.’s tax systems drawing illustrations in terms of all major events occurred therein. While chapter 5 undertakes an appraisal of all reform efforts undertaken in both the countries, chapter 6 is a review of secrecy paradigms as applicable in them, whereby all important upshots pertaining to secrecy are gleaned and dissected to draw conclusions.

**Significance of the study**

It goes without saying that extraction is fundamental – very raison d’être of the state. The centrality of extractive function within the broad array of a state’s avowed functions, has elaborately been established in chapter 2, and its relationship established with the process of state-building theoretically as well as with particular reference to Pakistan. “The executive function builds infrastructure, maintains order, collects taxes, assigns rights in land, regulates capital and labor, provides agriculture subsidies and even legislates by ordinance and exercises magisterial and quasi-judicial powers in many cases. It accounts for nine-tenths of the state’s activities, past and present, and thus the executive function determines more than any other the credibility of the state as a whole in continental bureaucratic states such as Pakistan.”

This being true, the executive function cannot sustain or operate for a day without a corresponding, effective and efficient extractive function. It has also been stipulated that the performance of extractive function and quality of governance and service delivery have a positive relationship. Moore remarks that “the size of the tax burden that states lay on citizens ultimately impacts on patterns of governance,” and “suggests a more direct, immediate and positive causal linkage from the size of tax burdens to the quality of governance than even avid disciples of fiscal

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14 Ibid., 7.
contractualism could reasonably have expected.”15 It is, therefore, that significance of the study, within the overall given political realities of Pakistan, cannot be overstated.

**Sources and Review of Literature**

Paradoxically, Pakistan’s research landscape is near-completely barren as far as its extractive function is concerned. It is not possible to find one solidly academic book on Pakistan’s tax system – both in and outside Pakistan. One does find a few dozen articles, but those only address various aspects of the system. A number of books written on Pakistan’s economy treat Pakistan’s tax system by way of a footnote or, at best, as a sub-topic. This practically renders any meaningful research on Pakistan’s extractive function difficult. Such a serious under-supply of academic research and availability of information on Pakistan’s tax system was supplemented through collection of empirical evidence from both traditional and untraditional sources.

First of all, the library of the University of Washington, Seattle, U.S.A, where I was a Hubert H. Humphrey Fellow during much of 2011 played a key role towards the completion of the study. My engagement with the International Monetary Fund in late 2010 and early 2011, enabling me to access some extremely rare documentation on Pakistan’s economy available at the IMF Headquarters, Washington DC., came in handy. The Charles Wallace Fellowship, 2010, helped me glean the University of Surrey Library, Guildford, Surrey, and the British Library in London and access some invaluable literature on Pakistan. In closer to home options, the National Archives Pakistan, Islamabad, the National Documentation Centre, Cabinet Secretariat Library, Islamabad,

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the library of the National School of Public Policy, Lahore, played an important role in making available those documents, reports, materials that were not, as such, available to the outside world. It goes without saying that Area Study Centre, Quaid-e-Azam University library, and the Federal Board of Revenue library were the first search points whenever I needed something not-so-common to consult.

The thought processes that undergird this study have inevitably evolved over a period of two decades that I have worked with Pakistan’s tax system – both being in and outside it. Thus, the practitioner’s empirical richness coupled with researcher’s approach, breadth of vision and skills should give the study its requisite balance. Wherever it has been possible, the evidence from official letters, memoranda and files has been cited. The review of relevant literature has been carried out in each chapter – to the extent possible.

**Scheme of the study**

The scheme of the study is simple. In addition to the Introduction and Conclusion, this study consists of six chapters. Chapter 1, after reviewing literature on state autonomy and elitism, develops a comprehensive framework of analysis within which then the foregoing assumptions are explored into and tested. The rational actor dilemmas are developed and theoretically resolved with the help of scholarship extant on the subject and other empirical evidences. It is also seminally theorized that sustained engagement between Pakistan’s external and internal stakeholders on sharing of cost incurred on sustaining the state makes it an equilibrium consensus subsistence state.

Chapter 2 looks to establish centrality of extraction within an array of given state functions, surveys various theories of state-building and creates a causal connection
between the process of state-building and its extractive capacity – its tax system – within a given state. This chapter would also lay bare how the state of Pakistan in its various manifestations tends to be oblivious of the maladies inherent in its extractive function. It is in chapter 3 that the study makes an attempt to extend the elitist framework developed particularly in chapter 1, and argues that elites now enter into a spurious relationship with the generalist cadres of civil service of Pakistan so as to monopolize the state structure, rig its public policy formulation process, and keep the extractive system too weak to pose taxing questions. The study argues that the generalist cadres by dint of their composition and niche (or its lack) choreograph the elitist onslaughts to effectively pin-down the revenue structures of Pakistan. It will be explained that Elites Ltd – a conceptual vehicle used as a caption for Pakistani elites operating as a juggernaut to ruthlessly pursue their economic interests16 – uses the generalist lackeys to rig the tax system by (a) appointing a non-professional (chairman) to head the extractive function, and (b) according a subservient status to the house of the extractive function i.e. FBR. The elites-generalist alliance detected and analyzed in this chapter provides a recurrent pattern and path to the narrative.

In chapters 4 - 6, the model is operationalized to unravel the elitist domination of Pakistan’s extractive system. Chapter 4 adopts incremental approach and delves deeper into the elites-generalist duo’s control of the system, and explores into historical patterns of the tax system’s perverse control in Pakistan. A critical survey of Pakistan’s economic history unravels the sustained operation of the model through various periods and its role towards the sustenance of the economic status quo and below par performance of its

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16 This term has further been explained in chapter 1.
extractive function. The survey starts with the pre-partition period to see if the elitist tendencies in the tax system had crept in even before the very creation of the country, and runs through all decade-wise periods critically analyzing various policy choices that the state made over time under preponderant impress of the elitist model.

Chapter 5 adopts shock approach to dissect all the reform efforts undertaken by the polity so far to argue that all reform efforts made in Pakistan to reorganize and improve the tax system were rigged and ab-initio intended to fail. The study takes out all important recommendations made by the taxation reform commissions and committees in their reports and surveys their acceptance or rejection on the part of the state ruled by the elites. Chapter 6 is a study on Pakistan’s politico-governance mores from the point of secrecy that is wired into its very mechanical structures. An analysis of some of the important laws and statutes is done to accentuate the point that a strong secrecy provision is the most important common variable in all of them, which, in a way, compartmentalizes various state institutions into watertight silos hiding all information that they generate, deal with or contain, from other par institutions, the result being sub-optimal extractive performance and deficient service delivery.

The study comes to a close with an inventive conclusion.
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Chapter 1
Theoretical Framework

“When groups are adequately stated, everything is stated!”

Section I
Introduction

One of the most perennial questions that all regime types have historically encountered is management of factions — that is, their expectations, interests, and ambitions — operating in the polity. In spite of the fact that factions and interest groups have always been extant in all states — totalitarian or democratic — at other end of interaction between the government and the governed — yet at a theoretical-philosophical level their operation and even presence has mostly been discounted. Rousseau found interest articulation by factions “as inimical to the general will.” Madison reckoned “factions … actuated by some common impulse of passion, or of interest” a threat to “permanent and aggregate interests of the community.” In fact, factions and interest groups have found little sympathy in democratic traditions of all shades and hues. In the U.S., for instance, many States had laws in place prescribing fines and penalties on lobbying activities. Likewise, and understandably so, totalitarian regimes have tended to deny factions any right to collective interest articulation and autonomous action though Article 126 of the Soviet Constitution specifically affirmed citizenry’s right to form groups and alliances with common goals. Factions “represent the interest of the sections into which a society

2 Cited in International Encyclopedia of the Social Sciences (Encyclopedia.com, 1968), s.v. ”Interest Groups.”
divides,”⁵ but the factions must be able to articulate those interests and make an effort to pursue them by aligning themselves with the political process. Upon a decision that it is the factions with stakes in political bargaining and having both will and capacity to go in pursuit of their stakes belong to the universe that could interchangeably be captioned as “power elite,” “elite,” “pressure groups,” “lobbies,” “interest groups,” and “power groups,” etc.⁶ Notwithstanding a pronounced disliking for their very existence and a socio-legal sanction of their operations, factions could be taken to perform important role towards socio-political development of states. It has convincingly been argued that factions – in the form of non-voluntary and obligatory collectivisms of controlled polities or voluntary formations of democratic dispensations – do facilitate identification of the individual with the political system; such identification being critically important towards state-building and cementing state-society relations. “In the nexus between economic, social and political power, interest groups translate economic power into social power and share with parties the function of transforming social power into political decisions.”⁷ Moreover, factions, at least theoretically, are expected to articulate to the regime apparatus demands of a purportedly homogeneous clientele, which political parties then aggregate, consume, and transform into public policy outputs. Since factions, under normal circumstances, generate demands on existing politico-governance structures, and are, therefore, bound by rules of the game set by the system. But in actuality pressure and power move in cadence; although pressure – “continuation of bargaining by other means

⁵ Ibid.
⁶ Ibid.
– denotes only one form of influence.”

Contrarily, density level of group activity could be taken for a reliable barometer of bargaining pressure on a political system at a given point in time.9

Now, until factions or groups continue to articulate their interests to state apparatus – being subsidiary and external to state apparatus, policy outputs are likely to be those of an autonomous state. However, as soon as factions pitch up their articulation effort – either out of frustration of gaining less than their expectations or out of their expectation to gain more than what they have gained or are set to gain through set patterns of articulation – and infiltrate into or make an attempt to infiltrate into the state apparatus itself – scenario is dubbed as elite capture. This chapter is an attempt to define and lay bare various dimensions of state autonomy as well as those of elite capture in the context of Pakistan in section II and III, respectively. Section IV, propounds and attempts to resolve rational actor dilemma with regard to the state of Pakistan. Section V extends the rational actor framework to introduce the international stakeholders as external rational actors and seminally propounds that negotiations between external and internal stakeholders on who picks up what part of the total cost of keeping Pakistan afloat is essentially what renders Pakistan an equilibrium consensus subsistence state. Section VI deals with the U.S., and brings it in as a backdrop and contrast so that faction management in both states is galvanised with respective merits and demerits. The final section contains overall discussion and conclusions.


9 Ibid.
Section II
State Autonomy

In spite of the fact that though in a negative connotation, question of faction management has historically found place in most literature on political philosophy, its corresponding term “state autonomy” made into the lexicon of the discipline relatively recently. A consensus appears to be emerging on Nicos Poulantzas\textsuperscript{10} for coining the expression “state autonomy” in 1960s,\textsuperscript{11} developing its formulation that has remained at the centre of all relevant debate over past half century – including its various dimensions e.g. “relative’ autonomy of the state.”\textsuperscript{12}

State autonomy could operationally imply a given state’s “ability to act and formulate interests of its own independently of and even against dominant groups (classes) and societal interests.”\textsuperscript{13} It thus follows that a state whose throw up in terms of policy formulation is larger than the sum of all interest groups’ demand articulations could be dubbed as an autonomous state. On the contrary, if a state’s aggregate policy outputs over a period of time are equal to or are less than the sum of polity’s interest group demand articulations, it could be referred to as an un-autonomous or a captive state – a state in elite capture.\textsuperscript{14} A state could further be classified as a relatively autonomous or captive


\textsuperscript{11} The entire debate on state autonomy in this paper and mostly elsewhere, too, is with reference to capitalist state alone.


\textsuperscript{14} The terms "outputs" and "outcomes" have been interchangeably used in literature. However, paper, for clarity's sake, uses term "outputs” with reference to policy formulation process, and term "outcomes” with reference to policy implementation process, and believes that conversion of outputs into outcomes could be a function of various complex and intricate variables and their interplay, and that although measurement and quantification of "outputs” could be easier and simpler than that of ”outcomes,” yet both of the
state depending on size and significance of various variables extant in the equation. Scholars have leveraged state autonomy analytical framework to interpret behavior, composition and character of all types of states – totalitarian, democratic, hybrid, peripheral or dependent states.

A very important debate that is wanting to be generated here is whether one could answer critical question of state’s autonomy by dint of its ability to formulate policies independent of influence of polity’s legitimate classes and interest groups (neutral policy formulation) or its ability to implement its policies independent of the influence of classes and interest groups (neutral policy implementation). This is simply because even a most neutrally formulated policy, if hijacked by factions and thus not neutrally implemented, will come to a naught or would end up achieving sub-optimal outcomes. Like in Pakistan, where Elites Ltd – a convenient conceptual operational vehicle for loosely organized economic classes and interest groups\textsuperscript{15} – in addition to rigging policy formulation process thereby compelling the state to deliver below-par policy outputs, decisively ventures to infiltrate into and manipulate state’s policy implementation apparatus, too – again forcing it to deliver below par policy outcomes. The study posits that a state’s ability to neutrally implement its policies is an equally important variable in the equation. The extensive and complex body of literature on state autonomy in the broader realm of political economy created over the past half century can be analyzed and reviewed by dividing and classifying it into two competing strands: (a) society-centric strand; and (b) state-centric strand.

\textsuperscript{15} Further elaborated later in this chapter.
a) Society-centric strand

For society-centric theorists, starting point of inquiry in comprehending the state and its conduct is the understanding of social functions underlying it. Thus, proper explanatory direction, society-centric thinkers believe, is from society to state. “Thus, the analysis of the forms of the capitalist state can only be made when the causal necessity of the emergence and existence of the state, and its organizational apparatus, derives from the nexus of individual relationships (liberal state theory, pluralism) or the nexus of class relationships (Marxian state theory).”\(^{16}\) Marx believed that “forms of state are to be grasped neither from themselves...but rather have their roots in the material conditions of life...,” and that “anatomy of civil society is to be sought in political economy.”\(^{17}\) Engels, too, thinks that “state is...by no means a power forced on society from without...rather it is a product of society at a certain stage of development...this power, arisen out of society, but placing itself above it...is the state.”\(^{18}\) Then both thinkers collaboratively took the position that “only political superstition today imagines that social life must be held together by the state, whereas in reality the state is held together by civil life.”\(^{19}\)

To them and their intellectual progeny (neo-Marxists), state is nothing more than an extension of civil society, and a self-propelled process, which reproduces normative social order exclusively geared to protect particular and not general interests and maintain status quo. It has, therefore, been argued that for Marx and Engels and their followers to a good extent, “state and its bureaucratic organization constitute ‘parasitic’ entities.”\(^{20}\)

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\(^{16}\) Machado, 5.
Thus, capitalist state, irrespective of the level of economic development of its underlying society, professes unto itself, as its raison d’être, protection of particular interests of capital-owning class, and is given to maintaining “general conditions for the reproduction of the wage labor/capital relation which is at the heart of bourgeois societies.”\textsuperscript{21} The ontological primacy, which Marx and Engels appear according to civil society, lead them to further theorize that “capitalist state is, and can only be, relatively autonomous.”\textsuperscript{22}

In fact, this very Marxian position, that capitalist state is nothing more than a bourgeoisie tool tailor-made and unleashed to dominate proletariat and advance bourgeois class interests, has tended to develop a subsidiary view i.e. relative state autonomy. Marx illustratively talking about the Second French Empire remarked that “in reality, it was the only form of government possible at a time when the bourgeoisie had already lost, and the working class had not yet acquired, the faculty of ruling the nation.”\textsuperscript{23} Engels echoing Marx also observed that “by way of exception, however, periods occur in which the warring classes balance each other so nearly that the state power, as ostensible mediator, acquires, for the moment, a certain degree of independence of both,” and that such “was the Bonapartism of the First, and still more of the Second, French Empire, which played off the proletariat against the bourgeoisie and the bourgeoisie against the proletariat...”\textsuperscript{24}

Thus, while both Marx and Engels posit that all capitalist states continue to remain class states in essential character, they might starkly differ in degree and level of autonomy.\textsuperscript{25}

\textsuperscript{22} Machado, 6.
\textsuperscript{23} Cite in David McLallen, \textit{Karl Marx: Selected Writings} (London: Oxford University Press, 1977), 541.
\textsuperscript{25} Machado, 4.
Subsequent thinkers could be classified into two separate streams of scholarship, that is, the Instrumentalists; and the Structuralists. Neo-Marxists, who agree on the basic premise that capitalist state is nothing more than a tool at the command of capital-owning classes tasked towards promoting and advancing their politico-economic agenda, but differ on ways it achieves its objectives, are loosely dubbed as Instrumentalists. The substantial amount of Instrumentalist knowledge created during the second half of twentieth century, is dedicated to explore various ways through which institution of state can be leveraged, by capital-owning classes, to maintain and maximize existing economic status quo.26 The Instrumentalists, broadly speaking, take the position that state, in effect, is an “instrument for the domination of society,”27 which seeks to perform its avowed functions in deliberate subservience to “instrumental exercise of power by people in strategic positions.” When such strategically placed people exploit state structure directly, scenario is referred to as direct instrumentality; and when they exert pressure on polity indirectly, the scenario is dubbed as indirect instrumentality.28 But in either case overarching objective of state exploitation remains optimization of capital class’s interests. Instrumentalists further contend that in order for capitalist state to promote capital-owning class’s interest, it has to be relatively autonomous. “Its relative independence


27 Miliband, The State in Capitalist Society, 22.

28 Gold, "Recent Developments in Marxist Theory of the State."
makes it possible for the state to play its class role in an approximately flexible manner. If it really was the simple ‘instrument’ of the ‘ruling class’, it would be fatally inhibited in the performance of its role. Its agents absolutely need a measure of freedom in deciding how best to serve the existing social order.”

It has been remarked that within Marxist school of thought there are “a variety of theoretical perspectives which co-exist in an uneasy and unstable relation.”

Neo-Marxists who assert that it is not possible to understand the state and its conduct through “behaviorist/empiricist observations of instrumental exercise of power by the ruling class, because the class composition of those running the state apparatuses is of no importance to the nature of the state in capitalist societies,” are referred to as Structuralists. Contrarily, Structuralists argue that “it is the structure of these societies that makes the state serve the capitalist class that is causal significant.”

Poulantzas suggests that both social class and state are “objective structures,” and their interplay and mutual relationship ought to be “taken as an objective system of regular connections.” He further avers that since the state is essentially a product and outcome of interactions, it must intrinsically and essentially be a “condensation of class-based relations.”

Furthermore, since state is reflective of objective power structures, it cannot be taken to be autonomous; it can be taken to be relatively autonomous only – perhaps, to the extent that state is not able to broker deals and come up with win-win (intra-class) inter-group

31 Neo-Marxist Structuralists e.g. Poulantzas develop a Marxist theory of the capitalist state from the logic of capitalism - using Althusser's structuralist epistemology.
32 Machado, 5.
33 Ibid.
34 Poulantzas, "The Problem of the Capitalist State."
35 Poulantzas, *Political Power and Social Class*.
bargains and has to assume the role of final arbiter of disputes and power. Thus, relative autonomy of state would be equal to the capacity it obtains to operate autonomously of capitalist class while continuing to be essentially a capitalist state.

(b) State-centric strand

State-centric strand scholars argue that state is an entity whose action bits constitute primary unit of analysis for any further inquiry. The causal direction, according to state-centric strand scholars, is from state structure to society, and not other way round. “To state-centered theorists the state is at the same time embedded in the structural relations of capitalistic social formation, and an independent organization which has a monopoly on coercive power, and a life and form of its own.”36 Amongst state-centric theorists, Weber is the first one to argue that states “are compulsory associations claiming control over territories and the people over them.”37 Weber and his disciples38 firmly suggest that state can pursue objectives or targets, which do not, necessarily, echo demand articulations of power-wielding factions vying to maximize their gains in the state. In a clear-cut departure from Marxists and Neo-Marxists, Weber was not able to agree to the notion that state was “parasitic” in its very nature and properties, and a “direct product of the activities of classes.” The “modern state is not, Weber contended, an effect of capitalism; it preceded and helped promote capitalist development.”39

In Weberian vein, Block takes an outright position that institution of state does not possess property of reducibility to mere class interests and struggles, and avers that “State

36 Machado, 6.
38 Also styled as "Neo-Weberians."
39 Held, 41.
power is *sui generis*, not reducible to class power,” and that “each social formation determines that particular way in which state power will be exercised within that society.” Block brings in a new theoretical construct “state managers,” and argues that state managers “are individuals not involved in the relations of production and are, therefore, independent from the capitalist class, even if they were proper members of that class before they became state managers.” “State managers” appear to be Block’s answer to the question of “relative state autonomy,” which he finds to be “a slightly more sophisticated version of the instrumental view it attacks.” Block’s disambiguation helps us wrap up that since “state managers” – whose primary mandate is to facilitate contract enforcement, provide enabling environment, keep “business confidence,” and maintain law and order – get remunerated from state exchequer and are governed by rules and regulations laid down by state, and therefore, they cannot be taken as mechanical agents promoting class interests, nor “reduction of state power to class power implied in the qualification “relative” as a natural corollary.” Thus, on the one hand, Block’s state is inherently organizationally autonomous of ruling classes, and on the other, does function, on its own, to guarantee capital accumulation and maintain class domination.

Skocpol’s contribution to state autonomy project is rather a robust defense of state as a “structural” organization. She strongly believes that state is essentially irreducible to inter-class relations or struggles; that state, too, is an organization with a persona capable of independent decision-making just like any other ordinary organization with a structure,

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41 Machado, 6.
43 Block, "Beyond Relative Autonomy: State Managers as Historical Subjects," 230.
functional mechanisms, and having objectives to pursue. Skocpol castigates Marxists (and neo-Marxist Structuralists) for assuming that “states are inherently shaped by classes or class struggles” and exclusively given “to preserve and expand modes of production.”

She also attacks them for making it “virtually impossible even to raise the possibility that fundamental conflicts of interest might arise between the existing dominant class or set of groups on one hand, and the state rulers on the other.” She critiqued Poulantzas’ approach as she found it very frustrating because he simply posited “relative autonomy of the capitalist state” as an indispensable element and attribute of capitalist production mode. The state, she points out, is to be seen “as an organization for itself.”

She also takes to task “virtually all neo-Marxist writers of the state” for retaining “deeply embedded society-centered assumptions,” and overlooking the fact that all “important social change is a consequence of autonomous state activity.”

Lord Maynard Keynes

John Maynard Keynes, the twentieth century British economist, through his massively influential work, The General Theory of Employment, Interest and Money, published in 1936, fundamentally changed not only the way in which governments’ role was conceived but also the way the economic theory was practiced in the real world; he, in fact, ended up according central role to the government in stimulating and regulating a

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44 This is the position which is also taken by Weber and Block.
45 Evans et al., 4.
46 Theda Skocpol, States and Social Revolutions: A Comparative Analysis of France, Russian and China (London: Cambridge University Press, 1975), 27.
47 Evans et al., 33.
49 Evans et al., 5-9.
nation’s economic life. Keynes essentially argued that it was possible to reverse economic downturns through a mix of monetary policy tools, that is, by lowering interest rates, and fiscal policy tools, that is, by substantially increasing government spending into infrastructure and other projects. Keynes was immediately engaged by Monetarists through the 1950s, 1960s and 1970s who, generally agreeing with his fundamental argument revolving around government’s critical role in pulling capitalist economies out of their slowdowns, vociferously squabbled in favor of the central role of monetary policy as against fiscal policy.

Likewise, Marxists have also criticized Keynes from various angles. Paul Sweezy posited that Keynes, in fact, failed to comprehend capitalism in its entirety as he downplayed class struggle in its true character. James Buchanan took Keynes to task for naively assuming that economic policy was framed by disinterested, informed, and know-all whiz kids of the sorts who were impervious to all kinds of political and interest group pressures. Buchanan was of the view that deficit financing would eventually develop into an enduring missing-link between revenue and expenditure as it fetched short-term gains, and embed a long-term cozy irresponsibility in government’s outlook and behavior. Buchanan proved so true in respect of many countries – particularly, in respect of both the U.S. and Pakistan.

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54 Ibid.
Michal Kalecki

On a more rigorous theoretical level, the work of Michal Kalecki – a Polish (self-taught) economist – is of critical relevance for the scheme of this work. Kalecki wove hardcore economic theory with viscous political dimensions. Kalecki – contemporaneous with John Maynard Keynes – broadly seconded his macroeconomic theory which authoritatively expounded that it was possible for government to eliminate unemployment through deficit financing.\(^5\) Kalecki’s equation of business profits is –

\[ P_N = C_P + I + D_g + E_e - S_w \]

In the equation, capitalist’s profit equals his consumption and investment, government’s deficit, net exports less workers’ savings. This is where Kalecki makes a departure with Keynes. Kalecki argued that though full employment through deficit government spending may be possible, it was not possible in the real world. It was simply because aggregate demand induced by deficit government spending would encourage capitalist to hire new labor force. This, on the one hand, would give cognition and awareness to the working class leaving it substantially more assertive than ever before, and on the other, cause apprehension of disruption of capitalist’s control of extant social order. Since elites would not be amenable to a potentially reduced social status and honor, despite higher earnings, they would effectively exploit political muscle to get the Keynesian policy of deficit spending reversed. Moreover, Kalecki was of the view that though government deficit spending might start with “objects which do not compete with the equipment of private business, e.g. hospitals, schools, highways,” yet there was a possibility that it might lead to nationalization of certain industries and subsidization of consumption,

which, if allowed, would neutralize “the sack” as a tool of discipline – something capitalist would want so desperately in his armory.

Keynes and Kalecki supplied theoretical partitioning of the most important capitalist value – profit. Marx had thought, “profit margins are determined through the scale of exploitation allowed by unemployment on the labor market (reserve army of labor effect) and through redistribution of surplus value between the different groups of capitalists according to capital-labor ratio (organic composition of capital),” and that “income is redistributed under capitalism according to the power of capital.”\(^{56}\) Kalecki, on the contrary, argued that profit margins depended on the “degree of monopoly” – that is, institutional factor reflecting the market power of a firm.\(^{57}\) Although Kalecki nowhere seems to be openly espousing the notion of surplus value, yet his “degree of monopoly” appears a surplus product approach to corporate economy. He talks of the surplus product which is distributed between surplus classes without impairing society’s ability to reproduce the system. In fact, on the one hand, the group of industrial mark-ups on unit cost (which reflect industrial “degrees of monopoly”) is a factor of distribution between wage and profit funds; on the other, the relative sizes of industrial mark-ups determine the distribution of profit among industrial oligopolies. This is quite akin to Marxian production of surplus value and its redistribution between industries with different capital-labor ratios. Shorn of all additives, while the concept underlying Marxian ‘surplus’ was capitalist’s exploitation of labor force, the one underpinning Kaleckian ‘profit’ is apparently deft exploitation of market conditions. When this theoretical

partitioning between ‘surplus’ and ‘profit’ is juxtaposed and analyzed against some of the weaker states and their under-performing economic systems, it becomes relatively clear that elites of those societies are not into profit-making but into rent-seeking, and it is simply for this reason that in order to maximize on opportunities of rent, they coalesce with the state structures with the ultimate objective to occupy them.

While substantial amount of literature has evolved on state autonomy and its various dimensions, hardly anything has been written on state captivity – a plausible antonym of state autonomy.\textsuperscript{58} May be it has just been assumed that mere absence of state autonomy is tantamount to state captivity; maybe not; maybe it is more than that needing corresponding and independent theorization. Nonetheless, dissection of influence of factions on state or its conduct under Marxist, Neo-Marxist or even state-centric traditions, illuminates the succeeding debate in particular context of Pakistan.

\textbf{Section III}
\textbf{Elite Capture in Pakistan}

Since C. Wright Mills published his path-breaking work \textit{The Power Elite} in 1956 to propound his thesis that America was in an effective control of military, economic, and political elites,\textsuperscript{59} a large number of scholars have applied his analytical framework to examine politico-economic structures of a number of countries. Some expanded it to include certain other elite (groups) into the framework to fit certain peculiar situation, and still some others have channeled energies to prove him right or wrong. Mills argues “that these men of the Power Elite now occupy the strategic places in the structure of American society; that they command the dominant institutions of the dominant nation;

\textsuperscript{58} On Pakistan an academic dissertation, not of much significance though, has been attempted. See Oskar Verkaaik, "The Capitve State: Corruption, Intelligence Agencies, and Ethnicity in Pakistan, 2006."

that as a set of men, they are in a position to make decisions with terrible consequences for the underlying populations of the world.\textsuperscript{60}

What are the main features of Millsian power elites? Broadly speaking, Mills’ power elite are at pinnacle of economic, military, and political institutions – more as types and functions than as individuals. Since their positions of power are interchangeable across domains, they do shuffle their positions that inevitably results in an institutionally-developed near-uniform worldview. They share a clear-cut “class consciousness”, and unique image of themselves as a social fact – regardless of their ostensible party affiliations and popularly ascribed ideological labeling, which effectively manifests itself in their aggressive policy posturing as they ruthlessly venture to pursue their goals at the cost of underlying millions with impunity and, in fact, quite impersonally. The power elite do not necessarily hail from a common privileged origin. However, their selection, grooming and promotion through an institutionally evolved process, guarantees an identical worldview, regardless of commonality of origin. The commonality of origin can under-write a completely uniform worldview as variances in background even if molded by elitist institutional conditioning can result in divergences in worldview. There might be factions amongst power elite but their over-arching commonality of interests breeds an inner discipline that binds them together.\textsuperscript{61} Millsian power elite do not conspire in a coordinated fashion – not for any petty self-interest, but for dominant positions in dominant institutional orders of the most dominant state in the world. Due to the fact that during the length of their careers at top positions, and that hardly any fundamental variation in overarching world vision is possible, they do what is expected and required

\textsuperscript{60} Ibid., 286.
\textsuperscript{61} Ibid., 283.
of them to sustain integrity of the benefactor system. These traits, Mills thought, create a class of individuals who effectively controlled America – and by implication – the world.

Pakistani Elites

In order to expand elitist model to explain domination of Pakistan’s polity, economy, and extractive function, it needs to be seen if elitist factor is at work in the first place? Hamza Alavi, was by far the first scholar of renown to have tried explaining the structural construction and mechanics of the state of Pakistan from the perspective of its oligarchical control. In a clear-cut departure from the traditional scholarship that argued that Pakistan’s creation was due to a movement for an independent state that was triggered and sustained by a religiously motivated passion, Alavi posited that it was, instead, led by salary-dependent class of Muslim government servants – “Salariat.”

Alavi thought that “Having seen a diminution in its share of jobs in pre-partition India, this “salariat” saw that it stood to gain most from the creation of a new state.” Alavi developed his concept and built it on the premise that since (a) none of the dominant social classes in the post-colonial Pakistan were powerful enough to control the state; and (b) the bureaucratic-military complex brutally controlled its inner core and very operational mechanics, and hence, Pakistan was an “over-developed state.” Alavi influenced a whole generation of scholars and “has been the basis for countless formulations on the state – not always in agreement with Alavi – both in South Asia and other developing countries.”

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Asaf Hussain, next in line, applied elitist framework to analyze power dynamics of Pakistani politics. Hussain posits: “An analysis of the political structure of Pakistan can be approached from a number of perspectives, but it is from an approach to elitism that the greatest insights into this complex cultural system can be gained. Such an approach encompasses the most significant political, social, and economic factors relevant to the state’s political development.”

Hussain’s “primary focus is upon distinct elite groups extant in Pakistan, their institutional derivation, and, most importantly, the competition and conflict among them that has so completely dominated political development.” His elites are engaged in an arduous struggle to first shape the state according to their ideological leanings resulting into a polity torn and fractured against itself. “Thus, the [Military Elites] ME was solely interested in rendering Pakistan a “praetorian state,” and [Bureaucratic Elites] BE an “administrative state,” the [Landowning Elites] LE a “feudal state,” the [Industrial Elites] IE a “bourgeoisie state,” the [Political Elites] PE a “democratic state,” and the [Religious Elites] RE an “Islamic state”. The net result of these diverse self-fulfilling political strategies was that political elites and state suffered from inadequate institutionalization of infrastructures such as political parties. To worsen situation, elites were alienated from masses, leaving political culture fragmented, not integrated.”

He concludes that in a praetorian system “only the strong survive” with each elite group using “any means available to maximize its power.”

Shafqat using Flanagan’s model of crisis and structural change – designed in the broader framework of system’s paradigm – also attempted to explain the dynamics of Pakistan’s

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67 Ibid.
68 Ibid., 233.
69 Ibid.
political system from 1947 till 1989.\textsuperscript{70} Flanagan’s model suggests that changes in international environment and performance of government generate systemic crisis which lead to structural change.\textsuperscript{71} In order to operationalize the model, Shafqat recognizes “military, bureaucracy, industrial-merchant classes, political elites, and religious elites” as four structural components of Pakistan’s political system.\textsuperscript{72} He argues that the “model identifies four phases of crisis and change: (i) the antecedent system; (ii) environmental performance changes; (iii) coalition formation and crisis resolution; and (iv) developmental linkage and the resultant system.”\textsuperscript{73} He then detects certain mechanisms that “became a standard procedure of coalition formation and structural alternation in the political system of Pakistan” which “have been used by successive regimes to formulate a ruling coalition.”\textsuperscript{74} The identified mechanisms are: (a) selective co-option; (b) collateralization; (c) containment; and (d) economic policies and changes in international environment.\textsuperscript{75} Shafqat argues that “Out of these military, bureaucracy and industrial-merchant classes are structural components with greater “durability”. Hence these components have propensity to impede growth of other relatively weak components. Whereas weak components remain weak or decay, these components acquire greater strength over a period of time.”\textsuperscript{76} He dubs “these three components i.e. military, bureaucracy, and merchant-industrial classes…the parameters of Pakistan’s political system” since in “the ruling coalition making process, they emerge as the critical

\textsuperscript{72} Shafqat, 24.  
\textsuperscript{73} Ibid.  
\textsuperscript{74} Ibid., 30.  
\textsuperscript{75} Ibid.  
\textsuperscript{76} Ibid., 24.
components,” and concludes that in societies “where structural imbalance does exist…relatively “durable,” “structures” reveal propensity to dominate the political system.”

The most significant attempt to interpret and analyze structure and performance of Pakistan’s political economy has been Ishrat Husain’s Pakistan: The Economy of an Elitist State. This is an incisive attempt to explain Pakistan’s economic development during first fifty years of its history, and to demonstrate that benefits of whatever semblance of development that took place predominantly affected only elites of the country, while majority of population remained unaffected. Husain situates Pakistan against “economic development of more than a hundred low-income countries struggling to improve the living standards of their population,” and draws out patterns of progress. He argues that “record of development experience has been mixed,” and that a “very small group of countries has been able to achieve success in graduating from the ranks of poor countries within a generation. Another group of countries, which includes the most populous country in the world, is moving rapidly in that direction provided there are no serious setbacks, while a very large number, particularly in Africa, have suffered reversals and are worse off today than they were at the time of their independence from colonial rule. Finally, there is a group of countries which are muddling through and moving forward with hiccups, but where the benefits of development are unevenly distributed and are highly concentrated in a small segment of the population.” He then

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77 Ibid.
78 Ibid., 72.
80 Ibid., xi.
81 Ibid.
moves on to explain variances in economic development mainly centered on “the dichotomous roles of the state vs. the market.”\textsuperscript{82}

Husain broadly identifies five patterns of state-society interactions to grasp and explain the process of economic development in various countries and regions. Firstly, the one that remained popular during the 1950s and 1960s revolved around the notion “that the state through a strong interventionist and directive role, using the instruments of central planning and big-push, state-led industrialization, would break the low-level equilibrium trap of poverty in which developing countries were caught.”\textsuperscript{83} Secondly, the predatory state “guided by the narrow and selfish interests of those in power”, supplanted “a benign and benevolent state acting in the larger interests of the population,” as the lateral experience of a number of states pursuing the interventionist model exposed its weaknesses.\textsuperscript{84} Thirdly, in the wake of dissolution of the Soviet Union, “‘Free enterprise’ and ‘deregulation’ became the new buzzwords” as “‘Government failure’ was found to be greater evil than ‘Market failure.’”\textsuperscript{85} Fourthly, model of shared growth as successfully followed and exhibited by East Asian economies. Fifthly, Husain posits that in stark contrast to model “of shared growth, there is an equally powerful model of elitist growth which characterizes a number of developing countries.”\textsuperscript{86} According to him “Brazil, Mexico, Kenya, Nigeria, and Pakistan are leading examples of this particular mode of development.”\textsuperscript{87}

\textsuperscript{82} Ibid.
\textsuperscript{83} Ibid.
\textsuperscript{84} Ibid.
\textsuperscript{85} Ibid., xii.
\textsuperscript{86} Ibid.
\textsuperscript{87} Ibid.
What is elitist growth model? Husain explains elitist growth model in the following manner:-

Under this model, there is a complete reversal of the traditional roles of the market and the state. Markets are normally associated with efficiency and are found to be impervious to the considerations of equity and distribution. The state is usually thought of in terms of ensuring equity and access to opportunities. But under an elitist model, where both economic and political power are held by a small coterie of elites, the market is rigged and state is hijacked in order to deliver most of the benefits of economic growth to this small group. The markets therefore produce inefficient outcomes that are detrimental to the long-term sustainability of growth, and the state, through its actions, exacerbates the inequities in the system.\\[88\\]

Husain then goes on to provide “an overview of the performance of the economy of Pakistan” as a whole and by dividing it in “five sub-periods which correspond to different economic and political eras,” he “lays down the production structure – mainly those of the agricultural and industrial sectors – and outlines the changes which have occurred” during Pakistan’s history, and “summarizes the developments and outcomes in macroeconomic policies – Fiscal, Monetary, and Exchange rate; other complementary policies – Trade, Debt, and Investment” and other important areas like Human Capital, poverty, unemployment, Physical Capital, and finally “attempts to present a cogent political economy explanation of the paradoxes exhibited by the Pakistani economy…” by drawing upon the findings – though not explicitly and directly – to substantiate the main hypothesis advanced.\\[89\\]

*Husain’s critique*

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88 Ibid.
89 Ibid., xv.
It is argued that despite being a substantially meaningful contribution towards explaining structure of Pakistan’s political economy, Husain’s model suffers from serious limitations and infirmities. While his model does explain monopolization of Infrastructure by Pakistan elites, it does not go on to dwell upon elitist Superstructure i.e. bureaucracy, politics, law, judiciary, clergy, and media, and its exploitation by the elites to achieve their agenda. How an economy which promised so much in the first half of its life spanning over six decades lost its way through the second? How society at large has been semantically occupied, religiously opiated, socially alienated, economically rattled, and politically controlled, do not appear to be Husain’s concerns. His main preoccupation remains an overall data-based analysis and assessment of economy from an economist’s perspective. There are more specific problems as well. The model highlights causal correlations between the variables, but falls short of identifying, establishing, and elaborating causal mechanisms at work in correlations. How elites hijacked state? Do elites compete or cooperate amongst themselves? How are they able to sustain their domination on both state and polity over time? How elites reap benefits of economic growth? How do they actually cause to rig public policy in different domains of economic life? Similarly, the main concepts and relationships have not been defined. Who are elites? Are elites an identifiable, clearly demarcated, monolithic, water-tight entity? How, when disaggregated, intra-elite transactions take place? What are determinants of elite-non-elite relations? These and other gaps in the model necessitate development and extension upon Husain’s model – with primary objective of explaining elites’ domination of Pakistan’s economic system and its fall out for marginalized
masses. Some scholars, in addition to Husain, have also used the elitist jargon to identify and explain Pakistan’s economic problems.90

**Gap in Research**

Since Hussain and Shafqat are predominantly political in approach and Husain offers insight into elitist control of Pakistan economy’s productive function only – ignoring all rest, essentially trio appears leaving vast expanse of intellectual territory needing to be chartered. The study thus makes a significant departure with Alavi, Hussain, Shafqat and Husain, and builds upon so as to purposely reduce its focus from an outright control of the state (political power) or even economy’s productive function by elites to primarily the control of its extractive function, and to further develop theoretical framework by linking it with superior intellectual debate centered around state autonomy.

The study takes Pakistan elites as an eclectic conglomerate of vested interest groups that systematically cooperate and enter into non-zero-sum exchanges aimed at optimizing group gains by mounting pressure on state to exercise sub-optimal (fiscal) policy options. It further postulates that while Pakistani elites enter into zero-sum exchanges with competing rival groups for political gains – control of governance structures, they take a complete volte face to enter into non-zero-sum transactions for economic gains – (through) control of extractive function – with confrontation giving way to cooperation, exclusion to inclusion, and monopolization to quid pro quo, which could either be

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immediate or deferred; articulated or understood; systematic or automatic.\textsuperscript{91} It would therefore, for good reason, be quite a misnomer to call Pakistani elites “elites.” However, for want of a better construct, these vested interest groups are referred to as elites – to be more precise, effective elites – in recognition of their inexorable effectiveness exhibited over time towards achievement of their objectives.

This over-arching conglomerate of Pakistani elites – it is argued – is fundamentally composed of: (i) industrial elite; (ii) business elite; (iii) religious elite; (iv) military elite; (v) feudal elite; and (vi) sundry (non-profit sector, media, & professional) elite. Not recognizing political and bureaucratic elite as separate elite groups on Pakistan’s power drawing board is a fundamental deviation from the traditional typologies. It is argued that bureaucracy (primarily generalists) exists as a sine qua non in state-structure and ever-existing framework of the state which under-grid ruling coalitions to help latter rig public policy formulation process and occupy state and its extractive system. After playing an active lead role in governing state during first decade of her existence, since imposition of martial law in 1958, bureaucracy had opted to (or was forced to) play a back-end subordinate role – pre-dominantly subservient and non-Weberian in nature. The mere fact that study inducts bureaucracy into the model as proxies and not rational actor per se, does not mean that it does not operate as a rational actor; it does, but in a basely and pecuniary way, and in utter subservience to ruling elite agents – not at par with main elite factions. Similarly, political elite do not exist as a separate entity in the model. They are rather composed of representatives of one of six elite groups primary objective of whom is not to dominate power structures per se but to intrude into them so as to maintain and

\textsuperscript{91} Later in the study it will be delineated as to how the non-zero-sum transactions between the elites take place to control the tax policy formulation and enforcement of the fiscal codes.
enhance economic status quo. While industrial, business, religious, military, and feudal elite may be common constructs in Pakistan’s public policy discourse, so called non-profit, media, and professional elite are a new trigger in the polity who now exhibit good grit to rig public policy formulation, and now even its implementation in their favor – like their pre-existing peer groups.\textsuperscript{92}

Properties of Pakistani Elites

It is interesting to note that Pakistani elites do not possess and reflect, if not all, at least most of properties of Millsian power elite. Pakistani elites neither necessarily reflect any “class consciousness,” nor any similarities of “origin,” nor are they driven by a lust for power to control and shape the world according to their own higher peculiar ideal worldview – with probably notable exception of religious elite. They also do not want to dominate the world in the sense of its being a manifestation of a-priori human faculty of acquisitiveness, excellence, and an extreme urge to prevail. Instead, they are motivated and driven by a mundane, at times, lowly group-centric economic ambitions. In order to pursue their economic agenda they do not form any permanent alliances, nor enter into any ideological battle-grounds. They quickly shuffle and change their positions from moment to moment and on issue to issue frantically looking to optimize their economic gains ruthlessly – at all costs, and at all times. Economic group-interest is the only permanent and defining factor in formation and deformation of elite alliances – including ruling coalitions. They want to neither rule nor be ruled, if it could in any manner, potentially jeopardize the economic status quo. But Pakistani elites are effective to the kill; go-getters of highest order; top-performers when it comes to achievement of their

\textsuperscript{92} Hussain calls Feudal elites "Landowning elites", and classifies Professional elites as "Emerging elites." Shafqat clubs industrial and business elites under common rubric "Industrial-merchant class."
economic goals. They have, overtime, exhibited tremendous efficacy to put together ruling alliances which could under-write eco
dmeno-political status quo; which would not pose taxing questions; which would guarantee provision of subsidies, exemptions, and a dysfunctional extractive system. “The hold of a narrow, self-centered elite on the economy…is much stronger than in some other countries in the region.”93 Their focus and limited objectives (economic benefits) have earned them unparalleled success. “Given these proclivities of the business elite, the smaller scale and informal sectors have, in turn, responded to secure their own segmented territories. They have exploited institutional weaknesses by resisting documentation, and regulatory provisions, and even more tellingly by successfully evading state taxation, thereby leading to major revenue shortfalls.”94 While there could be haggling – at times, really fierce – on size of the piece that a particular group gets but there is generally a consensus on internalization of struggle for a larger share itself. Pakistan elites always like to play on “no holds barred” basis. They mount pressure on state’s policy formulation mechanics through back-door manipulation, lobbying, street-agitation, threat, strikes, and even violence to achieve their economic agenda. They can even go to the extent to deform and dismantle ruling coalitions and to topple governments – without much regard to implications of their actions for the state; the masses – in combine with ignominious help from their foot-soldiers – generalist lackeys.

Elites’ configuration

Illustratively speaking, control of Pakistan’s economic body polity by elites can be equated with a minority-held corporation, that is, an entity in which minority shares-
holders (elites) control management – referred to as Elites Ltd. Majority share-holders – people of Pakistan – sit on margins sans any clout and say in management and decision-making of corporation resulting in no gains for themselves. A minority management, in theoretical terms, tends to get into rent-seeking, ad-hoc decision-making that ignores long-term sustainability imperatives and can attempt a reverse squeeze out on majority shareholders, which scenario could potentially harm not only silent majority but corporation itself. Expected cumulative outcome in terms of mismanagement arising from “minority control” of a corporation is almost applicable to current state of affairs of Pakistan’s political economy. Pakistani elites’ sustained proclivities for an economic ravish at whatever expense can be conveniently equated with a minority-held control of a lucrative corporation.

What is predictable intra-elites pattern of influence over body polity of Pakistan in historical context? The intra-elites shareholding in Elites Ltd over the years has been changing influencing their respective group’s ability to lead, co-opt, and pressurize ruling coalitions into exercising suboptimal policy choices particular in arena of tax policy. Military elite have consistently held major share in Elites Ltd. Their influence has seen ups and downs but they continue to play single most dominant role in the polity. The riches that military elite have amassed over time, specific exemptions that their corporations got during various periods of history, special reduced tax rates, complicated...

95 In plain sense, "squeeze out" refers to a situation wherein majority share-holders seek to eliminate minority shareholders from either or both benefitting from corporation or participating in business of corporation.
corporate structures, clandestinely contrived economic transactions, and their defiance to submit to state authority in various realms of governance – particularly fiscal policy – all bear vivid witness to their ability to maneuver public policy and pursue their economic agenda with focus and single-mindedness. Religious elite, although driven chiefly by an ideological worldview, have not been forgetful of ferociously pursuing and protecting their economic interests. A virtually non-existent fiscal regulatory regime for non-profits is their major gain – not so realized by state. Industrial elite and business elite have most of the times operated in combine with each other except at rare issues like imposition of Value Added Tax (VAT) etc. Feudal elite have seen their importance in polity nosedive over time, but hold on to their assets, which appreciate with passage of time leaving them in a permanently advantaged position. Their ability to diversify and swap sources of income has reaped optimal gains in that they are able to keep their taxable incomes tax-exempt by claiming them as agricultural income.

Media elite i.e. electronic media outlet owners, TV talk-show anchors, print-media senior journalists and op-ed columnists; professional elite like lawyers, chartered accountants, independent consultants with varying professional backgrounds; and so-called non-profit organizations (NPO) professionals passionately grounded in their libertarian worldview, are a relatively new phenomenon, but with good ability to effectively protect their economic interests. An exceedingly lax fiscal regulatory regime in respect of all three sub-groups of sundry elite being overly facilitative in an international comparison holds witness to it. Accordingly, sundry elite have exerted significant amount of influence on

While all interest incomes howsoever originating undergo inevitable axe of withholding tax, retired servicemen have the luxury to invest in a clandestine Army Welfare Trust scheme the yeild of which does not attract any withholding tax at source. Tax departments’ efforts to get access to particulars of investors with corresponding quantum of investments, and have at-source taxation enforced as in case of other ordinary citizens, spanning over past three decades have never even come close to a success.
polity in recent years. Sundry elite’s ability to affect country’s public policy in their favor gets a boost by their ability to be hired by international organizations, bilateral socio-economic assistance arms of various developed countries to carry out various studies and write reports cross-cutting all arenas of governance. The mere fact that they are generally well-educated and professionally trained, helps them conveniently penetrate into ruling structures and influence policy decisions. The capacity of an elite group to play a more dominant role than other elite groups within the framework of Elites Ltd at different periods has had a direct correlation with (a) the group’s ability to organize, clamor and exert pressure on ruling coalitions directly or through Elites Ltd, and (b) its achievements in terms of economic gains which when ploughed back in, would increase that particular group’s capacity exponentially to exert more pressure on state for favorable policy choices and to hold on to riches that have been stockpiled.

Elites’ Policy Formulation Grid

How do elite operate and mount pressure on state structures to manipulate extractive system through exercise of favorable policy choices and weakening of enforcement tools can be pictorially depicted as below. Elites positioned in central column articulate their interests to state through political parties (right column) as well as through their umbrella representative organizations (left column). Political parties and umbrella representative organizations further articulate their interests at governmental level where national

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98 In 2013, one rare well-coordinated effort was made by FBR, Ministry of Foreign Affairs, and Economic Affairs Division to engage UN system in Pakistan to extract information about salary and consultancy incomes of their local employees and other consultants numbering about 500 not covered under standard host-country exemption extended to qualified UN personnel, so as to enforce domestic tax laws at par with all other employees. Prolonged consultations, however, bore no fruit as under mounting internal pressure Douglas Hageman, Deputy Country Director, UNDP, chose not to divulge critical information. The issue was dealt with at FBR file No.F.3(32-A)Int.Taxes.05. One wonders if such brute informational iron-curtaing would have been possible in any other country.
interest aggregation takes place. Since ruling coalitions are essentially composed of elite’s agents themselves, it does not take much (effort and time) reducing articulated interests into policy bits. Any resistance from a rival group, if at all, is either transitory or put up for public consumption – is overcome by threat of withdrawal of support for ruling coalition, exit from cooperative framework, strike, street agitation, and even violence. Historically, cooperation has come to prevail at all times; under all situations. Finally, aggregated national interests trickle down to bureaucracy, where policy directives are processed and formulated into implementable policy pronouncements. At the tactical level, this is achieved with willing help of generalist lackeys already placed as head of state’s extractive function. Intriguingly, elites perched in state’s heart of policy formulation grid get heard and rewarded – almost invariably.

Elites’ Policy Formulation Grid

State of Pakistan  
[Executive]
- Chambers of Commerce / Industry  
- Business & Trade Organizations  
- Religious Umbrellas  
- Professional Umbrellas  
- NGO Umbrellas  
- Farmers’ Chambers
- Military Elites  
- Industrial Elites  
- Business Elites  
- Religious Elites  
- Feudal Elites  
- Sundry (Media, Non-Profit sector & Professional) Elites
- Liberal Political Parties  
- Conservative Political Parties  
- Religious Parties  
- Regional Political Parties  
- Regional Nationalist Parties

Federal Bureaucracy  
[Tax Policy Formulation]

People of Pakistan
The grid further signifies that elites control extractive function and successfully undertake to manipulate tax policy through their generalist collaborators and conveniently shift fiscal burden from their own shoulders to those of already marginalized and impoverished masses. The generalist cadres – lacking in skill and professional niche – enter into a symbiotic relationship with elites through systematically orchestrated mutually self-serving transactional arrangements. Elites help generalists monopolize important state institutions like FBR in return for favorable policies and their lax implementation. The end result of this symbiotic collusive elites-generalist relationship is that entire fiscal policy formulation process is completely divorced from hapless citizenry of Pakistan. The state’s pronounced and exaggerated predilection to engage with select factions, lend ears to their interest articulation, and reflect only their demands in public policy outputs – leaving out unorganized and marginalized millions – may be indicative of fact that the state of Pakistan is in captivity and capture of some proportions, and beholden to Elites Ltd. The scenario, not only influences lives of general populace but also their perception of the state of Pakistan leading to and resulting in further weakening of state-society relations and impeding process of state-building.

Section IV
Elites’ Rational Actor Dilemma

The study posits that foremost tool and target of domination for Pakistan elites has been the state’s extractive system. This is simply because a functional extractive system – depending on both base and rate applicable – could, on average, cost elites up to 40% of their riches on an on-going basis; it is a substantial chunk.\(^99\) Moreover, a strong tax

\(^{99}\) In a standard manifestation, an adequately functional tax system's impact could even be far more perceptible when viewed in the context of proper application of Wealth Tax, Gift Tax, Estate Duty / Inheritance Tax, and Capital Gains Tax (on real estate).
system is difficult to hijack to obtain engineered exemptions and amnesties. So, extractive system’s domination becomes pivotal within given framework of an elite-held captive state. This is where elites get to confront a serious dilemma: they need to ensure protection of their riches but they also need a state to govern. Why would elites need a state to govern when assumption is that they are not power hungry – megalomaniacs?\(^{100}\) This is for two reasons. Firstly, state structure – if they could control, is per se a source of power, which could then be remodeled and re-employed to generate more riches. Secondly, prevailing pro-elitist dispensation provides a robust certainty factor, which in an altered state-structure could not potentially be ensured. Now, sustenance of a state has a price-tag. Since elites have a vested interest in sustaining state, which is not possible without ensuring inflow of a certain sum of resources; being rational actors, they choose to sustain it at least cost to themselves.\(^{101}\)

How then does the dilemma resolve? Or does it? The elites venture to sustain state for a conduit to amass more power, and wealth and underwriting already amassed wealth through two methods. Firstly, elitist state, should it be possible, prefers to extract internationally by selling whatever it could – security concerns, poverty, low human development indicators, geo-strategic location, depleting natural resource base, degrading environment, natural disasters, humanitarian crises, state-sponsored international mercenary services – to induce international rents-in-aid, grants, discount-credits, and even market-based mark-up carrying loans. Pakistan’s role in Afghan conflict of 1980s, deploying military detachments in Middle Eastern sheikhdoms and its ever-readiness to offer military and police personnel for peace-keeping under UN umbrella are ostensible

\(^{100}\) At length deliberated upon earlier in the paper.
\(^{101}\) A "rational actor" is an agent who strategically weighs costs and benefits of alternative courses of action and chooses best course of action which is most likely to maximize his utility.
legitimate ploys of international extraction.\textsuperscript{102} The phenomenon is so embedded within psyche of the polity and so wide-spread and prevalent in its history that Pakistan could very well be called a rentier state of sorts.

The seeds of this trend could be traced back to very inception years of the state. Jalal explicating Pakistan’s efforts in F/Y 1949-50 to generate U.S. dollars to ensure uninterrupted purchases of defense-related hardware laconically observed: “This is why officials in the ministries of finance and commerce were busy working out strategies to increase Pakistan’s availability of dollars. They had begun learning the ropes of the international financial system even if in the process they neglected to refine the art of domestic economic management.”\textsuperscript{103} In the same vein, Husain argues that “Russian invasion of Afghanistan in 1979 propelled Pakistan to the forefront of international political attention. Not only did it give political legitimacy to a regime which was facing credibility problems of its own, it also set the way for substantial infusions of foreign aid and war-related assistance that would…provide a safety valve for the Pakistani economy.”\textsuperscript{104} Khan confirms the view that “Afghan war…increased the level of foreign aid.”\textsuperscript{105} Although, proportion of grants increased from around 12 per cent in late 1970s to around 25 per cents in 1980s, mainly because of food aid and other funds intended for Afghan refugees, yet most aid was in form of loans. It is significant that till late 1980s, international lenders and donors did not have too significant a role in policy formulation process. However, crucial role of IMF started to become more and more visible within

\textsuperscript{102} The term “extraction” has been used to denote state's total resource generation processes - although major concern of the paper remains tax system itself.
\textsuperscript{104} Husain, 29.
\textsuperscript{105} Mohsin S. Khan in William E. James and Subroto Roy, eds., \textit{Foundations of Pakistan's Political Economy : Towards an Agenda for the 1990s} (New Delhi; Newbury Park, Calif.: Sage, 1992), 175.
mechanics of policy formulation since 1988, when Pakistan conveniently graduated from being an ordinary member to a country heavily dependent on foreign assistance. The backdrop, of course, was reduction of Pakistan’s geo-strategic importance in the wake of Soviet withdrawal from Afghanistan that saw era of rents-in-aid coming to an abrupt squeeze and duly being replaced by an epoch of lending-in-aid.

Nonetheless, Pakistan has been at forefront of and quite deft too in reaping international assistance under IDA and ADF soft windows from the World Bank and the Asian Development Bank, respectively. It may, therefore, be not all that baseless if Pakistan’s public policy formulation process is generally regarded as donor-driven. Pakistan’s penchant for extraction at international level can, at times, take raw and bizarre turns. In 2009, Government of Pakistan approached Government of Kuwait to open a donation-seeking charity account therein in Prime Minister’s own name for relief and rehabilitation of internally displaced persons uprooted because of Swat operation launched against terrorists.106 While the effort was obviously aimed at harvesting Kuwaiti dinars over and above what Kuwait had officially committed, the request, per se, remained subject of varied interpretations. It has been argued and not without good reason that over-dependence on international extraction at the expense of domestic extraction has rendered Pakistan addicted to Western aid – leveraging global games.107 There is also a general perception that “most of the well-intended foreign aid is looted by corrupt governments and their politicians to fill their own personal coffers and hence augment their rule, and not to improve living conditions of all citizens.”108 Resultantly, pattern of economic

106 Idrees Bakhtiar, "Relief Account in Pm's Name Aroused Suspicion," Dawn, June 10 2011.  
growth of Pakistan is a patent graphic representation of “boom-bust cycles, where foreign injections led to sharp upward spikes”\textsuperscript{109} but then since “resources were not channeled into high-impact investments, the GDP would plummet to a low equilibrium, where it stayed until the next round of conducive external facilitation.”\textsuperscript{110} It has also been argued “that foreign aid in Pakistan was negatively associated with long run GDP growth in absence of macroeconomic fundamentals.”\textsuperscript{111} Secondly, since the international extraction is not possible indefinitely and without a definite degree of domestic resource-match, elites compulsively need to undertake domestic extraction. Being rational actors they have to achieve it at least cost to themselves. They achieve it through six modes.

One, elites effectively exploiting their control of tax policy formulation, get to introduce an elaborate indirect taxes system so as to shift maximum revenue burden onto unrepresented and already marginalized sections of society. The polity’s proclivities to opt for indirect taxes for generation of revenues from domestic sources was also propagated by reform initiatives that were elitist in tone and tenor. “The role of sales tax should be enlarged and the function of generating a very large proportion of revenue from indirect taxes should be assigned to the sales tax which should eventually move towards the direction of Value Added Tax.”\textsuperscript{112} “In the context of the development programmes in Pakistan,” it was noted as far back as 1960, that “emphasis in the case of indirect taxes is being shifted…to central excises.”\textsuperscript{113} Despite there being theoretical and empirically

\textsuperscript{112} GOP, \textit{The National Taxation Reform Commission Report (Part 1)} (Islamabad: Ministry of Finance, 1986), 164.
proven exhortations to the contrary, Elites Ltd has kept on pushing with tax policy choices which suited them most and promoted their own economic agenda. It thus is not surprising if indirect inland taxes coupled with withholding-cum-presumptive taxes constitute more than 90 per cent of total domestic revenue of the state.

Two, elites effectively render state’s direct taxes system a quasi-direct one through an extended withholding-cum-presumptive tax regime thereby reducing their own liability through transfer of the same to low income groups and getting a brute legal protection against preparation and audit of their final accounts, and filing of annual tax returns. This goes without saying that a quasi-direct taxation can have spurious impact on economy in the long run as it does carry definite potential to interfere negatively with distribution of wealth and proper functioning of market. It was argued that “introduction of presumptive taxes in all forms – fixed, minimum tax or withholding tax as discharge of final tax liabilities” doing “away with the requirement of filing of tax return,” and a “need to get registered with the Tax Administration,” could have serious far-reaching implications for the country as “such a simplistic approach in the background, the Government’s efforts to build a comprehensive data base with the National Tax Number serving as the focal reference point may not materialize.”\(^{114}\) It was further argued that Government’s efforts in mopping up true revenue potential could, in long run, come to a naught as once accustomed to a simple and generous tax regime, process would be difficult to reverse for determining accurate income for tax purposes.\(^{115}\) “Thus, the short-run gains in revenue, if any, will be more than offset by the huge revenue losses in future.”\(^{116}\) This is exactly

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\(^{115}\) Ibid.

\(^{116}\) Ibid.
what has happened. Extended withholding taxes regime with a PTR topping results in indiscriminate taxation as against targeted taxation, which is a hallmark of direct taxation. Indiscriminate taxation suits elites in a couple of ways. Firstly, it thwarts any chances of taxing economic agents according to their true potential to contribute to national exchequer. Secondly, indiscriminate taxation propels and eggs economic agents in similar commercial conditions to form groups so as to be able to effectively articulate and protect their interests, which perpetuates elitist operational paradigm and provides its justification. “Indiscriminate stepping up of tax rates with a view to raising the ratio of tax proceeds to G.N.P. can cause more harm than good and may even prove self-defeating.”  

There is no doubt that PTR has been a key factor towards fomenting “groupness” in almost all spheres of economic life.

Three, elites choose to shift to non-tax revenues when matching share of domestic revenues falls short of desired levels. “The inability to raise the overall tax-to-GDP ratio was compensated by surcharges from natural gas’ and petroleum products’ sales. Highest contribution from surcharges at 2.49 percent of GDP came in FY1999 when the tax-to-GDP ratio was at its lowest at 10.48 percent during the period reviewed.”  

In fact, non-tax revenues grew at a faster pace than tax revenues, that is, annually 15 and 14 per cent in FY 1999-00 and in FY 2007-08, respectively, constituting about 1/3rd of total government revenues. Absence of a decent balance between direct and indirect taxes, an excessive withholding regime, and an aggressive imposition of “petroleum development surcharge pushed an overwhelming majority of Pakistanis towards, and a

substantial number of them, below poverty line.” The prevailing tax policy matrix and resultant tax mix may be sufficiently indicative of state’s insensitivity to rising poverty, ever-high inflation, distorted Gini-coefficient and Lorenz Curve, and an unsustainable fiscal deficit – but insufficient to alarm Elites Ltd in their cozy comfort zone.

Four, under an overwhelming domination of elites, polity exhibits an ambiguous and pronounced tendency to promote charity not only under its own direct auspices, but also by keeping legal-cum-regulatory framework of charity-soliciting organizations lax and deficient for adventurers of all shades and hues. The exercise of such a policy has two distinct features: (a) At time of every crisis – big or small, natural or man-made – state has scrambled to set up a charity account in name of President or Prime Minister and heave an appeal for donations and contributions without realizing that charities beg, states do not; states tax. (b) The regulatory framework, be it in the sense of registration laws, recurring reporting requirements, or fiscal regime, has been kept too lax, flexible, and riddled with loopholes – by design. This way elitist state was conveniently able to shift a good part of its functions and responsibility of providing public goods like education, health, human rights to charitable organizations. Thus, it is not surprising that libertarian forces under influence of mis-guided and half-baked notions nurtured by sundry (NPO) elite have taken strong roots in society, promoting all kinds of extremist views on both sides of divide, obfuscating national policies thereby snatching initiatives from government, and undermining writ of state.

Five, elitist state chooses to raise loans to make up for shortfalls in domestic extraction since this way elites are able to defer tax payment indefinitely. The polity started resorting to this option full well from very beginning as “Within a period of thirteen months between September 1948 and end of March of 1949, the Government of Pakistan were able to borrow about Rs.70 crores from the market, which may be contrasted with Rs.40 crores borrowed by the Government of India during the financial year 1949-50.”\textsuperscript{121} This gave traction to efforts on international extraction. “When the revenue expenditure gap increased in the early 1980s, authoritarian governments at the time did not apply restrictions on borrowing, rather signed hefty loan deals with the U.S. and IFIs, which were possible in the wake of Afghanistan crisis.”\textsuperscript{122} The propensity to borrow without due diligence was not confined to international sources; domestic sources were exploited full well, too. It was noted as far back as 1960 that “economy is burdened with a great deal of excess liquidity as a result of the unrestricted deficit resorted to by the previous governments.”\textsuperscript{123} The state’s demand for dimes from borrowed sources continues to remain insatiable even today. Thus, not surprisingly, in recent past, public policy debate in near-entirety both in and outside Pakistan has revolved around either introduction of VAT (or any of its variants) or maximization of international extraction through increase in aid, loans or even foreign remittances. Polity’s total silence with regard to two established theories that (a) a sustained inflow of international resources crowds out domestic extraction, and (b) direct taxes are a way far more equitable than indirect taxes – is sinisterly intriguing.

\textsuperscript{121} C. N. Vakil, \textit{Economic Consequences of Divided India; a Study of the Economy of India and Pakistan} (Bombay: Vora, 1950), 492.  
\textsuperscript{122} Khan, "Political Economy of Fiscal Policy in Pakistan," 19.  
\textsuperscript{123} GOP, \textit{The Taxation Enquiry Committee Report (Volume 1)} (Karachi: Ministry of Finance, 1960), 30.
Six, as a last resort, the elitist state gets into direct extortion through multiple means. On each single occasion of national distress or calamity a day or two’s salary is subtracted from the paycheck of all government servants. At times even three or four days salary has also been deducted from government servant’s carry-home. It is done through a simple notification issued by the executive. On the other hand, fiscally vibrant states, whenever required, impose discriminate additional taxes on the persons who possess determinable capacity to pay. Likewise, extraction of money through National Accountability Bureau under “Plea bargain” mechanism, and indiscriminate collection of TV surcharge in utility (electricity) bills can be dubbed as direct extortion by the state. Similarly, advance Neelam-Jhelum (Hydropower Project) Surcharge is a trite illustration of state-sponsored extortion. It has been posited that none of the relevant laws, that is, the Electricity Act, 1910, the WAPDA Act, 1858, and the National Electric Power Regulatory Authority Act, 1997, provides for the imposition of a surcharge for an under-construction project. Similarly, arrogant defiance of Article 77 of the Constitution of Pakistan providing that taxability was essentially to be determined by the legislature and that the executive authorities had no power to impose any such tax; and Article 157(2)(b) providing that a tax on consumption of electricity could only be imposed through a law and that too by a provincial assembly, clearly stood in the way of Neelam-Jhelum (Hydropower Project) Surcharge,\textsuperscript{124} and which could be characterized by as elitist state-sponsored extortion.

Section V
Equilibrium Consensus Subsistence State

Since Pakistan has to survive not in isolation but in an international geopolitical environment, it finds its international stakeholders having vested interest in her for

multiple overt and covert reasons. While internal stakeholders (elites) acting as rational actors choose to contribute minimum possible and attempt to extract the rest (maximum) from international sources, external stakeholder also acting as rational actors prefer to contribute minimum, and exert pressure on internal stakeholders to contribute maximum by way of a domestic resource-match. Thus, both internal and external stakeholders get into bargaining and transactions to arrive at a formula to line up enough resources to keep the state afloat. Soon equilibrium point is achieved through transactional playoffs between competing (internal and external) actors at which each side is happy with the level of its contribution i.e. part of the bill that it has to foot to keep Pakistan going – though in a dynamic setting.

The picture is a graphic representation of an equilibrium state depicting a consensus between internal and external stakeholders on contribution by each required to run it –
not perhaps as a fully functional state but as a minimal subsistence state. At entry point, Elites Ltd wants to maximize on international extraction so that its contribution i.e. domestic resource-match is minimal. In turn, external rational actors also want to contribute minimum and pressurize internal stakeholders to chip in maximum. The equilibrium point is arrived at through gaming, bargaining, negotiations, and continuous engagements between the two competing rational actors. While, on the one hand, it may now be understandable as to why Pakistan’s tax collection is consistently running between 8-9 percent of GDP, and domestic borrowing coupled with international resource inflows make do annual budgets – barely sufficient to perform its avowed functions as a state in an insufficient manner, and on the other, it may be indicative of a consensus between internal and external stakeholders that Pakistan has to be kept going as a state – but perhaps at a bare subsistence level.

Although, the elitist model, as heretofore explicated, needs amplification through operationalization and rigorous empirical testing, yet an irresistible question that flows out of preceding debate is if Pakistan is a rentier state? A state could be classified as rentier if (a) rent situations predominate; (b) economy relies on a substantial external rent and does not require a strong domestic productive sector and a corresponding extractive function; (c) only a small proportion of working population is actually involved in generation of rents; and (d) state’s government is principal recipient of external rents.\textsuperscript{125} It may, thus, be not coincidental and surprising that in Pakistan everything tends to be international – not so in substance as in nomenclature and denomination. Nomenclatures like Pakistan International Airlines, International Islamic University, Islamic

\textsuperscript{125} Giacomo Luciani Hazem Beblawi, ed. \textit{The Rentier State,} (Nation, State, and Integration in the Arab Word), vol. II (New York: Croom Helm, 1987).
International Medical Complex, and Multan International Airport, etc. may have something to do with very psychic bent of society which finds its moorings in international extraction. This trend is not limited to public sector only; private sector, non-profits and clergy are also increasingly getting sucked into pseudo-internationalization e.g. Shifa International Hospital, Quaid-e-Azam International Hospital, International Church of Karachi, International Islamic Relief, and International Gospel Mission Church etc. This is yet not all. Every other event in Pakistan of some or no semblance is international in style and nomenclature be it a flower, an arts, or a photography exhibition, a tournament, or a drama festival. It looks like that “becoming” international adds to legitimation and social acceptability of the event or entity in Pakistan.

The fact that Pakistan has been at the forefront of two proxy wars in its neighborhood; it is the single largest contributor of army and police personnel to UN peacekeeping missions abroad; it is one of top exporters of labor force – both legally and illegally, educated and uneducated, trained and untrained; it is dependent on foreign aid and loans; it assumes role of an international watchman particularly in Middle East; it chooses to keep its domestic extractive system dysfunctional; and the fact that majorly its governments – by implication elitist clique that historically forms and deforms governments – have been prime beneficiary of all international extraction, render it pretty much a rentier state. However, the fact remains, in the particular context of Pakistan, the rents received from international extraction are essentially to be viewed within the framework of equilibrium consensus subsistence state framework and the underlying internal and external rational actor engagement.
Section VI
Elites and Extraction in the U.S.

Although, manufacturing sector was still in a state of infancy and trying to take roots, yet denizens of “13 British colonies in what became the United States (had) developed a lively style of politics by the mid-1700s, and various economic interests such as planters, importers, exporters, ship owners, small businessmen, farmers and religious groups made demands on the colonial assemblies and British governors.”\textsuperscript{126} In the aftermath of the War of Independence (1776-83), economic factions of all shades and hues continued to do demand articulation pretty much at state level “because the structure of the national government prevented significant decision-making.”\textsuperscript{127} The national government that was operating under a pre-constitutional framework dubbed as “Articles of Confederation” was not being able to provide solid foothold for the new government to perform effectively in arenas of security, economy, trade and debt-retirement. Prevailing political disorder prompted James Madison to convene a convention in Philadelphia in 1787 with a view to revising the Articles of Confederation. The ensuing political wrangling directed towards conceiving an across-the-board acceptable silhouette of a new federal government was in itself superior interest group politics. “Actually the two groups supporting and opposing the constitution represented two collections of very different interests. The Federalists were mostly property owners, creditors, and merchants, while the Anti-Federalists were mostly small farmers, debtors and small shopkeepers.”\textsuperscript{128}

The American constitutionalists, from the very beginning, were fully cognizant of the fact that state-making was a serious business, and that its foundations, if at all, had to be laid

\textsuperscript{126} R.J. Hrebenar and B.B. Morgan, \textit{Lobbying in America: A Reference Handbook} (ABC-CLIO, 2009), 02.
\textsuperscript{127} Ibid.
down after “reflection and choice,” by covering all aspects of the business – including management of factions. It was confidently posited “that it seems to have been reserved to the people of this country, by their conduct and example, to decide the important question, whether societies of men are really capable or not, of establishing good government from reflection and choice, or whether they are forever destined to depend, for their political constitutions, on accident and force.”¹²⁹ The Federalist No. 10 is almost exclusively given to laying bare and explicating various dimensions of the problem and its plausible solutions.

The Federalist No. 10 entitled “The Same Subject Continued: The Utility of the Union as a Safeguard Against Domestic Faction and Insurrection,” composed by James Madison was, in a way, sequel to Federalist No. 9, which was written by Alexander Hamilton. In Federalist No. 9, Hamilton had attempted to explore into disruptive function that factions could potentially play towards dissolution of the republic. Madison, in turn, builds on the argument, and defines a faction as “a number of citizens, whether amounting to a minority or majority of the whole, who are united and actuated by some common impulse of passion, or of interest, adverse to the rights of other citizens, or to the permanent and aggregate interests of the community,”¹³⁰ and argues that since “latent causes of faction are … sown in the nature of man,”¹³¹ factions exist as a sine qua non in a polity and, therefore, though factionalization could not be prevented as a phenomenon, its adverse impacts could be controlled. In a way, Madison legitimizes the internal group action in the polity.

¹³⁰ Ibid. See, The Federalist No. 10
¹³¹ Ibid.
Madison outlines two approaches to checkmate and abate harms of factions, that is, either through eliminating reasons which brought factions into being or through managing negative fall-out of their existence and operations. He then goes on to elaborate a couple of methods through which factions could be eradicated. Firstly, by trouncing liberty and freedom though “liberty is to faction what air is to fire.”\(^\text{132}\) But then Madison hastens to add that this option was not available as it was not possible to take liberty out of the political system. After all, liberty had been the very raison d’être of American independence. Secondly, developing a polity that was devoid of differences in interests and outlook could not be a wholesome healthy republic as very diversity of interests fuelled peoples’ struggle, injected vitality in their effort, and brought best out of them. Economic stratification, in particular, Madison argued, bred difference in view and outlook – and was, therefore, a prerequisite for development of society.

Madison further posits that since in simple democracy majority factions invariably end up holding power, it is minority factions that are in jeopardy of failing on promotion of their economic and other interests. By way of a remedy, he suggests two methods to limit majority faction operations: one, thwart "existence of the same passion or interest in a majority at the same time;"\(^\text{133}\) and two, reduce majority faction’s ability to act and pursue its agenda at the cost of the minority factions – those that are less active, under-represented or sit on the margins.

Aligning aforementioned stipulations with his main thesis – federalism – Madison recommended that since simple democracy was a peril to individual and minority

\(^{132}\) Ibid.  
\(^{133}\) Ibid.
interests, a “representative democracy,” was to ensure protection, promotion of their interests, and advancement of society on the whole. In the same vein, he advances the concept of a big republic at the expense of a small one as in a large republic, due to presence of big number of candidates and voters, the likelihood of capable representatives being elected and promoted to power is greater. Madison here introduces the concept of delegates so as to have more “fit characters” to elect from by each delegate. It may not be out of place to remark here that most of the complexity of the American political system may have its roots in the desire of the forefathers to manage factions effectively.

Although, Madison’s arguments held sway – both theoretically and historically – yet he has been criticized on many counts. It has been averred that “James Madison’s Constitution of 1787 set the stage for what would become interest group politics in the new American Government,” not in the sense that factions did not exist and operate prior to 1787, but in the sense that in post-1787 scenario “structure and rules of the new constitution guided the development of American politics and government into a particular pattern much like a valley guides water into a river bed.” 134 Wills, targeting Madison’s filters implanted into the system to protect minorities, writes: "Minorities can make use of dispersed and staggered governmental machinery to clog, delay, slow down, hamper, and obstruct the majority." 135 However, he continues, “these weapons for delay are given to the minority irrespective of its factious or non-factious character; and they can be used against the majority irrespective of its factious or non-factious character,”

134 Hrebenar and Morgan, 06.
and that “What Madison prevents is not faction, but action.”\textsuperscript{136} It has also been argued that, in the aftermath of framing the constitution in 1787, “the adding of the Bill of Rights and especially the First Amendment to the Constitution in 1791,” ought to be seen and analyzed within the context of interest group politics.\textsuperscript{137}

Alexis de Tocqueville, a French intellectual, visited United States in 1831-32, and observed “that the Americans used associations more than other major nations at that time.” Tocqueville wrote:

\begin{quote}
In no country in the world has the principle of association been more successfully used, or applied to a greater multitude of objects, than in America. Besides the permanent associations, which are established by law, under the names of townships, cities and counties, a vast number of other are formed and maintained by the agency of private individuals. If some public pleasure is concerned, an association is formed to give more splendor and regularity. Societies are formed to resist evil, which are exclusively for a moral nature, as to diminish the voice of intemperance. In the United States, associations are established to promote public safety, commerce, industry, morality, and religion. There is no end which the human will desairs of attaining through the combined power of individuals united into a society.\textsuperscript{138}
\end{quote}

In spite of the fact that the founding-fathers of U.S. democracy and early constitutionalists were fully cognizant of the importance of the role that factions play in a polity and the need to adequately manage it, so that state continues to perform its function of being ultimate arbiter of disputes, there was visible resistance to factions’ action. Many a states had put some kind of restriction on factions promoting their agenda in a structured manner – through lobbying; violations could be reacted to with fines and

\begin{flushright}
\textsuperscript{136} Ibid.
\textsuperscript{137} Hrebenar and Morgan, 6.
\textsuperscript{138} A. De Tocqueville and R.D. Heffner, \textit{Democracy in America} (Signet Classic, 1956), 95.
\end{flushright}
imprisonments. The dominant intellectual sway, however, was in favor of providing a systematic window of operations to factions and interest groups. This was also perhaps most convenient manner to take stock of who promoted whose interests for what purpose and through what means. The plausible underlying understanding would be that if the state got hold of all this critical information, negative fall-out of faction action could be managed first by propping the competing interests to counter-act the agenda being promoted if it mattered to the latter, and also by raising status and level of state to a superior plane, that is, where it could divulge above-par outputs.

The U.S. Congress ended up passing the Federal Regulation of Lobbying Act, 1946. Section 307 thereof provided the Act to “apply to any person (except a political committee . . .), who by himself, or through any agent or employee or other persons in any manner whatsoever, directly or indirectly, solicits, collects, or receives money or any other thing of value to be used principally to aid, or the principal purpose of which person is to aid, in the accomplishment of any of the” two objectives, namely, “passage or defeat of any legislation by the Congress,” and influencing “directly or indirectly, the passage or defeat of any legislation by the Congress.” Likewise, section 308 supra stipulates “Registration of Lobbyists with Secretary of the Senate and Clerk of the House” in the following words: -

Any person who shall engage himself for pay or for any consideration for the purpose of attempting to influence the passage or defeat of any legislation by the Congress of the United States shall, before doing anything in furtherance of such object, register with the Clerk of the House of Representatives and the Secretary of the Senate and shall give to those officers in writing and under oath, his name and business address, the name and address of the person by whom he is

employed, and in whose interest he appears or works, the duration of such employment, how much he is paid and is to receive, by whom he is paid or is to be paid, how much he is to be paid for expenses, and what expenses are to be included . . .  

The Supreme Court, in 1954, in a significant judicial pronouncement, delimited scope of the Lobbying Act, 1946, and decided “that it applied only to paid lobbyists who directly communicated with members of Congress on pending legislation.” The judgment produced gaps in the oversight regime on the lobbyists created through the Lobbying Act, 1946. The judgment essentially held that only those people (a) who received money to do lobbying; (b) whose “principal” vocation was lobbying; and (c) who communicated with Congressmen only – and not their Staffers – were covered by the Lobbying Act, 1946. Thomas R. Dye’s famous exhortation that “Politics is the allocation of government resources;” as regards “who gets what, when, where, why, and how,” succinctly conceives the relationship between interest groups and government. Interest groups ferociously wrestle in the arena of policy formulation to eke out favorable policy outputs. While it may be quite an intractable fact as to who got away with what desired policy bits and for what opportunity costs, the amounts of money that has gone into structured group interest articulations appear phenomenal.

The data of total lobbying costs incurred by various powerful business houses, during the period 1998-2014 is plotted as under: -

\[\text{\textsuperscript{140}} \text{Ibid.} \]
\[\text{\textsuperscript{141}} \text{United States Vs. Harriss, (U.S. Supreme Court 1954).} \]
\[\text{\textsuperscript{142}} \text{Ibid.} \]
\[\text{\textsuperscript{143}} \text{T.R. Dye, Understanding Public Policy (Prentice Hall, 1995). cited in ; Hrebenar and Morgan.} \]
Lobbying Spending

<table>
<thead>
<tr>
<th>#</th>
<th>Lobbying Client</th>
<th>Lobbying Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>U.S. Chamber of Commerce</td>
<td>1,133,360,680</td>
</tr>
<tr>
<td>2</td>
<td>American Medical Association</td>
<td>314,602,500</td>
</tr>
<tr>
<td>3</td>
<td>General Electric</td>
<td>310,610,000</td>
</tr>
<tr>
<td>4</td>
<td>National Association of Realtors</td>
<td>300,026,256</td>
</tr>
<tr>
<td>5</td>
<td>American Hospital Association</td>
<td>269,152,685</td>
</tr>
<tr>
<td>6</td>
<td>Pharma Research &amp; Manufacturers of America</td>
<td>263,116,420</td>
</tr>
<tr>
<td>7</td>
<td>Blue Cross/Blue Shield</td>
<td>242,150,253</td>
</tr>
<tr>
<td>8</td>
<td>AARP</td>
<td>239,162,064</td>
</tr>
<tr>
<td>9</td>
<td>Northrop Grumman</td>
<td>218,542,213</td>
</tr>
<tr>
<td>10</td>
<td>Exxon Mobil</td>
<td>205,022,742</td>
</tr>
<tr>
<td>11</td>
<td>Boeing Company</td>
<td>199,642,310</td>
</tr>
<tr>
<td>12</td>
<td>Verizon Communications</td>
<td>196,642,310</td>
</tr>
<tr>
<td>13</td>
<td>Lockheed Martin</td>
<td>195,811,039</td>
</tr>
<tr>
<td>14</td>
<td>Business Round Table</td>
<td>194,330,000</td>
</tr>
<tr>
<td>15</td>
<td>Edison Electric Institute</td>
<td>189,516,789</td>
</tr>
<tr>
<td>16</td>
<td>AT&amp;T Inc.</td>
<td>177,225,644</td>
</tr>
</tbody>
</table>

Although, traditionally it was argued that lobbyists were essentially “impotent” when it came to affecting policy making; and even if they had any influence on policy formulation it was “marginal;” yet recent research in the field goes to reveal that lobbying was quite effective when measured in terms of rate of return on investment. More recently it has been posited that “Hiring a top-flight lobbyist looks like a spectacular investment, comparable to the returns of the most blistering hedge fund.” Likewise, it was reported that business entities which chose to hire lobbyists to carry forward their agenda “outperformed the S&P 500 by a whopping 11 percent per year

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144 The Centre for Responsive Politics: Open Secrets.Org: Www.opensecrets.org - accessed on December 21, 20014.
since 2002." It has also been argued that lobbying does affect fiscal policy formulation and can result in lowering tax rates and other benefits for the sponsoring factions.

From the government side too, there is ample anecdotal evidence to suggest that policy formulation process is substantially influenced by interest groups directly or indirectly – through lobbying firms. Politics and policy-making cannot be separated in the U.S. like elsewhere in the world. Politics seemingly influences all five steps in public policy formulation cycle, that is, problem identification and agenda setting; requisite policy formulation; policy adoption through adequate method (enactment); policy implementation; and finally policy evaluation. The U.S. system does allow public policy formulation in a fragmented manner. Under an overarching strong federalism, principle of checks and balance between institution and separation of powers, results in positive fragmentation of power to make policies in all areas of governance. The interest group politics impinges on the U.S. Congress not only externally but internally, too. While direct lobbying and issue network activities are reckoned as external lobbying, pork-barrel legislation, and logrolling could be considered illustrations of internal lobbying. It has been averred that “Politics intervenes at every stage of the policymaking process” as “energetic lobbies and political action committees in the United States work to influence elected officials every day.” With reference to U.S. political system it has been suggested that “Politicians’ work is difficult because the values espoused by competing interest groups often differ widely. When it comes to social welfare policy, Americans represent the political spectrum from conservatives to middle-of-the-road centrists to

liberals. This diversity of opinion causes the country to pursue a pluralist approach to social welfare policymaking. Policymakers follow several lines of thinking and arrive at policies and programs that are often contradictory and overlapping because they try to see that they are there for everyone.\textsuperscript{151}

In spite of the fact that the very public policy formulation process in the U.S. is fragmented because of distribution of power with various institutions, yet the fact remains that the state does operate independent of interest groups – though in a relative degree. The U.S. state is able to throw up in terms of policy outputs, a sum that is larger than the interest group articulations put together. This is manifestly evident both in the realm of coercive and extractive functions. “The interest group system continues to be the world’s most fully developed and serves as a model for measuring the development of interest group systems and democracies around the world.”\textsuperscript{152} The U.S. political system deftly engages interest groups, allows them structured windows for demand articulation, affords them a satisfaction that they have been heard, and still comes up with policies that are more than demand articulations put together. This is where, despite all criticisms, James Madison’s constitutional conundrum, created to assimilate factions and interest groups, has taken the test of time, and continues to respond to all situations, address them and also come up with workable answers.

\textbf{Section VII}

\textbf{Conclusion}

In all fairness, Neo-Marxist-Structuralism, and to an extent, state-centric scholarship did illuminate the debate upfront. But eventually it is Neo-Marxist-Instrumentalism that fits

\textsuperscript{151} Ibid.
\textsuperscript{152} Hrebenar and Morgan.
Pakistan in terms of elitist framework as developed in the preceding sections. It may be, in fact, Instrumentalism-plus that near-fully captures the phenomenon of elite capture in Pakistan, which implies that the state of Pakistan is theoretically reducible to class act – contextually elites. When status quo – system structure – is disaggregated into parts, that is, policy formulation processes with particular reference to state’s extractive system, one finds that the sub-system is thoroughly dominated and conveniently rigged by class-representing elite or their proxies – generalist bureaucratic cadres. This is manifestly evident from the silhouette of elitist framework which is ontologically verifiable and epistemologically grounded in theory. The coloring of silhouette i.e. attestation or, for that matter, falsification with help of data or operationalization would provide a robust framework for future research and scholarship. However, casual general observations gleaned from surface of state and state conduct in Pakistan are indicative of infliction of a malaise too malignant to be cured by isolated and piecemeal interventions.

One of the core reasons for governance under-supply could be under-extraction by state feeding into under-performance of its other critical functions e.g. coercion, redistribution, regulation – and simply put, supply of necessary public goods like education, and health. In turn, under-extraction may have been caused by below-par policy prescriptions and deficient policy handles delegated to an incapacitated administrative structure for implementation, which arrangement is further exacerbated by incriminating absence of a holistic national level information aggregation system – sustained by Instrumentalism-plus unleashed with vengeance by an elite capture of an unparalleled intensity and gravity. What is obvious is that in Pakistan governance under-supply on part of the civil government created large swathe of strategic space to be readily filled up by non-
governmental and non-state actors, fill-in the vacuum, and promote their own agenda – theocratic, fundamentalist, ultra-modernist, anarchist – on people and polity alike.

While Pakistan’s political leadership could never really decide the “important question whether societies of men are really capable or not of establishing good government from reflection and choice, or whether they are forever destined to depend for their political constitutions on accident and force,”¹⁵³ U.S. political leadership did – and quite early. The U.S. political leadership, undertook a preemptive strike to co-opt factions and suck them into the system¹⁵⁴ by providing them a channel of interest articulation¹⁵⁵ and by assigning state an elevated role of an ultimate arbiter of (supposedly) just economic order and a harmonious society. Such rigorous reflection and its actualization in the arena of state-building and governance, unfortunately, did not occur in Pakistan. The elite capture model – though still looking to be operationalized fully from various angles and dimensions – does indicate, at least, that Pakistan may no more be an autonomous state; nor even a relatively autonomous state – it may never have been; hence, a captive state. Political leadership may have missed the bus to streamline and legally authorize role of factions and groups in the polity by providing a system-sanctioned mechanism of transparent and across-the-board interaction between homogenous sectional clientele into which society divides and government-sponsored politico-bureaucratic channels for above par policy outputs. The strategic vacuum so created induced a scramble for the state to be taken over that stands taken over effectively as far as its extractive function is concerned.

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¹⁵⁴ See, for instance, ibid.
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"United States Vs. Harriss." U.S. Supreme Court, 1954.
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Chapter 2
State and Extraction

Section I
Introduction

The philosophical genesis of the state lies in its notional capacity to extract and coerce. Its actual or perceived capacity to extract and coerce determines its relative strength or weakness to perform its avowed functions. It is thus not surprising that historically the state’s twin-dilemma to survive and to thrive had sinisterly laid in these two intrinsically entangled, critically interdependent, and mutually reinforcing constant strives; neither being achievable without the other. It goes without saying that state has other functions to perform depending on its over-arching ideological predilections, ethno-economic structural composition, aspirations it nurtures, and the time and space in which it exists but primacy accorded to and availed by extractive and coercive functions has remained unquestioned. There is thus miniscule margin available to the state in terms of preferential re-ordering of allocation of resources amongst a broad set of compulsive functions – with its capacity being over-arching operating parameter.

The locus classicus, Almond et al conceives state in terms of six sets of capabilities: (i) extractive capability; (ii) regulative capability; (iii) distributive capability; (iv) symbolic capability; (v) responsive capability; and (vi) domestic and international capability. Mere fact that extractive capability precedes all others may be indicative of the fact that rest of five capabilities, to a great extent, are dependent on first capability. Ghani and

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Lockhart envision existence of state in terms of national (i) treasures managing public finances; (ii) economists and trade actors regulating and reversing market; (iii) executive controlling public administration; (iv) actors in education, training, health and welfare, investing in human capital; (v) utilities actors, running effective infrastructure services; (vi) enterprise actors investing in natural, industrial, intellectual assets; (vii) legislature defining social contract, delineating citizenship rights and duties; (viii) diplomats and negotiators overseeing international relations and public borrowing; (xi) judiciary and police upholding the rule of law; and (x) military controlling a monopoly on the means of violence. Tilly sees state as necessarily undertaking (i) state making; (ii) war making; (iii) protection; (iv) extraction; (v) adjudication; (vi) distribution; and (vii) production. Migdal has also ventured into developing a typology of the state functions although with a tinge of difference. The point made out is that none of the theorists has missed out on extraction or its some equivalent as an important function of state.

The study, however, goes a step further and argues that functions of state are divisible into two starkly demarcated categories: that is, first, intrinsically essential capacities and functions; and second, prescriptively required capacities and functions. Whereas capacities to extract and coerce are rudimentary to state’s very creation and being, other functions like redistribution, regulation (e.g. contract enforcement and market intervention), and exercise of symbolism are required to underwrite a state’s continued

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6 Although, literally speaking, those could be carrying slightly variable meanings, yet constructs like ‘capability’, ‘capacity,’ and ‘functions’ have been interchangeably used in the study - as in literature on political science, political economy, and political philosophy.
existence and integrity. The state’s capacities falling in the first set (extractive and coercive) are mutually dependent but reasonably interdependent of second set; whereas second set capacities in addition to being mutually dependent are preponderantly dependent on the first set of functions. “Regulation, like extraction, obviously underlies much of the performance of the other capabilities. These two capabilities are in themselves interdependent. A system needs resources in order to regulate, but it is through the use of control and of coercion or its threat, that resources are obtained.”  

It has also been argued that once a state has resources at its command, it can beef up its coercive function, which, in turn, perks up state’s revenue effort. To a good extent, it is the performance of state’s extractive function that determines performance levels of its other functions. “The state’s capacity to mobilize and extract financial resources is the core of state capacity and the foundation for the state’s ability to realize its other capacities.”

It is the first set of state functions that this study is concerned with – and there too primarily with extractive function, its relationship with state-building, and importance that various institutions and societal agents accord to it. The study, thus, hypothesizes that while extraction is central to state-building process, it is the degree of sensitivity and exactitude of perspective that underlying society has to extraction as a critical determinant of efficiency, effectiveness and level of state’s extractive operations.

This chapter is divided into seven sections. While section I sets the stage for the ensuing debate, section II explores into theoretical concepts underpinning the subject, and surveys various approaches to state-building, and connects state-building with extraction from

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7 Almond and Powell Bingham, 197.
various dimensions to underscore latter’s centrality for former. Section IV attempts to establish and analyze inter-play between state-building and extraction. Section V – very core of the chapter – lowers theoretical debate to ontological landscape of Pakistan and undertakes critical evaluation of sensitivity and importance of political parties as evidenced through their manifestos, select institutions, intelligentsia, media and civil society by way of attestation of set hypothesis. Section VI is an attempt to gauge if disaggregated institutional approach is applicable and relevant to state-building within given context of the study. Section VII is an overall survey of the U.S. with reference to all the aforementioned cross-cutting themes by way of a contrast. Section VIII wraps up the debate with an exclusive focus on diagnostics rather than on remedial prescriptions.

Section II
Theoretical Underpinnings

What is meant by state-building? To Fukuyama, “State-building is simply the creation of new government institutions and the strengthening of existing ones.”

Fjeldstad et al giving a sociological dimension to the matter, take “state-building broadly as increasing the capacity of governments to interact constructively with societal interests, to obtain support and resources from those interests, and to pursue consistent lines of action.”

To Tilly “State building provided for the emergence of specialized personnel, control over consolidated territory, loyalty, and durability, permanent institutions with a centralized and autonomous state that held the monopoly of violence over a given population.”

While Fukuyama appears to be ignoring people and focusing on institutions only, leaving

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9 Fukuyama, ix.
aside the role that institutions, once created, play within overall process of state-building, it is Fjeldstad et al who effectively hammer home the point that institutions are created to establish and maintain essential channels of communication and transact with citizens by and on behalf of supra perceptual reality – state. Tilly’s conceptualization incorporates both institutional and sociological perspectives to state-building. The study posits that state institutions, instead of being intrinsically an end in themselves could be instrumentally relevant towards state-building, that is, strengthening state-society interdependence and relationship. Whatever way “state-building” is defined – be that from sociological or institutionalist perspective – the concept carries great amount of relevance for a 21st century Pakistan; like for so many other developing countries.

There are two overarching strands in which most theoretical literature on state building can be classified. First, endogenous strand (or developmental) strand which stipulates that state-building is basically a national process essentially propelled by state-society relations – with or without external actor assistance or involvement. Second, exogenous strand which implies that state-building is a function of external actor activity with regard to constructing and reconstructing critical state institutions – particularly in war-torn, strife-stricken, and fragile states.

*Endogenous Strand*

Endogenous strand envelops mainly three approaches to state-building; namely, good governance, new public management, and decentralization, which have come to hold sway of late. One, good governance is loosely taken to mean creation of state institutions that can operationally undertake contract enforcement, safeguard peoples’ rights, and deliver public goods. “The dominant ‘good governance’ paradigm identifies a series of
capabilities that, it argues are necessary governance capabilities for a market-friendly state. These include, in particular, the capabilities to protect stable property rights, enforce the rule of law, effectively implement anti-corruption policies and achieve government accountability."\textsuperscript{12} Such good governance approach is essentially capitalistic in nature that emerged towards end of twentieth century.

Two, New Public Management approach primarily sponsored by Bretton Woods institutional framework looks to use “market like reforms within the public sector to provide the government with the necessary power to implement a development plan on the economy while also using competitive market-based techniques to enhance public sector production,” which, inter alia, also implies changing “public sector employment practices from career tenure positions towards limited-term contracts.”\textsuperscript{13} Although, one of the important pillars of New Public Management approach is government contracting out and franchising service delivery, yet in most developing countries and Pakistan being no exception where markets are near-imperfect, any venture to actualize neo-liberalist policy tools could be fraught with risk of regulatory capture by corporate giants and elites.

Third, decentralization “seeks to reduce rent-seeking behavior and inefficient resource allocation associated with centralized power by dispersing such power to lower levels of government, where the poor are likely to exercise influence and a variety of actors may participate in the provision of services.”\textsuperscript{14} Decentralization as an approach to state-building has its limits e.g. capacity of local representative leadership, limited control of fiscal funds at local level, possibility of familial and tribal considerations influencing

\textsuperscript{13} UNRISD, \textit{Building State Capacity for Poverty Reduction} (New York: 2010), 36.
\textsuperscript{14} Ibid., 30.
resource allocation, thin and diluted state recoil to corruption and bungling of funds and resistance of ruling oligarchs to decentralize and devolve fiscal powers to lowest rung of governance – like in Pakistan.

**Exogenous Strand**

The only significant approach that is categorized under exogenous strand is extracted from Modernization Theory. Modernization theory implies progressive transformation and transition of a given society from a “pre-modern” to a “modern” stage of development.\(^\text{15}\) The theory does tend to look at internal factors but stipulates that with external help societies at lower levels of development can jump up to advanced stages of development in shorter periods of time and at a lesser (capital) price-tag. Other mainstays of modernization theory are industrialization, diffusion of technology, urbanization, overcoming slavish consecration to tradition, and integration with rest of the world of social, economic and political orders. In addition to W.W. Rostow, scholars who contributed to development of modernization theory include Marquis de Condorcet\(^\text{16}\), Emile Durkheim,\(^\text{17}\) Seymour Martin Lipset,\(^\text{18}\) and Talcott Parsons.\(^\text{19}\) In the recent past, U.S. leveraged modernization theory in Afghanistan to formulate a three-pronged strategy towards re-building the war-torn state i.e. firstly, by building institutional capacity (Afghan Army); secondly, by triggering a social change (women’s rights, development of traditional economic sectors e.g. agriculture and handicrafts); and thirdly,

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power deals with local elites e.g. Taliban. Of late, modernization theory has been severely attacked by dependency, globalization and world-systems theorists.

It can be taken as given that if a state requires triggering its re-building process, availability of resources at its command – intrinsically as well instrumentally – may be single most critical common denominator under both endogenous strand and exogenous strand approaches. The next section narrows down focus of debate from state-building to establishing causality between state-building and extraction as a state function.

Section III
State-Building and Extraction

Since Schumpeter a stunningly large body of knowledge has been created in disciplines of both political philosophy and political economy, which solemnly consecrates itself to study of a definite nexus between the very process of state-building in a state and its extractive capacity.20 These analyses that rise above being mere diagnostic chits to qualify being comprehensive prescriptive memos have also found strong covariance between strength of a state and its extractive system. It can further be premised that, ceteris paribus, strong states have strong extractive systems and weak states have weak extractive systems. It goes without saying that taxation remains a state’s raison d’être and is to be distinguished from its other subsidiary functions as earlier highlighted.

Schumpeter attains seminal status by linking with clarity the process of state-building directly with its ability to extract resources from subjects a state seeks to govern.21 The state’s capacity to extract might influence process of its building up in a variety of ways, but Fjeldstad et al take note of four major channels i.e. through (i) providing revenue; (ii)

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21 Ibid.
shifting towards more appropriate revenue resources; (iii) creating more effective tax administrations; and (iv) encouraging constructive state-society engagement around taxes. Other scholars have found correlation at work in a variety of ways, too.

**Governance**

There is a most significant relationship between quality of governance and level of taxation. This is easily predictable even without any rigorous statistical analysis. Summarizing a significant amount of empirical analysis carried out on the subject, Moore states that “the size of the tax burden that states lay on citizens ultimately impacts on patterns of governance.” He further “suggests a more direct, immediate and positive causal linkage from the size of tax burdens to the quality of governance than even avid disciples of fiscal contractualism could reasonably have expected.” Anecdotal evidence and common observation also reveal that countries having high tax to GDP ratio also enjoy good governance levels like in Scandinavian, most European, and North American countries. On other hand, most developing countries, including Pakistan, with low tax to GDP ratio, are finding governance a difficult proposition. This occurs not only because state fails to collect what legitimately belongs to it to perform its prescribed functions, but also because tax delinquents are left with surplus resources, which do not legitimately belongs to them. The latter then take on former’s legal infrastructure with impunity.

**Democratic culture**

Researchers have also discovered a positive correlation between level of taxation and diffusion as well as strengthening of democracy over time. Ross, using two variable

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22 Brautigam et al., eds., 242.
23 Ibid., 39.
24 Ibid.
measures of tax incidence in 113 countries over a period of 26 years (1971-97), found that there was a statistically significant association between increases in tax incidence and increases in levels of democracy after a period of three, five, and ten years.\textsuperscript{25} The results cannot be dubbed as unpredictable although examples from real world could be cited to contest the trends. Likewise, it will be an interesting research question to explore whether diffusion of democracy could have a positive causal relationship with payment of taxes.

\textit{Diffusion of Liberalism}

A positive relationship between liberalism and taxation has also been spotted. Mahon finds good support for the idea that the proportion of direct and domestic indirect taxes in state revenues, as opposed to rents from oil, minerals or other sources, is a good gauge of democracy and an even better predictor of liberalism.\textsuperscript{26} The discharge of liability of paying taxes on part of subjects automatically leads to creation of a charge in their favor on the state in terms of their rights. They also learn to govern themselves by paying taxes.

\textit{Stakeholder management}

Fiscally active states are less prone to be politically volatile and chaotic as they carry a semblance of extractive fairness; they are more responsive to group needs and demands than those that are otherwise. Almond et al point out that “structures and cultural attitudes under-lying performance of internal conversion processes of the political system have great influence on responsive capability. If certain well-organized, well-financed groups have special channels of access to power-wielding politicians, then it is likely that the

\textsuperscript{25}Michael L. Ross, "Does Taxation Lead to Representation?," \textit{British Journal of Political Science} 34, no. 02 (2004).
system will be primarily responsive to their demands and not to those of the masses.”

Demand articulation by factions and their satisfaction by state, will encourage other segments of society to organize themselves and engage state structures for satisfaction of their needs and demands. Since factions represent interests into which society divides itself, theoretically, entire society can factionalize itself – last faction being residual one – members of which have no worthwhile common uniform demand to articulate. The process of organizing common fiscal interests can have a halcyon impact on polity, absence of which may trigger “violence and demonstration.”

*Image building*

A state’s extractive capacity at home adds to its overall international image, its capacity to borrow in the international credit market, and to the sum of its national worth with which it negotiates with international actors in bilateral or multilateral frameworks. The actual extractive capacity is substance; rest is diplomacy built on it. “A system with a high resource extraction capability at home may also be able to demand much from other nations.”

Therefore, insistence of Pakistan’s foreign donors and lenders on improving its tax system is not out of place. An efficient tax system under-writes a state’s ability to discharge its financial obligations – both domestic and international – and improves its credit-rating thereby lowering mark-up rate on its credit portfolio.

*Replacement of citizen loyalty*

During nation-building process a state that is fiscally active in terms of provision of infrastructure and other basic amenities to its citizenry can help first displace traditional

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28 Ibid.
29 Ibid., 205.
loyalty-pattern and then replace and embed it in new master – state itself. “One of the great problems faced by “transitional” nation is that loyalties are given to tribe or clan and not to the national system and its goals… A system must have adequate capabilities of extraction and regulation before it can begin to distribute resources.”\textsuperscript{30}

\textit{Strengthening of state-society relations}

Taxation, in many ways, is a useful tool of building state-society relations on solid footing. In order to gather important repository of information about its citizens, a vibrant tax system is the tool – particularly in initial stages of its creation so as to identify any social, anti-state elements.\textsuperscript{31} This is so very relevant in the case of Pakistan. The essence of a relationship’s strength lies in the level of mutual interdependence. The state demands, the citizen pays; and in turn, citizenry makes demand for public goods, which state has to provide. This very give-and-take results in building up of a bonding of mutual inter-dependence. In a society where nobody pays taxes, relationship between society and citizens remains that of disengaged co-existence. Theoretically, prolonged periods of disengaged coexistence cause further weakening of state institutions resulting in collapse of state structure itself in due course of time.

\section*{Section IV}
\textbf{State-building and Extractive System}

While in the preceding section a correlation between state-building and extraction as an innate state function was explored and established, in the present section an attempt will be made to establish if a similar connection between state-building and extractive system – as an operational arm of state – exists at theoretical level. There is, in fact, plenty of

\textsuperscript{30} Ibid., 207.
\textsuperscript{31} Migdal, 27.
literature linking process of state-building with its extractive administration. Kaldor spotted a strong relationship between a strong revenue service and state-building process in the then newly decolonized world. He, in his memorable piece “Will Underdeveloped Countries Learn to Tax”, noted: “Of course no underdeveloped country has the manpower resources or the money to create a high-grade civil service overnight. But it is not sufficiently recognized that the revenue service is the ‘Point of entry’; if they [underdeveloped countries] concentrated on this, they could secure the means for the rest.”

Kaldor further argues that underdeveloped countries could generate adequate resources and in an equitable and egalitarian manner by overcoming traditional curses associated with a tax administration and “… if sufficient attention is given to the creation of corps of permanent officials whose pay, status and prospects of promotion are high enough to attract the best talent, and also high enough to establish the professional standards and etiquette associated with a public service that enjoys a privileged social status.” Unfortunately, this has not happened in the case of Pakistan like in so many other developing states. The “privileged social status” that was traditionally associated with generalist civil service cadres, was by reason of their active role in generation of national revenues – primarily from agricultural sector. By the time of independence, their role as revenue collectors had substantially diminished as contribution from other professional revenue corps took quantum leaps. But matrimony of dubious credentials between elites and generalist cadres of civil service gave latter a new lease of life, in turn, helping former perpetuate economic status quo in Pakistan.

33 Ibid., 416.
One of most important pillars of Brautigam’s significant work “Taxation and State-Building in Developing Countries: Capacity and Consent” is formation of effective extractive bureaucracies. “I begin with an analysis of war, threat and natural-resource-based revenues,” Brautigam exhorts, “as they figure in rulers’ incentives to establish ‘good’ extractive bureaucracies, and the institutional development that is the foundation of an effective state.” This process happened first in Britain. Tax revenue constituted central “sinews of power” supporting early rise of British state. Legislatures in Britain used their power of purse to hold governments accountable for use of citizens’ tax revenues. But accountability brought with it new demands for capacity. Parliaments demanded reports and information to document legislative proposals, and government departments became more skilled and sophisticated in collecting information they needed to respond to legislative demands for accountability. In a nutshell, what Brautigam is describing is how the British state evolved? Arguing that, inter alia, British state had evolved in an ever-intricate process of engagement between British parliament and revenue authority, she avers: -

The existence of a professional tax bureaucracy allowed Britain and other countries to develop a sophisticated system of bond finance. Knowing that their government had access to reliable sources of revenue, investors and financiers could accept lower rates of interest for these bonds, allowing the government to invest not only in weapons and manpower for wars, but, many decades later, in the construction of systems of sanitation and water that would boost living standards for the increasingly urban populations. The issuance of bonds and the

34 Brautigam et al., eds.
36 Brautigam et al., eds., 8.
rise of a system of national debt helped establish the City of London as a global financial market.\textsuperscript{37}

Brautigam further posits that stimulus for building state capacity and institutions required to run a modern economy lies in revenue imperatives. This is because as extractive system professionalizes itself, “it pushes additional changes that build states, as a response to legislative demands for accountability, as a way to nurture sectors of the economy with tax potential and as a way to make revenue raising more efficient and effective.”\textsuperscript{38} In the same vein, Tilly memorably exhorted that “war, state apparatus, taxation, and borrowing advanced in tight cadence.”\textsuperscript{39} If Brautigam or Tilly’s assertions were to have any relevance or substance, whole morass, at least, politico-economic problems inflicting Pakistan could be analyzed within the context of a weak, capacity-sapped extractive system. The development of tax system on solid and unshakable footing is at the roots of the very concept of state and state-building. Chaudhry, while analyzing the process of state-building in Middle East in the wake of massive in-flow of oil revenues, emphatically argued that “decline of a tax bureaucracy has unintended consequences that bode ill for the long-term development of all parts of the bureaucracy. Extractive institutions are at the base of administration, without them, regulation and distributions are impossible.”\textsuperscript{40} The weakness in structures of state blessed with abundant sources of riches of non-tax revenue could then be attributable to non-existence or partial existence of revenue administration.

\textsuperscript{37} Ibid., 9.
\textsuperscript{38} Ibid.
\textsuperscript{39} Tilly and Ardant, 180.
Mere juxtapositioning of Pakistan against backdrop of this raging intellectual discourse is enough to cause horripilation, in that, most important state function – extractive function – has remained intriguingly stunted, deformed, and in a constant state of dysfunction with damaging results whereby state’s ability to perform its fiscal, redistributive, regulatory and other required functions stand hurt, harmed and hampered perhaps beyond repair. The study argues that there is a strong interconnection between Pakistan’s weak state – both from inside and outside – and its incapacitated extractive administration.

Section V
Extraction and Polity of Pakistan

Having driven home the point that extraction is fundamental to governance, and that extraction is to be distinguished from other functions that states profess to perform, the chapter now moves on to argue that in Pakistan such is not the case. The state of Pakistan’s consistent failure to improve its revenue effort recently propelled its external stakeholders into exerting serious pressure on the government to improve domestic revenue effort as they are primarily concerned about fragility of external sector of economy. This mounts on heels of exploding health and educational disasters as Pakistan is showing largest number of out of school children after Nigeria, and reporting highest number of polio cases in the world for many years, consecutively. The impact of these statistics is exacerbated by the fact that Pakistan’s tax to GDP ratio is one of the lowest in the world. The cross-country data plotted in the table below vividly galvanizes inadequacy of Pakistan’s extractive efforts.
Manifestly Pakistan’s revenue effort is lowest amongst select set of countries not only in terms of tax to GDP ratio but also in terms of ratio of population filing tax declarations annually. Why is it so? Does Pakistan economy not have an extra pound of flesh to offer to the state? This does not look like that since Pakistan is consistently being rated amongst top thirty richest countries on purchasing power parity. Pakistan’s stock market is one of top performers in international comparison. Likewise, Pakistan is one of largest consumer of ornamental gold, gemstones, and other items of conspicuous consumption. It thus can be premised that despite there being definite capacity, state of Pakistan is not being able to collect due amount of revenues from its citizens, which, in turn, may be a cause of its evident failure to perform its avowed functions. Multiple run-of-the-mill causes could be cited for state’s failure to collect its due amount of revenues, the point remains that since the state has not collected its due share from citizens and engaged in an effective redistribution of resources, state-society relations never developed on solid footing. “Pakistan is a state and society operating without a modern social contract,” because “state exists and persists without a linear fiscal relationship with the people,” and

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* Includes 6.5 per cent share of provinces.
“is unaccountable to the people of Pakistan because the people of Pakistan do not pay taxes,” and in turn, “state doesn’t “owe” the people any services, or answers, and the people don’t feel that they owe the state any money.” The chapter, however, within bourns of elitist framework posits that state’s failure to undertake par extraction might be stemming from the fact that society, which underlies state accords importance to state’s revenue function way too lower than required levels. This could be analyzed by dissecting various societal segments and agents e.g. political parties, select institutions, intelligentsia, media and civil society.

(i) Political Parties

In a multi-party democratic dispensation, political parties provide framework of state governance. In tandem, political parties vying for power under-grid political system, attempt to assimilate and aggregate underlying group aspirations and demands, articulate same in their manifestos, contest elections and if voted to power, seize government – by implication state’s bureaucratic apparatus – and try to actualize their vision pronounced in manifestos through policy formulation and implementation. Thus, political party manifestos outline a vision for state with respect to a particular political party. Party manifestos, at least theoretically, can be taken as fundamentally critical documents and meaningful sources of information regarding a party’s stance on various issues of presumed importance to voters. Manifestos are not only supposed to be political statements of what a particular party stands for, but also on what issues, and to what extent. Manifestos may also “be viewed as the texts through which parties characterize

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themselves and their differences with their rivals.”

According to Laver and Hunt, political “parties can at least in theory be held accountable for their published policy statements,” because these manifestos provide some reasonably firm ground on which to base an official description of a political party.

There are, broadly speaking, two stands in which the scholarship on political parties and their influence on public policy formulation can be classified and understood. Firstly, the demand side scholars who attend to “economic theories that relate changes in economic policy (such as tariff rates) to distributional effects on different sectors of the economy and therefore to voters employed in those sectors.” They may employ different theoretical models and tools, “but they all share a material view of the political process in which the economic characteristics of voters translate into political preferences that then affect the voting behavior of political representatives.” The traditional research conducted on the study of “constituent pressures in American Politics” was precisely on the same lines.

Secondly, the New Institutionalism which argues that the best way to comprehending political outcomes is to “focus on the institutions that structure the policy making process.” This school of thought also “includes scholars who focus on the role of political parties in affecting congressional voting and outcomes.”

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46 Ibid.
48 Ibid.
50 Weller, 4.
While all political parties in Pakistan have been overly expending their energies to chalk out strategies to optimize on state’s expenditure function for whatever purposes, they have more often than not tended to ignore revenue function as a critical responsibility of state. If ever, however, extraction happens to make appearance at political parties’ radar screen, it is over-simplistic, off-mark, elitist in tone and tenor, and most often self-defeating. Since very visions of political parties are not solid policy positions and prescription documents, in post-election scenarios, they are neither attempted to be implemented nor are they implementable. A dissection of Pakistan’s major political parties’ manifestos from perspective of tax policy and its implementation – if and when they obtained the requisite means to realize them – could be educative.  

**Pakistan Peoples Party (PPP)**

Pakistan Peoples Party (PPP) was established by Zulfikar Ali Bhutto in 1967, after developing differences with Ayub Khan – a military dictator who ruled Pakistan from 1958-69 – in whose government Bhutto had been Minister for Foreign Affairs. PPP was established as a party having strong socialist and left-of-centre leanings with its flagship slogan being “Islam our faith; Democracy our polity; Socialism our economy.” After a decade-long military rule, while, on the one hand, the country was going through a period of hyper political fermentation mainly triggered by its Eastern wing’s divisive and secessionist overtures, on the other, it geared to hold its first party-based general elections with a view to establishing British-style parliamentary system. The chapter picks only

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51 An extensive survey of political parties manifestos reveals that, except PPP, which has traditionally put systematic and serious effort into formulating its manifestos, all other political parties have either not taken business of putting together their manifestos seriously or did not make efforts to make them available in public domain for access.
one thread – extraction – and empirically analyzes its treatment by PPP as exhibited through its manifestos.

Manifesto - 1970

Somehow, the nation soon started nurturing high hopes with the PPP and its leader who had all requisite socialistic tricks up his sleeve to mobilize lowly masses and raise their ambitions in life. “The PPP election manifesto had promised a revolutionary socio-economic programme aimed at making a radical departure from the traditional feudal-capitalist economy.”

The PPP published its much-touted Manifesto in mid 1970, at length delineating its vision of “Reform of Taxation System.” The manifesto’s treatment of Pakistan’s extractive system can be studied in terms of five significant points.

Firstly, it aspired to change the very “basis of taxation.” Toeing ultra-socialistic line that PPP publicly espoused, manifesto averred that “establishment of a socialist order will, naturally, change the present basis of taxation, which being designed for a capitalistic society favors the accretion of wealth with the privileged classes.” Secondly, the manifesto discounted utility and efficacy of tax system to perform redistributive function in economy. It posited that it was “fallacious” to believe that “taxation methods by themselves in a capitalistic society are capable of equalizing incomes,” and that such belief was “sedulously fostered by the vested interests themselves.”

The manifesto further accentuated that “high taxes have not prevented the accumulation of wealth amongst a very small class of people in Pakistan, nor done justice to either working class or the middle classes with fixed incomes.” Thirdly, PPP looked to accord a subsidiary

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54 Ibid.
role to state’s extractive function by stipulating that taxation was “merely a way of providing public finances,” and that “money has to come from the surplus value created in industry and agriculture and the rest of the activities that employ human labor and effort.”\textsuperscript{55} This was quite an indication of mass expropriations that took place as soon as PPP had come to power after winning general elections of 1970. Fourthly, the manifesto heralded to radically reform tax system. Although, it argued that “an equitable social structure cannot be built by taxation alone,” yet it reckoned the need “to introduce immediate reforms of the present iniquitous and inefficient taxation system,” prior to a stage when “large-scale socialist reforms are executed.”\textsuperscript{56} Fifthly, it went after the tax system itself a la Elites Ltd stating that “another defect of the present system is that it calls for a huge army of officials, most of whom do not do a full day’s work,” and that “there would be considerable saving if taxation” were simplified in such a way to make it “easy for the private tax-payer to assess his liability to the state without the help of expert guidance.”\textsuperscript{57}

In overall terms, the manifesto was couched and fashioned after \textit{The Communist Manifesto} having all anti-elite leanings. However, a careful dissection would reveal that it was replete with emotive stock-phrases, contradistinctions, normative pronouncements, unqualified and un-researched statements, abstract constructs, and hardly any concrete policy statements. For instance, emphasis on concentration of economic resources was significantly over-blown in 1970, as “an analysis … will … reveal that even inside the country the assets of the 22 families were not a very big portion of total national wealth

\textsuperscript{55} Ibid.  
\textsuperscript{56} Ibid.  
\textsuperscript{57} Ibid.
in terms of money. The actual diffusion of wealth was much wider.”\textsuperscript{58} True, PPP was aggressively espousing socialist-populist sloganeering with vengeance, yet a definite degree of rigorous realization was expected of it of state governance imperatives – a strong extractive system being one of them. Ironically, not only that there was no promise to strengthen the tax system, manifesto even failed to draw distinctions between tax administration and tax policy, and direct and indirect taxes and tried to address both with one swipe in an excessively confused manner.

The only significant achievement of PPP government (1972-77) within the context of state’s extractive function came not from within but outside its manifesto. Bhutto imposed “agricultural income tax for the first time in history of the country, which, of course, did not go well with landed elite,” who also formed bulk of PPP’s own upper crust. Although, a corresponding exemption to landholdings up to 25 acres irrigated and 50 acres of un-irrigated land alongwith an “investment allowance to promote productive investment in agriculture,”\textsuperscript{59} were introduced, yet Elites Ltd would not allow agricultural income tax to stay. The first measure of some substance and importance that Gen. Zia-ul-Haq announced after overthrowing Bhutto regime, within the arena of fiscal policy, was abolishment of agriculture income tax in late 1977.

\textit{Manifesto – 1977}

PPP manifesto – 1977, released during run-up to general elections planned for later that year – was coming from a sitting government. The manifesto sought to (a) eulogize its achievements during its first term in power; (b) lament its failures; and (c) take shelter

\textsuperscript{58} Haider.
behind conspiracies hatched by vested interests. With wide-going expropriations as promised in manifesto – 1970, having failed to help government harvest needed resources “from the surplus value created in industry, agriculture, and rest of the activities,” only achievement that it was left to boast about was imposition of agricultural income tax. Lamentations and efforts to hide behind scapegoats were pretty pronounced. “The problems created by the anti-democratic and anti-national forces of the Opposition parties and the tactics they adopted were serious obstacles. The PPP Government's programme and efforts were further undermined by other vested interests. Big business illegally took the capital overseas, and indulged in large-scale 'tax evasion, price manipulation, hoarding, black-marketing and smuggling.” PPP despite recognizing “conspiracies by the vested interests” and “big businesses” who indulged in all kinds of anti-state activities could not outline any plan to abate trend through concrete policy measures or strengthening of state’s extractive and coercive arms. It could perhaps be gauged from dull and drab treatment of extraction in its manifesto that PPP having gone into defeatist mode, was not ready to realize its past mistakes and carve out a reasonable roadmap for future. Nation-wide agitation that broke out to challenge the veracity of thumping success that PPP achieved in 1977 general elections and resultant military rule imposed by Gen. Zia-ul-Haq never actually allowed the manifesto to go to implementation stage.

*Manifesto – 1988*

In the wake of PPP’s decision to re-enter electoral politics through 1988 general elections, party manifesto pledged to formulate fiscal policy “to increase revenue through

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60 PPP, "Manifesto-1970”.
61 PPP, "Manifesto-1977”.
62 PPP chose to boycott non-party based general elections held in 1985 in step with most political parties under Movement for Restoration of Democracy - a pro-military alliance of most national and regional political forces.
a reform of the tax system,” so as to “ensure economic justice by spreading the benefits of progress and evolving an equitable taxation sector that is also development oriented while not overburdening the honest tax payers.”  

The pledge, in effect, contextually marked shift in PPP’s traditional historically known position on at least three counts. Firstly, it heralded an unequivocal departure from socialism to capitalism as far as PPP was concerned. Secondly, it signaled PPP’s aggressive antagonism to industrial elite and business elite evaporate into thin air and give way to mutual cooperation and bargained coexistence. In an effort to entice industrial elite and business elite and to overcome high distrust extant in their mutual relationship, manifesto exhorted “that the tax system at all levels of the government should be fair, equitable and conducive to rapid development,” and that “tax payer and the people must share in a harmonious partnership for overall growth and distributive justice.” Thirdly, PPP’s meekly muffled misgivings towards extractive administration as evidenced in manifesto – 1970 looked to have correspondingly graduated into hostility. Optimizing traditionally tested elitist tonal nuances, manifesto took on state’s extractive system in following manner: -

The logic of high corporate and income tax is rooted in a paranoid distrust between the government and the tax payer; in most cases the tax collector is the principal beneficiary. Similarly endless exemptions in the tax law increases the discretionary authority of the officers and consequently lead to misuse and graft. The business community has a legitimate grievance against the high handiness of the tax collecting authorities, as the system is skewed in favor of the dishonest on both sides and honest elements are treated as persona non grata. The Party is determined to overhaul the system and bring about changes which will lead to fair

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64 Ibid.
practices, rational tax slab, curtailment of discretionary powers and growth of business and industry.\textsuperscript{65}

To analyze PPP’s shifts in stance, it could be legitimately argued that first one was necessitated, in part, by way of compensation for mass-scale expropriations euphemistically dubbed as “nationalization,” that had, one hand, propelled generalist cadres into strong rent-seeking positions in productive industries, and on other, sent national productivity on downward spiral – coupled with flight of financial and human capital from domestic market, and in part, by an international consensus that had started to emerge as regards success of capitalism vis-à-vis communism and all other competing ideologies.\textsuperscript{66} Second shift may have been dictated by the fact that PML then was being resuscitated by Mian Nawaz Sharif who successfully identified himself with country’s business elite and industrial elite with an effortless poise, which exerted an added pressure on PPP to try to win back society’s capitalist class and demand from it tax revenue in a facilitative mode instead of “surplus value” as was demanded in 1970. Third shift, however, cannot be ascribed any intellectual moorings as it does not seem to stem from PPP’s own governance experience of first term in power. In fact, its manifesto – 1977, which directly sprang from its incumbency experience, had not betrayed any signs of frustration with its own extractive machinery. Perhaps only explanation that could be put forth for this shift from tax system’s mild criticism to its outright battering was that it was trying to appease industrial elite and business elite big time – in process perhaps over-compensating them for the excesses done to them during its 1972-77 term in power.

\textsuperscript{65} Ibid.
\textsuperscript{66} Mikhail Gorbachov had already unleashed his policies of "perestroika" and "glasnost", and Francis Fukuyama's famous article "The End of History" had also already appeared in The National Interest of Summer, 1989.
PPP also vowed to “introduce new fiscal measures to discourage the creation of black money and expand the monetized sector,” and take bold initiatives “to create confidence in the businessmen in the economic management of the country, so that foreign exchange outflow is stopped; transactions made easier and inflow of foreign exchange is enhanced.”\footnote{PPP, "Manifesto-1988".} In an intriguing end to section on “Judicious Taxation System” manifesto vaguely remarked “Wealth tax laws will be reviewed,”\footnote{Ibid.} which statement could have been interpreted either way – within given temporal and spatial context.

Overall, the manifesto’s treatment of state’s extractive function was a difficult balancing act. But, pronouncement of a resolve to “overhaul the tax system and bring about changes which will lead to fair practices, rational tax slab, curtailment of discretionary powers and growth of business and industry,” was clearly indicative of elite’s infiltration in PPP’s decision-making core. Outright articulation of elitist demands of pushing extractive function further into facilitation mode from enforcement mode, commitment to reviewing wealth tax laws, and curtailment of discretionary powers of tax administration were unambiguous indications that PPP that had kick-started as potent pro-poor force just a couple of decades ago was no more so; it was now a typical pro status quo party both in tone and tenor. When PPP returned to power after elections, policy choices that it exercised with regard to extractive function validated the premise full well.

\textit{Manifesto – 1990}

When establishment-sponsored maneuvering had PPP booted out of power, it was hardly half way through with its constitutionally-sanctioned five-year term. There were, of course, multiple factors at work behind this unceremonial early exit, but most glaring one
was Mian Nawaz Sharif’s ruling of Punjab with contempt and arrogance bordering on defiance to federal government. There was a general perception that industrial elite and business elite who, despite PPP’s efforts to win them over, had neither forgiven PPP for its expropriatory overtures of 1970s, nor were ready to trust it with their future, were fomenting anarchy, hatching conspiracies, and forming and financing anti-PPP alliances and plots. The realization of intensity, and complexity of hostility that PPP faced in late 1980s, was stunning and devastating for its own think tank.

The pendulum moved quickly to other extreme ignoring, nay sacrificing, both feudal elite and plebs – PPP’s traditional forte. In run up to 1990 general elections, when PPP came up with its manifesto, its intellectual transformation had taken a complete volte face. The very passage outlining PPP’s vision of state’s extractive function was captioned as “Traders / Business Community.” This was not yet all. PPP went overboard to appease target client stating that “Essential problems being faced by the trading community are the unreal and impracticable tax laws and a corrupt government machinery to implement them,” and that it “firmly believes that the future prosperity of the country is rooted in the success or failure of the business community.” In order to operationalize its vision of state’s extractive arm, the manifesto proposed firstly, “To minimize corruption in the income tax department, the discretionary powers of the assessing officers;” and secondly to bring about “Changes in the existing income tax, custom and excise schedules” to render them “simple and less prone to bureaucratic meddling.” Through these measures,

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70 Ibid.
PPP gullibly hoped to “enlarge the tax pool, ensure widespread compliance and reduce corruption by government officials.”

Such an esoteric attempt on the part of PPP to neutralize an overwhelming support of industrial elite and business elite for its rival PML-N, which was an avowed champion and protector of their interests, triggered an incessant and indecent “race to the bottom” whereby both leading political parties scrambled to win over same set of electorates and their lavish donations by offering them more and more incentives on one and same account – extractive system. When PML-N won both race and elections, industrial and business elites had turned out to be biggest spoils-takers as all major policy choices exercised were aimed at promoting economic status quo and enhancing their own perverse agenda. In the process, however, state’s critically most important function had hit its rock bottom.

*Manifesto - 1993*

PPP’s manifesto entitled “Public-Private Partnership: An Agenda for Change,” was released in preparation to 1993 general elections conceptualizing its vision of state’s extractive function under caption “Tax Reforms.” Manifesto argued that “Tax reform should form a component of broader fiscal reform targeted at stabilization and adjustment process as well defense and development needs.” In the same vein, it looked to accord a greater role to extractive function than mere revenue collection. “Raising per capita income must therefore be paramount goal of Pakistan's economic policy; and, by the same token, it must be given central emphasis in the formulation of tax reform.”

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71 Ibid.
73 Ibid.
expressed its frustration with industrial elite and business elite by making an attempt to win back feudal elite. The caretaker government installed to conduct general election had tried to impose tax on agricultural income, which manifesto promised to “review,” arguing that “agriculture is denied the benefit of international prices for agricultural products which is a form of income transfer and tax,” and therefore it was imperative to “ensure a fair return to the farmer, increased output and reasonable prices.”

Putting its own estimates of tax evasion at Rs. 100 billion, which it thought was sufficient to plug budget deficit, PPP made all the right diagnostics. It averred that “all tax reform can be frustrated by the inadequacy of the data and information base, by administrative weaknesses, by insufficient political will, and interference with the tax administration.” In order to overcome these problems, manifesto suggested increasing tax compliance “through research, registration and improved collection procedures,” as well as through “simplification of complex tax laws and procedures to eliminate exclusions, preferences and special interest,” and by placing emphasis “on better collection instead of new taxes.”

In the manifesto, PPP ended up proposing Presumptive Tax Regime (PTR) which was to haunt state’s extractive function for all times to come. It propounded “to expand the system of collection of tax at source as final discharge of tax liability to as many other assessees as possible,” and individuals and partnership firms engaged in business and profession of Law, Architecture, Auditing, Medical, Consultancy, Brokerage and Commission, Indenting, and Transport, were proposed to be included in PTR – in

74 Ibid.
75 Ibid.
addition to many others.\textsuperscript{76} The argument advanced in support of extension of PTR was that “simple tax of 5% on the gross receipts of such businesses as final discharge of tax liability will not only save a large segment of the population from the harassment at the hands of the assessing officials but shall also result in an increase in tax revenues.”\textsuperscript{77} PPP-diagnosed inflictions continue to persist and the remedies that it had suggested and were also implemented – a comprehensive PTR – have also become inflictions in their own right.

\textit{Manifesto – 1997}

Back-end establishmentarian machinations and political wrangling, yet once again, had PPP government chucked out of power in 1997 with snap elections being called for later that year. PPP manifesto – 1997, captioned as “Economic Agenda 1997-2002,” on one hand, highlighted its achievements of 1993-96 term i.e. “…substantial reduction in fiscal deficits, implementation of basic reforms in tax structure, extension of sales tax, lowering of import tariff from 110% to 55%, first ever imposition of wealth tax on agriculture,”\textsuperscript{78} and on other, ventured to equate tax evasion with a host of other problems like “theft of utilities, default on repayment of bank loans, misuse of state funds and resources, open embezzlements” through which, it argued, affluent classes “consolidate their wealth and power at the cost of the nation.”\textsuperscript{79}

The manifesto – 1997 exhorted to “Increase tax revenues by a vigorous pursuit of tax evaders and a search for undeclared assets abroad.” It also propounded that “tax system will be streamlined and the number of tax payers increased,” and that there “will also be a

\textsuperscript{76} Ibid.
\textsuperscript{77} Ibid.
\textsuperscript{78} PPP, ”Manifesto-1997” \url{http://www.ppp.org.pk/manifestos/1997/conclusion.html}.
\textsuperscript{79} Ibid.
vigorouss pursuit of cases in the courts system where billions of rupees are held up…”\(^\text{80}\)

The problems like narrow tax base, undeclared assets abroad, and over-all tax evasion were rightly pointed out but sans any strategy or roadmap to overcome them. One only wonders why efforts were not made to resolve these issues when PPP was in power.

*Manifesto – 2002*

PPP’s manifesto – 2002 consisting of 15 pages did not contain the word “tax.”\(^\text{81}\)

*Manifesto – 2008*

When general elections, 2008 appeared on the horizon, PPP still seemed looking for clarity vis-à-vis role, scope and centrality of extraction within given set of imperatives of state governance. PPP’s vision of Pakistan’s extractive system as evidenced through its manifesto – 2008, though a classic compendium of normative-theoretical principles on how an ideal tax system should perform and be structured, had nothing to do with ground realities of the country. Manifesto recognizing “that Tax/GDP needs to be increased to provide adequate resources for providing good quality services to all people and for Pakistan to have the necessary infrastructure to sustain high growth,” promised “to overhaul the taxation system and bring about changes which will lead to fair practices, rational tax slab, curtailment of discretionary powers and growth of business and industry,” without, in fact, clearly outlining a plan to roll-out these changes.”\(^\text{82}\)

Party further committed “itself to rationalizing the taxation system so that the burden of tax on the poor and low income groups is reduced, while at the same time Tax/GDP ratio is increased…to provide adequate resources for providing good quality services to all

\(^{80}\) Ibid.


people and for Pakistan to have the necessary infrastructure to sustain high growth.”\textsuperscript{83} Likewise, manifesto indicated to make extractive system “tax-payer friendly so that voluntary compliance is enhanced.” Finally, PPP vowed to undertake “bold initiatives … emphasizing better collection and expanding the tax net, especially to those that can afford to pay,”\textsuperscript{84} without again indicating as to what could possibly be those bold initiatives.

PPP, soaring on sympathy wave of its leader Benazir Bhutto’s assassination during election campaign managed to grab enough number of seats in National Assembly to assume lead role in coalition formation process. ANP, JUP-F, and MQM which obtained significant number of seats in KP, and Sind, joined hands. The coalition was able to complete its constitutionally prescribed five-year term – quite an achievement in its own right in turbulent political morass of Pakistan. On the fiscal front, as could be predicted at onset, manifesto that had sounded hopelessly run-of-the-mill, replete with stock-jargons, and couched in typical pro-elites phraseology, did not help PPP do anything noteworthy. Adhocism – very hall-mark of the PPP government in all respects was most pronouncedly visible in management of revenue administration. Chairmen, FBR, were appointed, one after other, in a most dismissive mode. Five generalists of all shades and hues were appointed to head state’s extractive function in a most callous and reckless fashion during PPP’s 5-year term in office. Resultantly, first time in Pakistan’s history, tax-to-GDP ratio hit rock-bottom and came to hover around 8.5 per cent; it stayed there till the regime’s tenure came to an end in 2013.

\textsuperscript{83} Ibid.  
\textsuperscript{84} Ibid.
PPP’s manifesto – 2013 was an incumbent government’s position paper on country’s future. This was, as a political party, PPP’s fourth term in power. In the context of extractive amphitheater, at least, it appeared that by now, if nothing else, it had, learned to create, as a survival tactic, a balancing act between powerful vested interests and imperatives of state functioning. It could thus afford to be a real thick and well thought-out piece of public policy conceptualization. Manifesto, brazenly eulogized PPP government’s achievement of outgoing term, tactfully tried to explain its failures, and outlined a blurred vision of Pakistan’s tax system for next five years. It promised:

We will raise our low tax-to-GDP ratio to 15 per cent by 2017, bringing into the tax net all sectors of the economy. During our current term, we raised tax revenues from 1 trillion rupees in 2008 to more than 2 trillion rupees in 2013. In our next term we will further curtail revenue leakages as a result of exemptions, loopholes, inequitable statutory regulatory orders (SROs) and under-reporting, with an effective auditing system. We will also use the NADRA database to tax the high-consuming non-taxpaying elites, increasing the number of taxpayers to 5 million by 2014. We will complement this initiative by revising subsidies provided to electricity, gas and petrol users, targeting only low income groups. Moreover, the manifesto looked to build a “new social contract.” It also committed to “provide a tax credit to those low-cost housing schemes that use alternative energy as a primary source of power,” offer “tax breaks to young entrepreneurs,” and exempt “from

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85 Emphasis as per the original text.
86 Emphasis as per the original text.
customs duties and taxes all capital goods imported for the development and maintenance of Special Economic Zone,” and empower “provinces to levy sales tax on services.”

The document was deftly contrived. While hopes-hung-in-future were calculated in percentile terms, past performance was measured in absolute numbers. The pledge to “further curtail revenue leakages” was not nested in party’s track-record or verifiable performance who had ruled for full length of five years. The threat of using “NADRA database to tax the high-consuming non-taxpaying elites” – no more than a sham bluff – had already so frequently been used without ever being backed up by action, and practically carried no semantic value for anybody – media, citizenry, extractive administration; particularly elites. The only area wherein PPP government excelled was facilitation and elimination of subsidies, but both these trends fitted well into theoretical framework which assumes that elitist state consistently endeavors to shift its fiscal load from patricians to plebeians. The electorate gave its verdict against shallow hopes and hollow promises, as all coalition partners saw their electoral strength evaporate into thin air – except MQM whose support base was ideologically committed rather than rationally motivated.

PPP regime’s upshot was transference of taxing rights to provinces through Eighteenth Amendment to the Constitution on a few counts. This was an elitist touchdown. Taxing rights on taxation of services and real estate assets was expressly devolved to Provinces. This fragmented state’s fiscal base in such a way that extraction which was already a difficult option – now became almost impossible. Interestingly, all political forces exhibited complete consensus on this matter with media taking usual bait in the name of

88 Ibid.
provincial autonomy and devolution of powers to provinces and to people. Ironically, powers that were devolved by federation for onward devolution to districts were never actually devolved.

**Pakistan Muslim League-Nawaz**

Pakistan Muslim League-Nawaz (PML-N) – an offshoot of Pakistan Muslim League that played critical lead role towards creation of Pakistan in 1947, is arguably the second largest party with popular support base in Punjab and part of Khyber Pakhtunkhaw (KP), and owes its rejuvenation to military-dominated period of early 1980s. Quite contrary to fact that since 1985, it has won electoral victories one after other both at national and provincial levels, todate it has formulated and publicized only two manifestos i.e. in 2008 and 2013. Although, PML-N appears to have spread its tentacles into rural area electorates by making significant gains in terms of number of seats scored, yet it is generally believed that it is predominantly represented and supported by industrial elite and business elite as well as urban middle class mostly of Punjab and KP with moderate right-wing leanings. PML-N’s vision of Pakistan’s extractive function is not much different from its lead competitors – including PPP.

**Manifesto – 2008**

PML’s manifesto – 2008, on the very face of it, looks a casual piece of writing without much due diligence. The manifesto carrying a loud title “Pledge With Pakistan” is a near-perfect articulation of elitist agenda – particularly one promoted by industrial elite and business elite – historically bent upon promoting their own economic interests at any

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89 At least only two manifestos i.e. those released in 2008 and 2013 available in public domain including PML-N’s official website - http://www.pmln.org.pk
cost. PML-N’s “Our Vision for Future” cross-cutting an ambitious agenda from “revival of genuine democracy” to “women,” states inside very preamble that “agony and suffering of common-man has increased manifold due to the increased utility bills, and earn tax revenue” policy of government.\(^90\) The agriculture sector has been devastated by increase in electricity charges, doubling of diesel prices, imposition of GST on fertilizers and pesticides, and failure of the government to maintain support prices.”\(^91\) Admonishment for revenue system was carefully muffled and captioned as “Public Dignity” to unleash an assault. “Public servants belonging to civil-military bureaucracy have emerged as a new ruling elite class. The people, in general, and taxpayers, in particular, are humiliated every day. It is time to reverse the order. People are the real owners and the job of public servants is to serve them.”\(^92\) In same vein, under “Economic Reforms,” PML-N vowed that all “discriminatory and business unfriendly procedures, taxes, and tariffs shall be rationalized,” “GST, taxes, tariffs shall be streamlined … for providing our businessmen a level playing field with their competitors,” “Multiple tax collection procedures shall be integrated into one window operation,” “Outstanding businessmen/exporters/taxpayers shall be given national medals and awards every year,” and “Agriculture taxes will be unified.”\(^93\) Though these policy log-lines were not backed up by any granularized operational plans yet it was predictable that PML-N could go to any length to appease its constituency – even at expense of state’s governance imperatives.

\(^91\) Ibid.
\(^92\) Ibid.
\(^93\) Ibid.
More importantly, manifesto outlined PML-N’s vision of “Tax Reforms” as a core objective of its agenda “to replace big-spending, high taxing, and over regulating government that now shackles the initiatives of Pakistani people.” Party exhorted that any “real tax reform must be more fair, efficient, simple, and pro-growth,” and that a “litmus test of an acceptable tax system is that it imposes the lowest possible costs of compliance, administration, and enforcement.” Manifesto upping the ante and changing its tone from terse to tough for state’s existing extractive system, harangued that “existing tax system is totally unacceptable on this basis,” as its every “step is extremely complicated, requiring an enormous number of man-hours and millions of rupees in manpower, machinery, and paper costs.” PML-N promised to bring about a “tax revolution, not mere tax reforms,” which, it reckoned, instead of focusing misdemeanor of a few particular tax officials, would reduce compliance, administration, and enforcement costs of tax laws through simple and a transparent tax regime. PML-N also promised to substitute FBR with a “Pakistan Revenue Authority,” shift emphasis to direct taxation, introduce a CNIC base tax system, simplify tax laws “to safeguard the taxpayers against harassment,” put in place “one window collection system,” so as to achieve “egalitarian distribution of wealth,” broaden tax base, and render tax “compliance friendly.”

In overall terms, “vision” carrying all elitist leanings hinges on same old abstract constructs like “reform” “simplification of (tax) laws”, “reduction in tax rates”, and

94 Ibid.
95 Ibid.
96 Ibid.
97 Ibid.
98 Ibid.
friendliness of tax administration.\textsuperscript{99} On the very surface of it, manifesto’s tone was pretty antagonistic to extractive administration itself. Much like its earlier two terms in office, PML-N appeared bellicose to extant extractive system without realizing that when state’s extractive function is hurt; state itself is hurt, which it was looking to govern.

\textit{Manifesto – 2013}

In 2008 general elections PML-N lost at national level but was able to form government in Punjab, wherein it performed reasonably well during its constitutionally prescribed term 2008-13. When general elections 2013 appeared on the horizon, PML-N came up with its first well-thought out and well-written manifesto. The manifesto addressed extractive function under caption “Tax Reforms.”\textsuperscript{100} Cognizant of its general perception that, as a political organization, it had fallen hostage to industrial elite and business elite – PML-N, at a conscious level, tried to dispel this impression. Party heralded that “structural drag on Pakistan’s economy can only be addressed through deep seated and institutional reforms,” though it believed “would be opposed by powerful interest groups and strong cartels.”\textsuperscript{101} Claiming that “PML-N not only has the ability to make these fundamental institutional reforms, but also the political will to confront the strong and powerful interest groups,”\textsuperscript{102} asserted that “most important area where fundamental and structural reforms are required is in the area of taxation,” as revenue collected by both federal and provincial governments will ultimately decide level of spending on social sectors like education, health, housing and infrastructure development.\textsuperscript{103} The manifesto also took pains to eulogize PML-N’s past achievements stating that when its government

\textsuperscript{99} Ibid.
\textsuperscript{100} PML-N, "Manifesto-2013" http://www.pmln.org/pmln-manifesto-english/.
\textsuperscript{101} Ibid.
\textsuperscript{102} Ibid.
\textsuperscript{103} Ibid.
was summarily dismissed in 1999, tax to GDP ratio was 13.8 per cent which had nosedived to lowly 9 per cent in 2013, without actually elaborating that isolated spike in tax to GDP ratio in 1990s was, in fact, due to income-presumptivization of gross receipts – worst possible form of direct taxation which generated easy but perverted, unhealthy and stinking revenues. Without uttering a word on perverse FTR which now completely fettered state’s extractive function, the party promised to raise tax to GDP ratio to 15 per cent by 2018, broaden tax base and bring informal economy into tax net – sans any actionable roadmap to actually realize it.

Main pillars of PML-N’s “Tax Reform Program” were to “tax all income” and increase “dependence on direct taxes,” enhance use of IT in administration of taxes, facilitate tax compliance, reduce tax rates, reform tax administration both at federal and provincial levels, publish annual tax directory, encourage provinces to increase their revenues, apply sales tax across the board and broaden its scope, take steps to curb “money laundering, and whitening of black of money,” reduce number of taxes, and improve “process of self-assessment and audit compliance.”104 All these axioms would sound music to ears of Pakistan elites.

In the end, the manifesto mentioned “sacred trust between the Government and the tax payers,” and particularly pointed out that “unless and until the citizens are convinced that the taxes they pay will be properly utilized for the benefit of the common man, it will be difficult to achieve Pakistan’s fiscal targets and macro-economic stability.”105 By taking such a position in its manifesto, PML-N, in fact, lent legitimacy to a commonly advanced perverse intellectual argument advanced to justify tax evasion. One would not need a

104 Ibid.
105 Ibid.
deconstructionist to predict that PML-N’s commitments – most if not all – were a mere political rhetoric meant only for public consumption and to win votes, and no way to harm, hurt or annoy its backyard, its constituency i.e. industrial elite and business elite.

**Muttihada Qaumi Movement**

Muttihada Qaumi Movement (MQM) was established as a secular political party under the leadership of Altaf Hussain in 1984, to represent and protect rights and interests of that section of population that had migrated to Pakistan in 1947 or afterwards. Thus, by extension, MQM represents urban middle class mostly located in Karachi, Hyderabad and other cities. MQM’s potential voter is believed to be urban, educated, self-employed, or engaged in trade and industry. Although, MQM contested general elections in 1988, 1990, 1993, and 1997, yet its first manifesto available in public domain is one released in 1998.

**Manifesto – 1998**

MQM has historically claimed that the bulk of revenue collected in Pakistan is contributed by its constituency – around up to 70 per cent. Thus, it was understandable that MQM would speak for its own constituency. The manifesto carried three main features. Firstly, and most significantly, as per practice and fashion, it took to battering tax administration by stating that “Due to the inadequate policies, billions of rupees find their way into the pockets of government officers and bureaucrats rather than the government treasury,” and proposing that “for the collection of taxes in a better way, and to eliminate corruption immediate steps should be taken to formulate a simple and effective system where room for corruption is minimized.”

first very argument, that is, mass-level rent-seeking tendencies in extraction administrators, a case was built for further simplification of system itself. “What is immediately needed is to establish an effective and simple system which will tend to minimize the tax burden upon the people on the one hand but controlling tax evasion on the other, thereby, creating an increase in tax recovery.” Thirdly, MQM advancing serious concerns of its constituency about inequitable distribution of tax burden in Pakistan, raised its voice for taxation of income from agriculture, by underscoring necessity “to extend the tax recovery framework to all classes of society with the aim of increasing State income and reducing the burden upon poor people,” and simultaneously avoiding “unnecessary burden upon a particular class or a few classes.”

It is a widely acknowledged fact that MQM’s voter is relatively more rational but equally more committed to its party and leadership. Such is also a perception that irrespective of party manifestos, position taken by party in those manifestos upon various issues, and even irrespective of MQM government’s performance both at federal level and provincial levels does neither change its voter’s loyalty pattern nor his voting decision – at least, its core voter.

*Manifesto – 2008*

MQM had supported military-led political dispensation during 2002-07, both at federal and provincial levels. Therefore, MQM’s manifesto, in many respects, would have to be taken as carrying an incumbency burden. Manifesto itself turned out to be quite plain. It reiterated the same ordinary, unimaginative and standard vision of state’s fiscal function. Captioning itself as “Financial and Fiscal Measures,” the manifesto exhorted to increase

107 Ibid.
108 Ibid.
“ratio of direct taxes to indirect taxes,” and render National Finance Commission more independent but only after General Sales Tax and Federal Excise Duty had been devolved and assigned in favor of provinces.\textsuperscript{109} A simple dissection of document would reveal that these formulations are generally based on weak foundations. The devolution of powers to impose sales tax (on services) and on capital to provinces through 18\textsuperscript{th} amendment to constitution had confederate-libertarian undertones that MQM had always been championing. However, under existing state structure, devolution is all set to have adverse impact on country’s extractive outcomes.

\textit{Manifesto – 2013}

MQM’s manifesto – 2013 entitled as “Empowering People” – a comprehensive document conceptualizing party’s vision of Pakistan, did not, intriguingly, dwell upon state’s revenue function at length; it made a short work of it.\textsuperscript{110} Upfront curtly stating “No representation without taxation,” MQM raised its voice on non-payment of taxes by public representatives.\textsuperscript{111} MQM also reiterated its demand “to introduce tax on agriculture income through necessary constitutional amendment,” as well as to reduce “incidence of indirect taxes and such levies to provide relief to a common man.”\textsuperscript{112} MQM has progressively learned how to run with the rabbit and hunt with the hound.

\textit{Pakistan Tehrik-e-Insaf}

Pakistan Tehreek-e-Insaf (PTI) is a centre-right political party founded by cricketer-turned-philanthropist-turned-plitician Imran Khan in 1996. PTI historically attempts to build its image as an anti-status quo political out-fit propagating Pakistan as a modern

\textsuperscript{111} Ibid.
\textsuperscript{112} Ibid.
egalitarian democratic Islamic welfare state. Given its ideological-political leanings, it was expected of PTI to raise its voice for justice – including economic justice. PTI despite having been on the political scene for little under two decades is still considered an urban middle-class political work-in-progress.

*Manifesto – 2002*

PTI’s manifesto – 2002, professing high ideal of justice for common man, good governance, and national sovereignty, elaborately outlined its typically elitist vision of “Tax Reform” hitting out at “complexity of the tax law” as “single most important factor responsible for most of the revenue losses.”113 The manifesto claimed that “current tax system is indefensible,” as it “is complex, burdensome, and severely limits economic opportunity.”114 PTI’s philosophy, it was claimed, was “to encourage and motivate citizens to create wealth and share part of their hard earned income by paying tax at a lower rate.”115

PTI also committed to “introduce a tax system that is fair, flatter, and simpler,” in phases “reduce federal taxes to five in all at reasonable rates,” professionalize and autonomize state’s revenue administration, shift emphasis from “indirect to direct taxation” thereby reducing burden off shoulders of common citizen, “simplify the tax system by eliminating unnecessary paperwork,” simplify “tax system that allows people to compute their taxes easily, for example on the Internet, without the need for a lawyer or an accountant,” and eliminate imbedded culture of allowing tax exemptions to special

114 Ibid.
115 Ibid.
interest groups through SROs and other means. In a nutshell, manifesto is a hodge-podge of archaic and progressive, elitist and non-elitist vision-bits yoked together compulsively but not buttressed by any doable and implementable action plan.

**Manifesto - 2013**

Interestingly, PTI’s manifesto – 2013 just repeats its vision of “Tax Reform” which it nurtured eleven years ago in 2002, which very fact speaks volumes about importance and centrality being accorded to state’s revenue function.

**Sundry Political Parties**

Other small political parities – both mainstream and regional – have either no manifesto in public domain or do not take any meaningful position on nation’s extractive system – sans perhaps being out of their area of interest and focus. Pakistan Muslim League-Quaid-e-Azam (PML-Q) was successful in keeping word “tax” out of its manifesto released in 2002. PML-Q won general elections held in 2002 and resultanty formed ruling coalition in consequence thereto in combine with military elite. Awami National Party (ANP)’s manifesto laments that “federation abolished octroi taxes on the promise of providing 2.5% of sales tax revenues to local governments,” whereby provinces “lost claim to sales tax,” and therefore, it sought compensation under new National Finance Commission Award for KP. It would thus not be incorrect to infer that ANP’s vision of Pakistan’s revenue function is confined to seeking compensation under NFC in lieu of octroi taxes.” Jamaat-e-Islami does not find state’s extractive function worthy of any

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116 Ibid.  
coherent and meaningful debate in its manifesto.\textsuperscript{120} Even otherwise Jamaat ideologically does not reckon tax system to be entirely legal. Jamaat-e-Islami Emir categorically announced “that his party accepted no taxes except Zakat and Ushr, adding the rulers are enjoying luxurious life with the taxes paid by the poor.”\textsuperscript{121}

Theoretically, manifestos being avowed party positions on various issues of national importance, are supposed to be well thought-out, well-conceived, and expectedly well-written, too, and outlining a political party’s vision of a state in various respects. Internationally, political parties and their leadership accord high importance to framing of manifestos not only because they facilitate their potential voter to cast his vote but also because political parties can be held accountable to their pre-election commitments and put to socio-politico-electoral audit.

Major deviations from positions taken in manifestos on the part of political parties can be equated with betrayal of ballot. However, preceding debate falsifies the theory’s application in Pakistan’s context. In Pakistan, political parties write what might sell better to voter and not because they and their leadership necessarily believes in it. At times, manifestos are mere pack of words, if not lies, as political parties write down what they please, and do what might not have anything to do with what is written. Interestingly, there is no socio-political audit of political parties either by media, civil society, and most importantly by electorates themselves – and not at all by opposition – for understandable reasons i.e. perverse elitist consensus.

(ii) **Institutional Amnesia**

While it may be true that few political parties in Pakistan understand true importance of state’s extractive function by allocating required amount of resources to critically study various dimensions of revenue system’s malaise and take a considered position in that regard as reflected in their manifestos, situation is not much different in respect of other institutions, too, particularly those which originally evolved under colonial governance system and culture, and whose internal procedure and working culture were reasonably developed by 1947.

Planning Commission’s strategy paper entitled “Pakistan: New Growth Framework” conceptualized “Tax Reforms” in terms of amendments to tax laws “to limit the discretionary power of the Federal Board of Revenue and improve administration, auditing system and tax refunds system;” simplification of tax system “by creating one-window cells for tax registrations at the sub-national level to cater to all taxes” – federal, provincial and local; unify “NTN and GST registration to one Tax Registration Number through amendments” in relevant tax laws; improve “technology and e-governance strategies to facilitate tax registration and tax filing system;” and modify “tax laws to include deadlines for speedy disposal of pending and new court cases.”

None of the reforms recommended by Planning Commission talks in terms of quality enhancement of tax administration’s human resource; injection of new human capital; establishment of national information aggregation system to backstop revenue effort; insulation of apex revenue agency from generalist forays to keep morale of Service and workforce at a reasonably high level; injection of adequate logistics by increasing investment in revenue

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administration; elimination of blatant pro-elite bias from within tax policy, and putting in place a standardized and transparent mechanism of interest group management i.e. rules of engagement between state and interests into which society divides itself. Although coming from an ultimate professional think-tank i.e. nation’s Planning Commission, yet both diagnosis and prescription continue to be over-beaten pronouncedly lacking construct validity. The overlap between Strategy Paper and political parties’ manifestos is precisely equal to institutional decay and degeneration emanating from their consistent corrosive denial to recognize governance imperatives of state with reasonable exactitude.

Pakistan, in fact, is the same polity in which until as late as early-1990s, budget speeches would primarily revolve around taxation measures. Each and every taxation measure – whether taken on or off tax statutes – was elaborated upon in parliament’s budget session or in live telecast made to nation along with its implementation design, rationale, expected implications for various sectors of economy, and revenue-tag that it carried. Such is no more the case. Of late, budget speeches have tended to be as brief as possible touching only upon a summary of revenue measures and with least mention of implications for revenue, taxpayers, and extractive system. It is true that a bias of ruling structures in favor of expenditure function has always been there but with passage of time it is becoming more and more obvious, pronounced and reflecting itself through multiple means. For instance, in Budget Speech 2010-11, Minister of State for Finance spoke a total of 120 words to elaborate upon changes in tax laws and revenue implications thereof. The bulk of the Speech was consumed by eulogizing achievements of the government and allocations under various expenditure heads. Likewise, Pakistan Economic Survey, which every year, publishes around 15 chapters on various facets of
Pakistan’s economy from environment to communications, now affords to write merely 50 words on sources of financing for all these activities. *Pakistan Economic Survey* 2010 carried a paragraph on direct taxes and three paragraphs on taxation under all heads.\(^{123}\)

(iii) **Intellectual Para-praxis**

Pakistani intelligentsia has also played its due role towards providing an intellectual camouflage to real malaise inflicting state structure and its functioning. Most work done on Pakistan’s economy, economic history, and public policy has conveniently tended to either completely ignore its extractive function as a subject of concern or superficially touch it by adding a ceremonial chapter or sub-chapter on revenue.

Pasha dilating upon Resource Mobilization and Tax Reform Commission\(^{124}\) (RMTRC)’s success takes government something external to and separate from its extractive system. One of “key elements of governance capacity which contributed to successful reform” according to him was “a government which was able to adequately articulate the need for the particular reforms as part of its overall vision of social and economic change and to successfully project to the general population the losers from the reform (tax evaders and income tax officials) as the ‘devils’ of the system who had exploited the laws and led to a breakdown of the tax machinery, implying a slackening of the overall fiscal efforts.”\(^{125}\)

He goes on to accentuate that “tax department was effectively bypassed by the handing over the responsibility of development and implementation…of proposals to the RMTRC and with actual responsibilities of collection shifting to large public sector and corporate


entities.” Not only that, Pasha went overboard to equate and put “tax evaders and income tax officials” in same league, that is, “losers” and “devils,” it must also go down as most uniquely conceived and implemented tax reform in annals of reforms anywhere in world – a reform conceived and implemented without knowledge, input and help of very target of reform – revenue system. One wonders over contours of Pasha’s state which is sans an extractive function; or at best one run by voluntary contribution.

In the same vein, Refaqat championing elitist cause appreciatingly stated that “government bypassed the income tax department by setting up the RMTRC as the main body of reform, which was empowered to set up the strategy for revenue mobilization and was also given powers to implement this strategy.” Agreeing with RMTRC’s overtures to (a) rely on withholding taxing and (b) “effectively bypass the income tax department,” legitimizes a spurious elitist foray at state’s key function.

Pakistan Institute of Legislative Development and Transparency (PILDAT) – an Islamabad based NGO striving to “strengthen and sustain democracy and democratic institutions in Pakistan,” in 2002, chartered an important study to compare and contrast election manifestos of all major political parties “with the aim of simplifying the choices available to the voters in terms of programmes of major political parties.” The initiative was “structured in such a way to encompass, cover, and evaluate only those issues that are important for the general public,” namely “economic, social, political,

126 Ibid., 8.
128 Ibid., 26.
defense and foreign relations."\textsuperscript{130} These issues were further examined on the basis of fourteen (14) sub-subjects such as unemployment, high cost of living, poverty alleviation, national debt retirement, and agriculture development and management of water resources under economic issues.\textsuperscript{131} Intriguingly, PILDAT did not find state’s revenue function to be an issue ‘important for the general public.’\textsuperscript{132} In 2008, PILDAT yet once again did not find revenue administration worthy of inclusion in their identical study when Pakistan was already running a tax to GDP ratio that was by far lowest in the world.\textsuperscript{133} Thumping success of elites in controlling state’s revenue policy formulation process and effectively rigging its enforcement arm at will and repeatedly, partly also emanates from their ability to sell spurious arguments and justifications without any weighty and logical counter-explanations advanced by Pakistan’s intelligentsia. The rot appears to have beset across the board – without exception.

In 2006, a large-scale perception survey of civil servants was spearheaded and conducted by Nadeem-ul-Haq\textsuperscript{134} on a significantly large universe, which focused “on nine ‘Civil Services of Pakistan (CSP)’ groups, viz. Audit and Accounts Services; Secretariat; Police Service of Pakistan; Office Management (OMG); District Management (DMG); Information; Commerce and Trade; Customs and Excise; and Foreign Services.”\textsuperscript{135} Intriguingly, Inland Revenue Service (IRS) – state’s extractive arm attained prominence

\begin{footnotesize}
\begin{enumerate}
\item Ibid.
\item Ibid.
\item Ibid.
\item Nadeem-Ul-Haq attained cooption when he was appointed Deputy Chairman, Planning Commission of Pakistan, during PPP-led coalition government in 2009 with a status of Federal Minister. Not surprisingly, Haq was also taken as a memer of Fiscal Monitoring Committee formed by FederalGovernment to oversee performance of FBR, and, by implication, that of IRS that collected about 90% of total national tax revenues. Haq was a torchbearer of efforts to implement VAT or its diluted version in Reformed General Sales Taxes (RGST) on prescriptions of World Bank and IMF, under gentile Chairmen, FBR.
\item Refaqat.
\end{enumerate}
\end{footnotesize}
through omission from enlistment of civil services of Pakistan. If IRS’s omission itself was not good enough study hastened to add a footnote stating that because of time constraints and other compulsions, remaining civil service cadres like “Pakistan Railways, and Pakistan Postal Services Group,” could not be included in study.136

(iv) Media and civil society

The phenomenal growth of media in Pakistan in the recent past has become an important variable inside Pakistan’s polity in many respects but primarily in respect of impacting and influencing public perception on issues of national import – perhaps more important than in most countries. Such a powerful and vibrant media could have played an instrumental role towards strengthening of state’s extractive arm, but it failed miserably. To be fair perhaps media as an institution never actually attained enough maturity and rigorousness to first understand centrality of a functional revenue system as an inexorable state imperative, and then identify glitches in its smooth functioning as well as friction and resistance faced by it, and present notions to resolve and overcome them.

It is not that Pakistan media do not highlight matters concerning the revenue system; they do. However, neither time allocated for the purpose nor level of analysis is at a desired adequate level, due to which factor Pakistani media might be guilty of promoting elitist interest and perpetuating existing asymmetrical economic status quo on the polity. For instance, when estate duty (inheritance tax), gift tax, and wealth tax were abolished in 1979, 1985, and 2000, respectively, neither a dirge was composed, nor an elegy chronicled on these massive fiscal disasters for state. Who gifts, who bequeathes, who

inherits, and who has wealth? Pakistani media were never there to decipher angular coded explanations for such pro status quo policy choices. No doubt Pakistani media has invariably borrowed national narrative on revenue from elites. The powerless plebeians lacking in consciousness, understanding and organization could never raise a rally to protest inter-generational injustice perpetuating and cementing. Media conveniently cooperated with ruling coalitions to recycle and re-churn elitist explanations and transmitted them for public consumption legitimizing revenue system’s incapacity in terms of insufficiency of available policy tools. Media effort, more often than not, was buttressed and backstopped by religious elites providing ideological explanations to policy choices of dubious credentials being Islamic. Thus, media churning out ruling coalitions’ elitist policy choices with a varnish of piety and religious certification without putting them to an independent critical scrutiny doused masses into accepting those otherwise anti-people policies – to ultimate advantage of elites. Role played by civil society is neither less intriguing nor different from media’s in this context.

Section VI
State-Building and Disaggregation Approach
There is now almost a consensus amongst scholars of politics that state is non-monolithic, non-unitary entity. A state is believed to be composed of various components performing its respective avowed functions. “Like a human body,” it has been argued “a state is composed of a set of organs meant to perform certain function.” It follows that connection between a state’s structural components and its functions may be defined as “a complex apparatus of centralized and institutionalized power that concentrates violence, establishes property rights, and regulates society within a given territory while

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being formally recognized as a state by international forums.\textsuperscript{138} While sum total of state institutions’ strength would constitute strength of state itself, capacity of individual institutions both in terms of \textit{strength} and \textit{scope} may vary. Fukuyama proposes adopting disaggregation approach to analyzing strength of a state in terms of sum of strength of all of state institutions.\textsuperscript{139} Application of Fukuyama’s framework to Pakistan leads to the conclusion that while its coercive function attained strength both in terms of strength and scope, its extractive function has stunted. The relative strength of Pakistan’s coercive and extractive functions is pictorially depicted below.

\begin{center}
\textit{Disaggregation Institutional Approach to State-Strength}
\end{center}

\begin{tabular}{|c|c|}
\hline
Institutional Strength & \text{I} \\
\hline
III & IV \\
\hline
II & \\
\hline
\end{tabular}

\textbf{Institutional Scope}

The strength of a given institution has to be seen in conjunction with its scope, and both, generally speaking, may have an inverse relationship. While Quadrant I reflects ideal scenario for an institution where both coverage and strength are maximum, and Quadrant II and III reflect trade-off between an extra notch of scope and strength, Quadrant IV is


\textsuperscript{139} Fukuyama ix.
reflective of an undesirable position where its strength and coverage are at minimum. Hypothetically, pending systematic empirical attestation and validation, Pakistan’s coercive function (i.e. external coercive arm, in particular) would fall in Quadrant I, whereas its extractive function (FBR) in Quadrant IV. This is an unsustainable position in the long run. While a word on Pakistan’s external extractive arm would not be required per se, FBR-IRS’s scope of physical presence is confined to twelve cities only, and its strength could be gauged from the fact that it has practically not captured a single delinquent and prosecuted for non-payment of state taxes over the past 66 years. Although such a scenario amply proves state’s extractive arm’s powerlessness bordering on its near-non-existence, yet its impact is massively accentuated by non-recognition of such an infirmity as a serious malaise inflicting the state on part of ruling coalitions.

**Section VII**

**State and Extraction in the U.S.**

The theoretical framework developed in section II and section III on Pakistan, remains applicable in the U.S. context, in this section it will be contrastively examined as to how seriously and rigorously the identified “pillars of the state” take extractive function in the U.S. In spite of the fact that the two systems are fundamentally non-comparable be that in the system of constitutional silhouette, history, stability, and performance, but still a contrastive juxtapositioning would galvanize the analysis and enrich understanding of the phenomena at work in both states. Upfront, however, it will not be out of place to mention that extraction is something which is in the psyche of the U.S. body polity.

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140 The identified "pillars of the state" with reference to extractive function in the context of Pakistan, are (a) political parties; (b) select institutions; (c) intelligentsia; (d) media; & (c) civil society.
Although, U.S. Constitution did not expressly address the subject or the number of political parties, yet coincidentally a two-party political system, excepting a few sparse instances, has always been order of the day on the U.S. political horizon. In 1787, when the Constitution was signed and ratified, not even a single political party existed – not only in the U.S. but perhaps anywhere in the world. It has been argued that a desire to entice and muster maximum popular support “led to the American invention of voter-based political parties in the 1770s.”\footnote{R.F. Nichols, \textit{The Invention of the American Political Parties} (New York: Macmillan, 1967).} By way of voter-wooing methodologies, instrument of political party was crafted to connect public policy formulation with popular opinion.\footnote{R.J. Dinkin, \textit{Campaigning in America: A History of Election Practices} (Westport: Greenwood Press, 1989).} The development of U.S. political system, which essentially is a two-party system, can be divided and traced in five distinct periods.\footnote{P. Kleppner, ed. \textit{The Evolution of American Electoral Systems} (Westport: Greenwood Press, 1981).} In the succeeding paragraph we will survey those five periods of history and stock-take positions taken by various political outfits on the issue of taxation and public revenues.

\textit{1st Two-Party Paradigm – 1792-1824}

The period between 1792-1824 was marked and characterized by a raging intellectually-oriented multi-layered and multi-dimensional conflict between Federalists and Anti-Federalists over configuration of a new federal government. The Articles of Confederation – a worthy prequel to U.S. Constitution – drafted in early 1777 and ratified by all 13 states by early 1781 – though divulged a nomenclature “The United States of America,” which it carries to-date, yet fell well short of creating a national government, stating: "The said States hereby severally enter into a firm league of friendship with each..."
other, for their common defense, the security of their liberties, and their mutual and
general welfare, binding themselves to assist each other, against all force offered to, or
attacks made upon them, or any of them, on account of religion, sovereignty, trade, or
any other pretense whatever.”

However, as soon as it was becoming apparent that the Confederacy government created by the Articles of Confederation was failing to overcome mounting challenges confronting the nascent nation in the aftermath of independence achieved under George Washington, Commander-in-Chief of the Continental Army in 1783.

During the ensuing charged political environment and debate geared to replace the Articles of Confederation with a workable constitution, the people who supported the idea of a strong federal government were dubbed as Federalists and those who opposed it and supported strong state governments were branded as Anti-Federalists. In many respects, this very schism may have given rise to two-party system of the U.S. – at least, during its early years, as soon as Federalists became the Federalist Party, and the Anti-Federalists assumed the nomenclature of Democratic-Republican Party.

The Federalist Party derived its intellectual inspiration from Alexander Hamilton – U.S.’s first Treasury Secretary, who stood for a powerful federal government, good relations with Great Britain, a stable banking system, and a strong working relationship between well-to-do individuals and groups, on the one hand, and the government, on the other. Hamilton also wanted strong taxing rights with federal government so the massive amounts of debt accumulated during the war could be paid off. Moreover, he was an

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145 The challenges faced by the Confederacy and its failures to overcome that resultantly becoming drivers for a new Constitution and a government have been elaborated upon in Chapter 1.
avowed and staunch supporter of establishing a good banking system to be put in place so that business could flourish.⁴⁶ On the other hand, James Madison and Thomas Jefferson founded Democratic-Republican Party primarily in opposition to Hamiltonian world view and to promote interests of farming class.⁴⁷ It has been remarked that Federalists were mostly property owners, creditors, and merchants, while the Anti-Federalists were mostly small farmers, debtors and small shopkeepers.”⁴⁸ While Madison and Clay wanted internal taxation rights reversed for states; Hamilton wanted total taxation rights, that is, internal and external, allocated to the federal government. He emphatically explicated: -

> Money is, with propriety, considered as the vital principle of the body politic; as that which sustains its life and motion, and enables it to perform its most essential functions. A complete power, therefore, to procure a regular and adequate supply of it, as far as the resources of the community will permit, may be regarded as an indispensable ingredient in every constitution. From a deficiency in this particular, one of two evils must ensue; either the people must be subjected to continual plunder, as a substitute for a more eligible mode of supplying the public wants, or the government must sink into a fatal atrophy, and, in a short course of time, perish.⁴⁹

2⁷ Two-Party Paradigm – 1828-1854

The Democratic-Republican Party bifurcated into and gave birth to two independent political parties towards late 1820s. The “economic fluctuations spawned a political agenda for Whigs and Democrats to battle over in national and state arenas.”⁵⁰ The

Whigs also supported protection for the domestic economy and policies which would help modernize the economic system. The Whigs, in fact, had to brace the banking crisis of 1837, which they did reasonably well.\textsuperscript{151} On the contrary, Andrew Jackson-led Jacksonian Democrats, which later on took the shape of the present-day Democratic Party, championed Presidential supremacy over other branches, opposed establishment of another Hamiltonian bank i.e. “Bank of the United States” and fought against all modernization and industrialization plans to be financed with taxpayers’ money.

\textit{3\textsuperscript{rd} Two-Party Paradigm – 1854-1890}

The rise of the Republican Party from the ashes of the Whig Party, on the one hand, carried a strong anti-slavery coloring, and on the other, espoused development of national banking system, expansion of rail network, protective duties, and diffusion of education at state expense as its agenda. In the aftermath of the Civil War, when political battlegrounds were drawn on economic-racial lines, the Republican Party understandably sucked African-Americans into its fold alongside “businessmen, shop-owners, skilled craftsmen, clerks and professionals who were attracted to the party’s modernization policies.”\textsuperscript{152} On the other hand, Democratic Party, in addition to its traditional Southern support base, was appreciated and joined by Northern dissidents (anti-war Copperheads), as well as Catholic immigrants. The Republican Party ruled the roost winning all Presidential elections held between 1860 and 1892. The Reconstruction effort needed funds and the Party minced no words about mustering resources from wherever it could. “The individual income tax,” it is argued, “was first imposed during the Civil War, expanded into a major revenue source during World War I, and transformed into a mass

\textsuperscript{151} Ibid.
tax in World War II,” and “has supplied the largest share of federal revenue ever since.”153

4th Two-Party Paradigm – 1896-1932

During this period, not only the mainstream political parties remained same. Even apart from slight adjustments, here and there, even their support base continued to be on same lines. However, shuffle took place in the political agenda that each party espoused. “The central domestic issues changed to government regulation of railroads and large corporations (“trusts”), the protective tariff, the role of labor unions, child labor, the need for a new banking system, corruption in party politics, primary elections, direct elections of senators, racial segregation, efficiency in government, women’s suffrage, and control of immigration.” The rise of new political agenda enthused the party spectrum in U.S. that gave evolution to new bipartisan national narrative on most burning issues.

On the fiscal front, towards the end of the 19th century, “the nation’s continuing reliance on customary forms of taxation prompted widespread resentment.”154 A vague consensus for the imposition of a graduated income tax started appearing on the horizon as its demand “spread from the populist into the reformist wings of Democratic and Republican parties.”155 The Depression of 1890s accentuated and underscored that the tradition system of resource generation at all three tiers of governance had fallen out of sync with time. With federal government at the verge of a default, Congress passed Wilson-Gorman Tariff Bill, 1894, imposing an income tax on all incomes over and above $ 4000 at the

155 Ibid.
rate of 2 per cent. Soon, however, Supreme Court stepped in and declared it an unconstitutional “direct” tax.\textsuperscript{156} “Over the next decade, William Jennings Bryan turned the income tax into a staple demand of the Democratic Party, and Theodore Roosevelt and the Insurgents won over progressive factions in the Republican Party to the idea.”\textsuperscript{157} Resultantly, “In July 1909, amid the quarrel over the Payne-Aldrich Tariff Bill, both houses of Congress adopted what became the 16th Amendment by overwhelming vote.”\textsuperscript{158} This provided robust basis for imposition of corporation tax that was validated by SC in 1911. Although, there were ferocious factional fights centered on taxation, yet changes in the system may have transformed the polity itself. Mehrotra argues:

The emergence of this new fiscal polity had enormous implications for modern American economic, social and political life. First the new fiscal regime reallocated across both incomes classes and national regions the economic responsibility of financing the growing needs of a modern industrialized democracy. Second, this fiscal reordering defined the social meaning of modern citizenship. Third, it facilitated the beginnings of a fundamental change in political arrangements and institutions. And, fourth, the new fiscal order helped underwrite the subsequent expansion of the American liberal state.\textsuperscript{159}

5\textsuperscript{th} Two-Party Paradigm – 1933-present

The New Deal Coalition helped form the so-called 5\textsuperscript{th} two-party paradigm in 1933.\textsuperscript{160} The Great Depression caused massive erosion in the popular support base of the Republican Party making way for the Democrats to step in under Franklin Delano Roosevelt. The Depression had created a lot of space for Roosevelt to perform and taking

\textsuperscript{156} Pollock V. Farmers' Loan and Trust, (US Suprme Court 1895).
\textsuperscript{157} Holloran et al., 211.
\textsuperscript{158} Ibid.
cue from new Keynesian economic theories supporting extravagant public spending to undertake public works thereby triggering aggregate demand, launched his recovery program dubbed as the New Deal. The Republicans beaten and battered, rallied support in large numbers to the New Deal Program due to which factor the New Deal became to be called the New Deal Coalition. Since the Great Depression understandably has played havoc with the tax base, “a serious effort at pay-as-you-go financing expensive New Deal Programs would have required massive increases in tax rates or the introduction of substantial new taxes.”\footnote{W.E. Brownlee, \textit{Federal Taxation in America: A Short History} (London: Cambridge University Press, 2004), 86.} Resultantly, the “Revenue Act, 1935, when passed by the Congress and came into force, “pushed households into higher tax brackets and raised effective rate paid by the richest 1 per cent of taxpayers increased to 16.4 per cent, higher than any year during World War I, and in fact the highest level it had ever reached.”\footnote{Ibid., 92.}

In the succeeding paragraphs, within given framework of current two-party paradigm, the predilections and positions of two major political parties with regard to state’s extractive function will be analyzed. Additionally, penchant and outlook of a couple of smaller parties will also be examined to illuminate the debate.

\textit{The Republican Party}

The Republican Party, also known as Grand Old Party (GOP), is the main political party in the present-day U.S. politics – alongside, of course, the Democratic Party. The Republican Party was founded in 1854 as an anti-slavery coalition of “anti-slavery activists, modernizers, ex-Whigs, and ex-Free Soilers.”\footnote{William E. Gienapp, \textit{The Origins of the Republican Party, 1852-1856} (New York: Oxford University Press, 1987), 190.} There is generally a consensus
amongst scholars that the Republican Party is torchbearer of American conservatism, quite contrary to the Democratic Party which professes American liberalism. “The Republican Party's conservatism involves supporting free market capitalism, opposing regulation and labor unions, and supporting socially conservative policies.”

When it comes to taxation, the Republicans have traditionally abhorred the idea of taxing people’s income to finance government effort. In 1872, when income tax was imposed for the first time, and revoked, “most Republicans originally attempted to prevent it from becoming law again.” Afterwards, since passage of the 16th Amendment to the Constitution in 1913, “goal of the party has been to keep the rates as low as possible and cut them at any possible opportunity.” It has been pertinently remarked that “every Republican Party platform since 1920, with the exception of 1932 and 1936, when the United States was in the midst of the Great Depression, has advocated a reduction in tax rates for the American citizens, and it appears that the trend will most likely continue with future party platforms.”

The Republican Party further believes that “government should tax only to raise money for its essential functions,” and that “government should spend money only to enforce contracts, maintain basic infrastructure and national security, and protect citizens against criminals.” It also posits that “money the government spends does not belong to the government; it belongs to the taxpayers who earned it,” and exhorts that “Americans

164 E. Grigsby, Analyzing Politics (Boston: Cengage Learning, 2008), 106.
167 Ibid.
168 Ibid.
deserve to keep more of their own money to save and invest for the future,” and that “low tax policies help drive a strong and healthy economy.”¹⁷⁰ Although criticized for its being theoretically off-mark, yet the party’s main argument in respect of tax policy has been to allow maximum relief to taxpayers so as to trigger economy activity, and accordingly Republican governments tend to “reduce taxes for businesses to allow businesses to grow and thus hire more employees,” and further look to “limit income taxes for individuals so that people can hold on to more disposable income, which they can then spend, save or invest.”¹⁷¹ For these and other ideological positions that the Republican Party takes, the U.S. moneyed elite, generally tend to support Republican Party, contribute lavishly to its electoral cause, and make every effort to put it into power.

The Democratic Party

The origins of the Democratic Party are to be traced in George Washington’s cabinet and ideological polarization that characterized it. Washington’s Secretary of Treasury, Alexander Hamilton, nurtured the idea of a strong federal government and for which purpose he established the Federalist Party. Washington’s Secretary of State, Thomas Jefferson, imagined that a strong federal government would be inimical to rights of people and therefore propagated that maximum powers be vested in state governments, and in order to promote his vision of the U.S., he ended up establishing the Republican Party.¹⁷² “The Federalists had sarcastically labeled Jefferson’s Republicans ‘Democratic-Republicans.’ In 1798, the Republicans adopted this label – ‘Democratic-Republican

¹⁷⁰ Ibid.
¹⁷¹ Ibid.
Party’ – as their official name.”\textsuperscript{173} Having gone through phases, modifications, and transformations, the old “Democratic-Republican Party” has survived and evolved into the modern-day Democratic Party.

The Democratic Party platform posits that government spending provided jobs and was therefore good to the economy. The Democrats “are adherents to Keynesian economics, or aggregate demand, which holds that when the government funds programs, those programs pump new money into the economy.”\textsuperscript{174} They also demand tax cuts for the middle class, and initiate programs that should “subsidize vital services that keep cities, states and the country running: infrastructure such as road and bridge maintenance and repairs for schools.” On the issue of tax policy, the Democrats have also been castigated for sudden and unexpected shifts in stance. “The shift in the tax policy favored by the Democratic Party was part of its more general shift – once began after 1937, accelerated during World War II, and completed in the Kennedy-Johnson era – away from Democratic statism and towards corporate liberalism, a line of thinking that had expanded its intellectual ambit, and its political potency, by incorporating Keynesian counter-cyclical policies.”\textsuperscript{175} Despite all this criticism, the Democratic Party is successfully carrying its traditional-historical image as it is still known to be a party which aspires to tax big businesses, and undertake welfare programs for the middle and lower incomes classes by triggering major public-sector projects.

\textsuperscript{173} Ib., 12.

\textsuperscript{174} Barton, 176.

\textsuperscript{175} W.E. Brownlee, Funding the Modern American State, 1941-1995: The Rise and Fall of the Era of Easy Finance (New York: Cambridge University Press, 2003), 96.
The Tea Party

Although, Tea Party – more of a movement than a political outfit – derives its intellectual inspiration from Boston Tea Party of December 16, 1773, which itself speaks volumes as to what it stands for, yet it started to take shape in and around 2007, as a dissident group within the Republican Party, under leadership of Dr. Paul Ron – a Republican Congressman. The movement carries strong conservative, far-right, and minimalist tendencies. It has aspired to espouse and arrange anti-tax protests across U.S. every year usually on Tax Day – April, 15. To put it simply, Tea Party has to fight virtually on two fronts: internally i.e. within Republican Party, against big business and those that support them; and externally, against an ever-expanding federal government leviathan. Initially, the movement’s focus was outright on compelling federal government to roll back through whatever means possible, but primarily through reigning in and limiting its extractive operations.

Tea Party believes that legislative powers of Congress originated from and were limited by the constitutional bounds. It exhorted that every law that Congress undertook must necessarily be grounded in the Constitution itself pointing out precise constitutional provision that enables Congress to undertake “what the bill does.” With a view to having a balanced budget down the road, party proposed a constitutional amendment stipulating “a two-third majority for any tax hike,” as well as putting in place a single-rate taxation structure shelving Internal Revenue Code and supplanting it with a simpler fiscal law. The party also promised to undo all tax raises pertaining to income tax, capital gains tax, and inheritance taxes that were planned to go into effect from 2011.

\[177\] Ibid.
\[178\] Ibid.
In midterm elections, 2010, at least, 129 Republican candidates for the House and 9 for the Senate ran as Tea Party “nominees,” and when election results were announced, Tea Party supporters had won 40 and 5 seats, respectively. However, a shift appears to have taken place both in its ideology and tactics whereby the Tea Party, of late, has tended to tread into other areas of purely political nature e.g. immigration. Jeremy Peters has observed: -

What started five years ago as a groundswell of conservatives committed to curtailing the reach of the federal government, cutting the deficit and countering the Wall Street wing of the Republican Party has become a movement largely against immigration overhaul. The politicians, intellectual leaders and activists who consider themselves part of the Tea Party have redirected their energy from advocating fiscal austerity and small government to stopping any changes that would legitimize people who are here illegally, through granting them either citizenship or legal status.

The movement continues to be a conglomerate of scattered clusters professing their own sub-identities and promoting their own agendas sans any centralized stewardship. Although, Tea Party has been dubbed as an emblem of grassroots politicking, yet allegations of its “astro-turfing” with donations by strong interest groups have been leveled; and not dispelled. It has also been argued that the Tea Party is losing its attraction and support across the U.S. political landscape. This may largely be because Tea Party has lost focus; it is no more centered on tax issues and other allied sub-issues.

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The Constitution Party

The Constitution Party – a centre-right outfit with a conservative coloring – was established by Howard Phillips in 1991.182 In the context of this study, the Constitution Party is important as its original very nomenclature was U.S. Taxpayers Party (U.S.TP). The Constitution Party – like Tea Party – is more than a party, a conglomerate, and a large number of political outfits are associated with it as its chapters. The Constitution Party, one way or the other, has presence in almost all American states. The Constitution Party believes in reverting to original intent of founding fathers for constitutional and political regulation and to Christianity for moral and spiritual guidance. Despite the fact that Party gives a lot of focus to utilization of U.S. taxpayers’ money effectively, that is, by having a small federal government, yet it appears lacking clarity as far as issues pertaining to tax policy and tax system are concerned.

Summing up, U.S. political parties and their outlook to state’s extractive function, it can be said that while “Democrats and Republicans differ in their use of fiscal and regulatory policies to influence economic growth, employment, cost of living and disposable income, and consumer and environmental safety,”183 yet they have throughout history shown enough maturity to evolve a consensus and speak with one voice when it came to mustering enough revenues required to run the state – a phenomenon unthinkable in Pakistan. Even in a historical context, “Democrats are more supportive of government regulation for consumer and environmental protection and to correct inequities in the market place, whereas Republicans have been more supportive of tax cuts and

deregulation of business.”\textsuperscript{184} In typical political science theoretical terms, such party “positions reflect the priorities of the people from whom each party is most likely to draw votes and financial support.”\textsuperscript{185} What is important is that both the leading parties carry out rigorous research and legwork on the tax policy issues before taking respective positions – a practice absolutely non-extant in Pakistan.

(ii) \textit{Media & Civil Society}

Historically, media has played an important role in policy formulation in the U.S. – tax policy being no exception. This role has been further advanced with the advent of social media. “Deciding what is “news” and what is “newsworthy” is a powerful political weapon.”\textsuperscript{186} Additionally, the imperceptible power to portray what, at what time, with how much focus and in what words and angle actually gives media too much power in respect of agenda setting for governments. It is but natural that people and politicians respond to what they are told through media. “Without media coverage, many of the conditions or government programs would not likely become objects of political discussion, nor would government officials likely consider them important, even if they knew about them.”\textsuperscript{187} While it is almost a consensual viewpoint now that “Media attention creates issues and personalities,” it is equally an accepted proposition that “Media inattention can doom issues and personalities to obscurity.”\textsuperscript{188} It has also been argued that “importance of public-interest groups in the tax-policy making process is

\begin{footnotesize}
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\textsuperscript{184} Ibid.
\textsuperscript{185} Ibid.
\textsuperscript{187} Ibid.
\textsuperscript{188} Ibid.
\end{footnotesize}
directly connected to the rise of the popular media as a force.”\textsuperscript{189} Many a U.S. journalists adopt a similar interest-group model,” to exert pressure on state mechanics for favorable policy bits,\textsuperscript{190} like in Pakistan. This is perhaps one area in which the external pressure on tax policy formulation process is almost identical.

\textbf{(iii) Non-Partisan Institutional Framework}

The U.S. non-partisan institutional framework is well-developed, robust and enjoys substantial clout in tax policy formulation. While partisan institutions like lobbies and business representative bodies may be active to promote agenda of vested interest groups, non-partisan institutions off-set sharpness of angularity with which the partisan institutions exert pressure on policy formulation structures. Of all the “diverse forces that motivate tax policymakers at various times – the revenue imperative, ideology, party politics, and nonpartisan instrumentalism”\textsuperscript{191} – the last one is perhaps the most active and effective in the U.S. of late. Think tanks are instrumental in supplying policy entrepreneurs with academic studies and all sorts of “reports” that support their respective policy positions.”\textsuperscript{192} It has been emphatically stated that “Washington think tanks have also played a role, similar to that of the public-interest groups, in championing specific tax policies and lobby against others.”\textsuperscript{193} There is a plethora of studies that have traced and analyzed the role and impact of institutions in U.S. tax policy formulation process. When the role of institutions in U.S. tax policy formulation which is nuanced and rigorous, is contrasted with that of Pakistani institutions aspiring to play the same role, a

\textsuperscript{190} Ibid.
\textsuperscript{191} Ibid., 161.
\textsuperscript{192} Ibid., 175.
\textsuperscript{193} Ibid.
lack of rigor and effort, over-simplification of issues involved, and a directness of tactics is but clear, which makes the entire business look lowly – bordering on the perverse.

It is thus not surprising if historically U.S.’s current tax-to-GDP ratio has hovered around mid-20s per cent – that too without a federal VAT. The corresponding cost of collection between 1.5-2 percent which is decently high and means that U.S. attaches reasonably high degree of importance to its extractive arm. Understandably, then U.S. IRS is considered to be an effective enforcement outfit and a formidable fearsome agency. In overall terms, the tax system has performed well – high debt notwithstanding – and it has been able to perform positive role in the process of state-building. An effective administrative machine is likewise backstopped by a comprehensive tax policy. “Indeed, the shift of U.S. tax policy toward the use of a direct income tax, finally introduced in 1913, was not guided simply by the requirement of new government revenue, but also by a concern for economic and social justice.”194 This is no mean concern. This concern is the very essence of statehood, and lay at the heart of all modern and democratic systems.

Section VIII
Conclusion

Foregoing deliberations amply reveal that Pakistan’s institutions and organizations into which society loosely divides itself, attach far too low an importance to state’s extraction function as compared with the U.S. This very factor is critically vital as it is this very significance that eventually helps state determine level of investment into extractive system and adequacy of policy and enforcement handles to be placed at its command to undertake extractive operations – which, in turn, determine a state’s final tax-take. It is

now abundantly understandable that against a world-average of 3 per cent, Pakistan’s tax collection cost is 0.73 per cent, which when further segregated between PCS and IRS works out to at 0.33 per cent for latter – an agency which is responsible to conduct state’s entire inland extractive function and collect good about 90 per cent of total tax revenues. Interestingly, such was not the scenario at independence when colonial state allocated full required amount of resources to its extractive arm. It was observed as far back as 1960 that “For the Central Government the cost of collection of taxes is roughly 3%,” and as a “proportion of total expenditure, the cost of collection of taxes has declined from 3.77% in 1949-50 to 3.12% in 1957-58,”¹⁹⁵ to amply indicate corrosive degenerative process that had seemingly set in by then – finally bringing it down to such presently unsustainable levels. Likewise, while a comment on equitability of Pakistan’s tax policy may not be required (the lack of it being too obvious), the adequacy of enforcement handles placed at revenue system’s command could be gauged from the fact that to-date not a single tax delinquent has been convicted and consigned to gaol, which logically means either everybody must be paying his tax liability full well or state machinery must be deficient in terms of enforcement wherewithal and enabling legal gear. The latter, of course, is true.

In Pakistan’s context, discussion on political parties and their manifestos divulged some interesting conclusions. Firstly, primarily from electorates’ perspective, it appears that manifestos are pretty much irrelevant as far as political parties’ realizable electoral strength is concerned. A political party might win an election (or part of it) with a worst manifesto, or lose it with a best one; it might even win or lose an election without a

manifesto. Secondly, in a post-election scenario, a government’s conduct is never compared or contrasted in relation to manifestos of political parties that under-grid it. This lack of tendency on part of electorates, media and civil society to audit sitting governments against their manifestos is, in fact, exacerbating and reinforcing manifesto’s irrelevance for both political parties and electorates.

Thirdly, irrelevance of manifestos for both pre- and post-election phases, induces dissonance and disinterestedness on part of political parties for rigorous manifesto-framing and their earnest implementation. It is thus not unexpected if some political parties just tend to reprint that part of their decade old manifestos which pertains to country’s revenue function.\textsuperscript{196} It is, of course, logical that a party’s position might not change for a long time on an issue, that is, as long as issue itself is not resolved, but reprinting of same text after a decade also betrays its interest and commitment to that issue. And fourthly, when elections are over, political parties either forming governments or sitting in opposition, show no respect and reverence to their own position taken on various issues in manifestos. Their conduct in both respects is disengaged from the manifestos, and neither side takes the other to task for abrupt changes in stance.

Likewise, Pakistani media, civil society, and intelligentsia have historically tended to put up a dangerously oversimplified demeanor to as complex a phenomenon as state’s revenue function. Party positions on matters of extraction having implications for both state and society are not dissected and analyzed in a rigorous fashion. They rather get carried away by and attracted to populist sloganeering. In the same manner, there is an institutional alienation, apathy, and detachment to issues pertaining to extraction, in

\textsuperscript{196} PTI, for instance, reprited its 2002-manifesto's part pertaining to extractive function in its manifesto-2013 - without, whatsoever, any changes.
rather a dismissive manner. Apart from a few isolated studies sponsored by IFIs on various aspects of revenue system, Pakistan’s research landscape on extraction is near-stale and barren. On the contrary, the U.S. research scene abounds in research reports, and policy papers, which provides worthy raw material for policy-making entrepreneurs.

Political parties in Pakistan – unlike in the U.S. – are no more ideologically anchored – not, at least, in any starkly conflicting manner. Most political parties, if not all, at least since mid-1980s onwards, tend to exhibit identical ideological leanings. This ideological crisscross bordering semantic hollowness if not shallowness renders political landscape of Pakistan interesting to watch but difficult to put a rigorous analysis and draw out meaningful conclusions. In a way, all political parties appear trying to play to the gallery and appease elites or some elite faction(s). Lack of ideological polarity and an extreme desire to play on same popular turf has stopped, in a Hegelian sense, forward march of history in Pakistan, which, in turn, has stifled enhancement of state, its various functions, and progression of political process thereby effectively drying up both polity and society on availability of options and alternatives. It has now become a perverse, lowly “race to the bottom,” that is, which party appeases elites more than others and wins their support towards formation of government. Accordingly, now when all political parties are engaged in turf-grabbing and not turf developing, their manifestos sound and mean similar if not identical. If, for instance, one were to take out names of political parties from manifestos – 2013, even a connoisseur on Pakistan politics would not perhaps be able to correctly point out as to which manifesto belonged to which political party. If polity has attained a state of thesis (a basely consensus), and which persists for too long a time and does not explode to generate an anti-thesis – may have, in fact, attained a state
of stagnation, which if not disturbed soon into bearing new ideas or re-bearing of the old ones, both society and polity would have lost ideological balance – such a must to ensure that they are alive and are able to make a forward march in time.

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Chapter 3
System Domination: Strategic Alliance Formation

Section I
Introduction

While in chapter 1, a theoretical framework was developed to systematically analyze monopolization of Pakistan’s extractive function and disaggregate it to understand various dynamics and mechanics at work, chapter 2 focused on extraction as a critical variable of state-building, and in Pakistan’s context, attempted to explore into the level of importance which various societal institutions accord to it. In this chapter, it will be seen as to how Elites Ltd after effectively monopolizing the infrastructure i.e. the means of production¹, take to exploit the superstructure to rig the tax policy and weaken the tax system. This is because only a weak extractive system could help them underwrite full control over their riches that they amass by monopolizing the infrastructure, and maintaining the economic status quo. At this point, elites operate at two levels.² Firstly, at the strategic level they aggressively form alliances and evolve strategies to achieve their objectives e.g. alliance with generalist cadres in civil services of Pakistan as their junior partners. Secondly, at the tactical level they operationalize those alliances and strategies to drive home the economic reaps for whatever implications for the state and its people.

It is the first strand which is being looked at in this chapter. After introducing the subject in section I, section II traces various aspects of alliance formation between power-wielding elites and generalist mandarins in a historical context. While section III insightfully lays bare elites-generalist duopoly operational paradigm, section IV is an

¹ For a detailed analysis see Ishrat Husain, Pakistan: The Economy of an Elitist State (Karachi; New York: Oxford University Press, 1999), 133.
² The point as to why elites want to control revenue system at all costs has been elaborated in chapter 2 “Theoretical Framework.”
attempt to seminally conceptualize and record elites-generalist duopoly’s tactical mechanics. Section V, very core of this chapter, reduces its focus, to outright domination of elites-generalist duo’s control of Pakistan’s extractive system. In this regard, appointment of Chairman, FBR, and subservient status accorded to FBR – nerve-centre of state’s extractive operations – are seen as two well-orchestrated, nicely-coordinated, and deftly implemented schemes aimed at controlling and keeping state’s extraction under domination by elites-generalist duopoly. The U.S.’s treatment and handling of revenue function i.e. IRS is explicated in section VI against framework of analysis developed in earlier sections and chapters, before, in section VII, conclusions are drawn.

Section II
Alliance Formation – Historical Context

In order to lay bare the mechanics of strategic alliance formation by elites with generalist mandarins, a deconstruction of Pakistan’s civil service structures could be instructive. The “steel frame” civil service inherited by Pakistan at its creation in 1947, played a lead role in the governance of the country for a decade. However, “military’s entry into politics in October 1958 dislodged civil service from the apex of economic decision-making.”3 Then throughout 1960s, civil service was universally blamed and battered for bungling governance on all other fronts. “The civil service became the linchpin of the entire system – controlling local bodies, planning and executing development projects and jealously guarding its privileged position as the interpreter and executor of the state’s will.”4 Once civil service (implying, only generalist cadres) had assumed role and status

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of final arbiter of power in Pakistan, their positioning in that role logically demanded adaptng to a character which would ensure maintaining their position – by hook or crook. The “CSP grossly mishandles the political situation in East Bengal,…in governmental affairs. It had abandoned an apolitical role and became immersed in regional, ethnic politics, and concern for its own political perpetuation. The ultimate effect of this process had been to severely weaken and frustrate the political development of stable, responsive political institutions.”

Moreover, as other elite groups began to develop their own political identities, and give themselves semblance of organized entities, conflict with lead generalist cadre was inevitable. “This was particularly true in the case of the LE who were interested to maintain a traditional feudalistic state that the bureaucratic elites wished to promulgate… Even though it was occasionally necessary to cooperate with other elite groups the relationship was only transitory, yielding again to maintaining control of the power junction.”

When Zulfiqar Ali Bhutto came to power in December, 1971, after the debacle of East Pakistan, he was suspicious of the military, but probably more so of the bureaucracy – primarily generalists. Bhutto vehemently exhorted: “No institution in the country has so lowered the quality of our national life as to what is called Naukarshahi. It has done so by imposing a caste system on our society. It has created a class of Brahmans or mandarins, unrivalled in its snobbery and arrogance, insulated from life of the people and incapable of identifying itself with them.” Bhutto further insisted “that the bureaucratic apparatus is a neutral instrument which can be bent to any kind of policy. But this neutrality is

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6 Ibid., 228.
mythical. The bureaucracy itself is a powerful vested interest, concerned more with its
own good than with the good of the public."\(^8\)

Thus, not only that Bhutto “suspended the operation of the bureaucratic model for a while
even though the civil service was used by politicians to implement their programme for
advancing the state’s control over the economy,”\(^9\) he also aggressively took to reforming
bureaucracy so as to (a) purge it of corruption and corrupt elements; (b) weaken the “steel
frame” colonial overhang customarily associated with the civil service; (c) make it
subservient to the political elites;\(^10\) and (d) render it responsive to the needs of the people.
In order to achieve these objectives, apart from expelling 1300 senior civil servants from
the service for “inefficiency” and “misconduct,” Bhutto regime gave civil service of the
country a totally new look by splitting it into various functions / specialized cadres. On
the of these reforms, the civil service of Pakistan could broadly be categorized into
professional cadres and generalist cadres. The *professional cadres* include: (i) Commerce
& Trade Group (CTG); (ii) Foreign Service of Pakistan (FSP); (iii) Inland Revenue
Service (IRS)\(^11\); (iv) Information Group (IG); (v) Military Lands & Cantonments Group
(MLCG); (iv) Pakistan Audit and Accounts Service (PAAS); (vii) Pakistan Customs
Service (PCS); (viii) Police Service of Pakistan (PSP); (ix) Postal Group (PG); and (x)
Railways (Commercial & Transportation) Group (RCTG). Like the very nomenclatures
of these groups indicate, these cadres were supposed to manage some specific specialized
function of the state. The cadre strength of these groups is pre-fixed by the Establishment

\(^11\) Prior to 2010, Inland Revenue Service was essentially called "Income Tax Group."
Division, and terms of reference delimited by the Rules of Business, 1973. Normally, cadre officers of these groups start their careers, and retire, in their respective groups.

The generalist cadres, on the other hand, included: (i) District Management Group (DMG); (ii) Office Management Group (OMG); and (iii) the Secretariat Group. The former essentially start their careers as municipal administrators at the sub-divisional, district, and divisional level. The OMG officers, in turn, start as office managers and specialize in managing the federal secretariat business. At mid-career point both of these generalist groups loosely stream into Secretariat group into which officers from other groups and cadres could also be included. Given the fact that by the time both types of generalists land into Secretariat group, they are sans any specific specialized expertise exhibiting existentialist tendencies, but do carry the wherewithal by dint of their control of Establishment Division, and therefore that of entire federal government secretariat – and by implication entire superstructure of federal government – including parastatals.

The reforms were given a legal cover through the Civil Servants Act, 1973. A uniform set of Basic Pay Scales (BPS) was also developed with the basic entry-level scale being 17, and the highest 22 reserved for federal secretaries and other heads of government departments. A corresponding system of promotions was also put in place to raise an impersonal and rational Weberian bureaucracy. A hybrid system of common and specialized trainings was started to homogenize functioning between various government departments. This was a comprehensive and all-encompassing reform-package conceived with noble intentions and chalked out and implemented with vigor and commitment – at least, during first half of PPP government tenure. In its second half, government was
embroiled into too many explosive issues, which might have diverted its attention from civil service reforms and their implementation.

*Generalist’s (Re)-ascendency*

One of the prime objectives of the reforms was to prepare a strong, robust, well-trained and inclusive bureaucracy to manage the federal government. This was to be achieved through formation of Secretariat Group to be composed of top-notch officers from all groups at mid-career level, that is, BS 19 and 20. It was envisioned that officers of all occupational groups would perform their duties during initial 12 years of their careers, that is, in BS 17 and 18, in their respective cadres, and then best of the best would be inducted into Secretariat Group through a competitive, transparent, and a rule-based system implemented across the board to manage federal government functions i.e. line ministries, attached departments, autonomous bodies, and parastatals. Section 10 of the Civil Servants Act, 1973 was to provide an additional window through which officers from various services and groups even in BS 17, 18, and above could be brought into federal secretariat to better administer federal government business at the top. CTT, as far back as 1966, had unequivocally dared generalists to compete for Economic Pool positions – precursor of Secretariat Group – and observed: -

Excepting the Civil Service of Pakistan, the cadre strength of the Pakistan Taxation Service is by far the largest of all the Central services from which selection to the Economic Pool is made. There is, however, a feeling in the Pakistan Taxation Service that its representation in the Economic Pool is not proportionate to its cadre strength. It is urged that selection to the Economic Pool from the various participating services should be made strictly on the basis of the cadre strength of each service. The purpose for which the Economic Pool has
been created to make available to the Government competent officers from the
different services for posts of responsibility at a comparatively young age. This
purpose would be somewhat frustrated if selection is made on any basis other than
merit. It is, however, difficult to judge the comparative merit of officers of
different services performing altogether different functions on the basis of their
service record only. While merit may be the sole criterion, it should be ensured
that equal opportunity is available to officers of all services. One way of
achieving this objective could be to put the eligible officers to written and oral
examinations and psychological fitness tests and thus make the selection on a
competitive basis.¹²

Unfortunately, this was not allowed to happen. In the wide-ranging framework of civil
services reforms a flurry of legal and regulatory instrumentalities were rolled out
whereby a multitude of Services and Cadres were merged into unified graded structures
remunerable under the Unified Basic Pay Scales. Section 10 of Civil Servants Act, 1973,
rendered every civil servant eligible for posting anywhere in federal secretariat. The All
Pakistan Services (Change in Nomenclature) Rules, 1973, altered nomenclature of CSP
and PSP and placed them under All Pakistan Unified Grades (APUG). Subsequently, OM
creating Secretariat Group was created on 12.04.1976, comprising post of DS and above
in Federal Government and such posts in Provincial Secretariats as were to be borne on
cadre of APUG. Simultaneously, APUG was reorganized to take into its fold DMG,
TAG, PSP and Secretariat Group. However, as soon as PPP regime’s reform agenda
rolled out in the shape of law and policy directives, and started hitting interests of
heretofore ruling mandarins – generalists – effective recoil was triggered with avowed
help of elites – worthy partners of symbiotic relationship.

¹² GOP, The Commission on Taxation and Tariff (Second Report) (Islamabad: Ministry of Finance, 1966),
38.
Soon generalists in combine with Elites Ltd again monopolized Secretariat group, controverted entire reform process, and stoked and reversed bureaucratic model to old colonial ways wherein the generalist availed primacy over the professional. It has been remarked that “Pakistan's groundings for constituting a nation-state with a full measure of freedom, equality, and progress are constantly being frustrated,” as a consequence of which “civil service rules through its imperial inherited structures … have obsolesced into an establishmentarian character.”13 Jones further observes that “secretariat system which is based on the premise of a separation between policy and implementation is extremely entrenched in the administrative state,” and “secretaries continue to play a predominate role” in policy-making, and whereby “Policy-making is considered a general function fit only for persons educated in the English liberal tradition,” and that “technical personnel, for example, engineers and medical doctors, who supposedly do not have the breadth of knowledge and skill to deal with complicated policy matters, continue to occupy a second-class status in policymaking and governance.”14 One can only ask as to why pure hard-core professionalism which is the hall-mark of all management models – including public sector – is not allowed to apply on Pakistan’s state structure where brute and tardy generalism rules the roost even in 21st century. This perhaps explains,” Ahmad and Stern point out that “the decline in the relative importance of the land revenue, and the reluctance of “popularly elected” representatives to impose a tax with clear incidence on their constituencies, when it would be politically more desirable to wheedle funds from the Centre,” and that “colonial administrations and military governments have been

13 Jones, “Pakistan: A Civil Service in an Obsolescing Imperial Tradition.”
14 Ibid., 329.
wary of taxation that might erode support from powerful interest groups.”

There is ample evidence that elites-generalist juggernaut has massively rigged public policy formulation in other spheres, too.

Thus, one of the most germane, unintended and far-reaching effect of the reforms, as it turned out to be, was the institutionalization with vengeance of the myth of the generalist as an all-role catholicon into governance structures of the polity – at the expense of professionalism – the hallmark of all modern management. This was done systematically by squarely monopolizing the secretariat group; its induction rules were never properly framed, disseminated and operationalized. Similarly, no elaborate mechanism was framed and put in place to streamline horizontal mobility under Section 10 of the Civil Servants Act, 1973, for management of federal secretariat at various levels. While DMG – direct descendant of CSP – already embedded into societal mores, OMG aspired to form an uneasy alliance with them. Both groups, despite internal fissures, conflicts, and constant turf war, have exhibited significant trends of identical behavior to situate themselves in backing of each other and against the rest of the civil service specialized professional cadres thereby effectively shutting out the latter from the top federal government policy formulation and management positions. Similar other symptoms of common intra-generalist cadres behavior are: (a) lack professional expertise as a class; (b) multiple attempts at elimination from Central Superior Services (CSS) cadre list; (c) claim as “generalists” to entitle themselves to the entire “residual” federal government; (d) an existentialist mode of behavior, that is, a strong propensity to support their own group-officers with least or no regard to merit and public interest; and (e) a penchant to exhibit

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16 See, for instance, Husain. with reference to expenditure policy and industrial policy, in particular.
overly officious behavior to serve elites. Such self-serving collusive tendencies of generalists has rendered them a *nomenklatura* – a caste rather than a class – interested only in serving elites in a perverse symbiotic relationship.

**Section III**

**Duopoly Operational Paradigm**

It goes without saying that the British had ruled India through their much-touted “steel frame” Indian Civil Service that enjoyed substantial clout and powers. The system had all the imperialist coloring. This clout and powers that ICS officers carried, inter alia, originated from their role as land revenue collectors. This made them attractive socio-familial counterparts for landed aristocracy in pre-partition India. Although, with time land revenue collection dwindled in every respect, yet clout that civil servants carried having seeped into very structures of society, continued to be associated with them even after partition. The share of land revenues in total revenue collected by British India which was 50% in 1858-59 had declined to 40% by 1870-71. The total central and state revenues in respect of land tax received constituted 69 percent in 1793-94, 36 percent in 1891-92, 16 percent in 1938-39, 9 percent by 1953-54, and by late 1950s the figure had fallen to 1 percent in India, with situation in Pakistan being not much different.

Although, there had been “a time not very long ago when Pakistan’s civil servants could occasionally be motivated to advise the government in accordance with their enlightened self-interest and the national interest,” yet things had come to such a pass that “self-

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interest” had started availing outright primacy over “national interest” as civil service of Pakistan (CSP) exhibited a ready proclivity to get politicized and enter into wedlock of any or no moral standing with the ruling dispensation – be it a political, a military or a hybrid one. This phenomenon is not new. Traditionally, generalist cadres have been involved in a couple of patron-client strategic alliances with both military and non-military governing elites. It was correctly pointed out that the “military regime under General Ayub Khan took measures to reign in the powers of the CSP, but overall there was a close symbiotic relationship between the military and the civilian bureaucracy. The systematic militarization of the bureaucracy began in earnest following General Zia-ul-Haq's overthrow of the Bhutto government in a military coup in 1977.”

Wilder contends that many senior civil service officers had happily welcomed Bhutto's downfall since in their perception, his administrative reforms had undermined their power and independence. Thus, with the re-advent of military into power in 1977, “CSP was back in the saddle” and “the natural comity of interests between civilian and military bureaucrats had been restored.”

Subsequently, when OMG also joined in, it gave rise to a new construct “generalist civil servant” to justify extreme degree of nepotistic, opportunistic, devious, and unprincipled official behavior in public sector of Pakistan. The “generalist” buzzword was then overly exploited by military regimes of General Zia-ul-Haq (1977-88) and General Pervez Musharraf (1999-2008) to justify mass induction of both serving and retired military

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20 Hussain, "Elites and Political Development in Pakistan," 228.
22 Ibid.
23 Ibid.
officers on civilian positions in hordes creating a harrowing scenario in terms of policy planning and service delivery for the citizenry.

The myth of “generalist” has been created and embedded into the psyche of Pakistan’s political consciousness systematically; one finds intellectual parapraxis at work full well. Iqbal exploring into a nexus between good governance and civil service reforms posits “Pakistan’s civil service has been following the British model, but now it is being professionalized … the generalists are preferred to specialists, and lifetime employment is provided to its incumbents.”24 One wonders what kind of good governance could be ensured by promoting a professionalism which prefers generalists to specialists in the 21st century. Numerous studies like this one carrying elitist overtones have been sponsored to justify illegitimate myth of so-called “generalist” civil servant, which should have, by all means, demised with exit of their colonial masters in that very purpose of colonial state was to subjugate, and that of nation-state is to serve citizens, create a bonding, and do service delivery. Jones has also argued that “imperial civil service may be effective in dealing with expediencies but not with socio-economic change and development.”25

It is, therefore, understandable that elites find generalist cadres easy to work with as they lack any professional expertise, and are only too eager to carry out biddings of ruling masters – whether right or wrong, legal or illegal, and pro-people or anti-people. This makes the relationship mutually symbiotic but externally parasitic i.e. for governance and state. Thus, slowly and steadily, elites-generalist duo occupied entire “residual” federal

25 Jones, “Pakistan: A Civil Service in an Obsolescing Imperial Tradition,” 324.
government i.e. all Ministries, Divisions, Attached Department, Autonomous Bodies, Regulatory Authorities, and various Public Sector Entities (PSEs), and by implication, entire process of allocation of public funds under Public Sector Development Program (PSDP), and almost all fountains of non-tax revenues. The result is an interesting pattern: elites reap all benefits of economic growth rigging public policy formulation process; and generalists reap all benefits of bureaucratic governance process i.e. they monopolize all top positions in bureaucracy, rapid promotions, foreign training opportunities, and other public resources like government-owned housing, vehicles, servants, and employment-linked discounted credit facilities. A segregated inter-group analysis would be interesting to know as to how much of these benefits have been monopolized by generalists and how much of them have gone to professional cadres. This all may have been done within or without the rules. But then who frames the rules? Thus, now we have what Mills calls “virtually complete absence of a civil service that constitutes a politically neutral, but politically relevant, depository of brainpower and executive skills.”

“Ministry of Truth”’s Role

Interestingly, while elites control the state, in a parallel subsidiary plot unfolding, their generalist operatives monopolize entire federal government machinery at expense of professionalism. Establishment Division (ED) being a non-specialized function of government falls for spoils to generalists. Under elites-generalist dispensation, ED plays George Orwell’s “Ministry of Truth” – very brain-center of Pakistan’s civil service with its own dubious Newspeak e.g. “Generalism is professionalism;” “Jack of all trades is master of all trades;” “Generalist is the real civil servant,” and “Dwarf professionalism,

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prop generalism.” According to rules, ED’s role is to perform primary functions of recruitment, promotion, transfers, postings, determination of cadre strengths of other civil service cadres, creation of positions and determination of their strengths in various parastatals, and creation of new institutions and departments in public sector. It has authoritatively been pointed out that “mainspring of the Pakistan Administrative State is the Establishment Division,” and that “Through its control of a compact personnel system, the Establishment Division exercises inordinate authority throughout the entire organizational apparatus,” and further that “Basically it functions as the strategic apex of the administrative state and profoundly influences performance of the technical cores of function/line agencies,” whereby “it exercises command-like authority over the entire personnel system.”

However, ED has veritably fallen from its position of being a brain-centre for state’s entire bureaucratic to be a lowly generalists’ den.

With ED having become a bastion of generalists, it is only relevant for them – as all other service groups feel alienated, and detached. With time ED finds obliged only to do career planning, transfers and postings, and grooming of generalist cadres (and Police Service of Pakistan), while all other cadres have been left to fend for themselves. “The Establishment Division is charged with the maintenance of the establishmentarian character of the administrative state, which it secures by the skillful play of "brokerage" politics – the determination as to who gets the best and worst of jobs along with other rewards. Within its concentrated authority the Establishment Division exercises control over core personnel functions including their processes of execution and follow-up.”

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29 Ibid.
The colonial government imperatives requiring playing off one faction against another mandated framing of concrete rules. Since imperial organizational and administrative structures were built on distrust rather than trust, and since by their very diverse nature, personal obligations rested on birthplace, kinship, ethnicity, sectarian affinity, and regionalism, it was of critical import that bureaucratic structures of nation-state were build on transparent and fair rules and regulations, and their across the board implementation. No doubt, in Pakistan safarish is a strong social value, but as far as the conduct of ED is concerned, in near-entirety its working is driven by perverse group-feeling of generalist cadres. It has been curtly remarked that in bureaucratic morass of Pakistan “Those in strategic positions are obligated to secure appointments of friends and kin in the civil service, as well as using their influence in securing special privilege.”

Likewise, it has been observed with precise reference to ED that “Postings and transfers have become increasingly arbitrary,” and that “Absent greater transparency in career planning by the establishment division and other departments, an officer’s progress remains uncertain, thus weakening his or her professional commitment.”

The ruthless monopolization of the system that the generalists have unleashed in the state over the past couple of decades could easily be dubbed as “bureaucratic totalitarianism.” Contextually, totalitarianism could be defined as a system of governance wherein the particular group, faction, or class, which occupies state’s governance apparatus, aspires to identify itself with the state and regards no limits to its authority and strives to regulate every aspect of public and private life wherever feasible in accordance with its own vision, creed, or objectives. Totalitarianization is characterized by authoritarianism

30 Ibid.
31 ICG, Reforming Pakistan's Civil Service (International Crisis Group, Asia Report No. 185, 2010), 19.
sprinkled with ruthless pursuance of group interests at the cost of public interest. This is done in complete negation of what Jones calls “superior form of socio-wisdom.”32 The totalitarian control of ED by the generalists works viciously against the professionals and the state at various levels. Total disarray within which the polity finds itself today, may to a large extent be attributable to the elites-generalist collusion and a brute pursuance of their respective perverse objectives.

Section IV
Duopoly Tactical Mechanics

How does the elites-generalist duopoly work? Firstly, once they control ED, they spread their tentacles to all key Ministries i.e. Finance, Planning & Development, Trade & Commerce, Petroleum & Natural Resources, Food & Agriculture, and Economic Affairs, and try to stone-wall them from the professional cadres i.e. IRS, PCS, and Pakistan Audit & Accounts Service (PAAS), who are the trained civil service cadres in accounting, finance, and economic management. In order to monopolize economic ministries, ruling oligarchs help generalists spread their tentacles at every position of import therein, who, in turn, then oblige ruling elites with constituency-specific spending options, jobs for their people in Public Sector Entities (PSEs) whether warranted or not, rent-seeking opportunities, and tinted public policy decisions. On their part, generalists having ambitiously assumed responsibility of economic management of the country, a job for which they are not trained, they go existentialist and in order to meet demands of international donors they fall back to apply various survival tactics including (i) requesting donor agencies like UNDP, ADB, and WB to hire consultants and specialists for them in the name of capacity building; (ii) conveniently out-source government

32 Jones, ”Pakistan: A Civil Service in an Obsolescing Imperial Tradition,” 329.
functions e.g. policy formulation, regulation, and enforcement in the name of commissioning consultancy studies; and (iii) reap funds from international extraction on account of generalistic constructs like capacity enhancement, system improvement, skill-gap building etc.

Secondly, when generalists get to control ED, promotions of only these two groups run on fast-track whereas professional services suffer in terms of their career progression. Every service has its determined cadre strength – number of positions at each level of hierarchy – except generalists who in indecent collusion with elites have all top positions in governmental setup reserved for themselves. This is done so as to ensure that all positions in BS-22 in bureaucracy remain with generalist cadres. The total number of top government positions that fall as spoils to generalists include “six constitutional bodies, 29 regulatory bodies, 22 courts/ tribunals, 84 commercial/ semi-commercial/ manufacturing concerns, 42 public utilities/ service providers, 24 promotion bodies, fifteen financial institutions, 30 training institutions, 29 research/ data/ documentation organizations, 27 educational institutions, six quality assurance bodies, six development authorities, nineteen councils/ commissions/ committees, fifteen trusts/ foundations, 42 executive agencies, thirteen law enforcement agencies and two others.”\(^{33}\) The tally constitutes near-complete government of Pakistan.

Thirdly, generalists spread their tentacles across government horizons under collusive support of ruling elites at the expense of professional cadres. This shutting of professional cadre officers in their departmental silos and resultant monopolization of all important positions in residual government departments and parastatals by non-niche groups has

\(^{33}\) ICG, 93.
massive implications for effective state management and service delivery for public at large. Fourthly, deputation as a window of horizontal mobility under law has never been streamlined by formulating a scheme for across-the-board and fair implementation. Likewise, induction from professional cadres into SG in BS 19 and above was never given a shape through proper policy formulation and implementation. This window is still open but only to oblige ruling elites whereby non-career officers of all shades and hues having political backing are happily inducted by generalists in SG. However, professional cadres stay out of SG, and thus out of top government positions, result being a sub-optimal government management, and poor service delivery. Fifthly, similar trend is observable in respect of reaping opportunities of foreign training and foreign postings. The elites-generalist combine effectively shuts out professionally trained specialized officers from foreign postings be those under any ministry or department. Similarly, all opportunities of foreign training intended for respective specialized agencies at federal, provincial, or local government levels, most of the times, get consumed by generalists.

Sixthly, once generalists duly supported by Elites Ltd get to control ED and other economic ministries, they get to control all PSEs not only by appointing top management of their own choosing, but also being on boards of PSEs as government representatives. Every generalist in BS 20 and above posted in any of economic ministries, is on board of one or more PSEs. A PSE board member is entitled to receive substantial sums in fees, which at times, even far exceed their annual salaries, and many a times, funded travel both in and outside country to attend board meetings. Transparency International Pakistan (TIP), in July 2013, demanded of Finance Minister, that civil servants representing government on boards of various PSEs and other private sector companies having
government stake, to deposit into national exchequer the obscene amounts that they receive as “directors’ fees” or “board fees,” at times, amounting to “Rs. 400,000 and 500,000 for five to six meetings in a month,” TIP also called upon SECP to accordingly amend corporate governance rules for PSEs so that directors nominated by government were given only travelling and dwelling allowances in accordance with their entitlements. The stakes are high and elites-generalist duopoly is fully at work.

How do these generalist board members then perform during meetings and play their role towards improving corporate governance of those entities? is a question to be asked and answered. Hardly any of generalist government board members is ever exposed to accounting, ratio analyses, and other complicated indicators and benchmarks of corporate performance and management. PML-N government, during its second stint, in Budget Speech 1999-00 appeared to have fathomed the malaise and its causes. However, Finance Minister, instead of mentioning board meetings, incorrectly exhorted that “Annual General Meeting is an important instrument of improved corporate governance as the occasion provides an opportunity to the shareholders to critically evaluate the performance of the company,” but such meetings “of a number of companies are being rendered meaningless through the practice of distribution of lavish gifts which often divert attention from meaningful discussion of the performance of the company.”

Finance Minister then rambled on to suggest changes in the Companies Ordinance, 1984, so as to prohibit companies to distribute gifts in a general meeting, but operating under elites-generalist duopoly paradigm conveniently stopped short of mentioning “board

35 Ibid.
member fees” and proposing any changes through which government appointed board members on PSEs. No wonder then PSEs’ performance in Pakistan speaks for itself.

**Section V  
Revenue Function Domination**

The elites-generalist collusive harmony discussed in the preceding part is then exploited full well to cripple state’s revenue function into an effective dysfunctional status. Here the duopoly paradigm pitches itself, with reference to the FBR and IRS, to control transfers and postings on key positions within administrative hierarchy, resource allocation (reflected in terms of cost of collection), creation of new positions, training opportunities, and promotions etc. so as to ensure that revenue function’s nerve-centre stays incapacitated and simmering with trifles so that extant economic status quo stays unquestioned. How is that control ensured? Elites-generalist duopoly achieves domination of state’s extractive arm by (i) appointing a non-professional chairman, FBR; and (ii) according FBR a subservient administrative status.

(i) Non-Professional Chairman, FBR

Historically, most reliable and tested tool of domination of tax system by elites-generalist duo has been through appointment of a non-professional Chairman, FBR. A non-professional Chairman, FBR, could be defined as somebody who is not in active service of professional tax collection outfits administered by and under FBR. A non-professional chairman – since neither professionally knows his job, nor belongs to FBR Services (IRS & PCS) that he is supposed to administer, nor conversant with cultural mores of organization, nor aware of strengths and weaknesses of human resource he is to man and

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37 Not surprisingly, Pakistan may be the ‘cheapest’ tax collection agency in the world as IRS’ cost of collection is around 0.25%; the world average is between 2.5-3 percent.
manage – he is a paranoid man – a man in desperate search of legitimacy. The working of how a non-professional Chairman, FBR, given his limitations, would tend to operate, and how organization at various levels would react to his legitimacy-seeking overtures, is graphically presented below.

Elites-generalist Duopoly Paradigm – Logical Flow

What the picture exhibits is that elites get an outlier Chairman appointed, who does not have a constituency within tax administration, lacks legitimacy, knowledge of complicated tax laws, operational know-how of functional tax system, intricacies of tax policy, and merits and demerits of human resource (at least at the top), is prone to conduct himself perversely – to ultimate advantage of Elites Ltd as well as that of elites-generalist duopoly. In order to run the system but being entirely gentile to its working culture, dynamics, and professional needs, Chairman desperately requires and seeks legitimacy, support, and cooperation from within organization. The sycophants,
unprofessional, rent-seekers, and inefficient top-layers within tax administration rally support and lend legitimacy. In return, they get appointed on key positions at headquarters while professionals who take pride in their job and feel hurt at having been left out or being made to work under a gentile leader, go into withdrawal mode. Similar pattern is replicated through length and breadth of field formations and other support Directorates whereby merit is ignored and sycophants get to rule the roost. Perverse ambitions start to prevail across organizational horizons. The logical outcome is collusion between taxpayer and tax-collector resulting in rent-seeking and sub-optimal tax take, mismanagement and below par revenue performance.

At this juncture, thickly diffused and parapraxis-ed, under-developed and “astroturfed” media gets into gear. The stories about corruption, inefficiency and under-performance start surfacing in print and electronic media. Media picks up these stories to bash IRS as an inefficient and corrupt entity. Elites rally immediate support and a systematic drive to have a go at tax system is launched afresh. Parliament already being elites’ bastion rushes to buy elitist argument and takes to clip IRS’s powers yet once again by optimally exploiting corruption, inefficiency, and misuse of power as ever-green pretenses. The revenues take a further dip.

In order to ensure continuity of system domination and ensure maintenance of status quo, non-professional chairman is replaced with another non-professional – another conqueror-designate soaring high on saddle of identical generalistic constructs; and cyclical process starts afresh, and runs another full circle. No audit is conducted of generalist meta-narratives which were used as a justification to put a non-professional at helm of affairs in FBR; nor of his failures. Everything is taken as normal by ruling
masters. “Professionalism” so much espoused and eulogized in private sector and internationally is a bête noir in public sector of Pakistan – death-knell both for elites-generalist duopoly. Bukhari & Haq wrote of Ali Arshad Hakeem, a non-professional chairman appointed in July 2012, and removed by Islamabad High Court in April 2013, that on assumption of charge, Chairman made tall claim of surpassing revenue target of Rs. 2381 billion by “using extraordinary managerial skills, innovative IT tools and meaningful amnesty schemes.” But by the time he made a forced exit, exchequer had received an unprecedented hit of Rs. 465 billion.\textsuperscript{38} But did non-professional chairman fail? May be he did not. May be he did achieve his “objectives”. The real-life evidence to this pattern is available in abundance.

Chairmen, Federal (Central) Board of Revenue

<table>
<thead>
<tr>
<th>#</th>
<th>Chairmen</th>
<th>From</th>
<th>To</th>
<th>#</th>
<th>Chairmen</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>F. Rahman Khan</td>
<td>14-12-1980</td>
<td>20-08-1985</td>
<td>33</td>
<td>Sohail Ahmad</td>
<td>15-05-2009</td>
<td>24-12-2010</td>
</tr>
<tr>
<td>15</td>
<td>I.A. Imtiaz</td>
<td>11-08-1985</td>
<td>20-08-1988</td>
<td>34</td>
<td>Salman Siddique</td>
<td>24-12-2010</td>
<td>05-01-2012</td>
</tr>
<tr>
<td>19</td>
<td>Sajjad Hassan</td>
<td>24-07-1991</td>
<td>03-11-1992</td>
<td>38</td>
<td>Tariq Bajwa</td>
<td>01-07-2013</td>
<td>Todate</td>
</tr>
</tbody>
</table>

- 1-9 were basically Finance Secretaries, who also officiated as Chairmen, CBR.
- 19-23 also held the position of Revenue Division on simultaneous additional charge basis.
- 24-27 headed the tax administration as Vice-Chairmen, CBR.
- 28-34 also held the position of Secretary Revenue Division, except sparse interruptions.
- 35 held the position of Chairman, FBR, for the entire 6-month period i.e. January-June on additional charge basis.
- Professional Chairmen, FBR, are written in bold.

\textsuperscript{38} Huzaima Bukhari & Ikramul Haq, "Urge to Purge," The News, April 14 2013.
An analysis of the data plotted in above reveals that during 68 years of Pakistan’s history i.e. 1947-2014, FBR has been headed by 38 Chairmen out of whom only 8 were professional tax collectors. The average tenure per Chairman since 1947 till 2013 comes to 1.7 years, which speaks volumes as to how revenue function has been kept bereft of any semblance of stability, calm and order. However, average tenure of 8 professional Chairmen is meager 0.9 years. It also transpires that since 1985 to-date average tenure of Chairmen has declined from 1.7 to 1 year, and not surprisingly it is during this period that worst decisions in Pakistan’s tax history were made. Interestingly, since 2008, Chairman FBR’s average tenure has got down to as low as 0.7 years, which period coincides with re-introduction of so-called full democracy in Pakistan i.e. sans an apparent overbearing influence of military elite in running of the polity.

A non-professional at helm of extractive function can have far-reaching implications. Firstly, since Chairman is a representative of FBR and represents it before President, Prime Minister, Finance Minister, Cabinet, ECC, and PAC, and when he is neither loyal to it (being gentile), nor masters its functions, nor is interested in protecting its interests, he will not undertake, using Almond and Powell’s expression, optimal “interest articulation” on behalf of organization he heads resulting in sub-optimal “interest aggregation” at national level. By way of illustration, every year FBR ends up getting a budgetary allocation less than its requirements. In 2010, FBR employees were even discriminated against and were not given a commensurate raise as given to all other government employees across the board. This was made possible only when entire

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39 Some of the glaring perverse policy choices made include introduction of PTR, extended withholding taxes regime, shift of tax administration from enforcement to facilitation mode, and inflated reliance on indirect taxes at the expense of direct taxes.

workforce went on strike halting entire revenue collection for a number of days. This was generally believed that such a situation arose because Chairman, FBR, who was supposed to have spoken up for rights of his workforce, being an outlier, had no loyalty with people he was commanding, he did not put up a good case for FBR employees.

Secondly, any text book on basic management would reveal that organizations, in general, tend to replicate their top man. If top-gun is confident, knows his job, is aware of weaknesses and strengths of his workforce, at least, at top and mid-management levels, he is supposed to be supervising, he will be confident in his bureau, and entire organization will tend to imitate him. Harmony and professionalism would prevail and pervade across organizational horizons. On the contrary, if the top-man is paranoid, lacks in confidence, seeks legitimacy, does not know his job, merit becomes first casualty, which then becomes order of the day throughout organization.

Thirdly, such machinations have unleashed tremendous degree of job attrition. While, on one hand, as Wilder pointed out that “most critical problem…was the increasing inability of the civil service to attract and retain the best and the brightest at the officer levels,” and on the other, a large number of IRS and PCS officers have recently been found opting to get themselves inducted into other so-called inferior civil service groups; for instance, in 2011, 7 IRS officers got themselves inducted into Military and Cantonment Group. Many of IRS and PCS are also going into “hiding” through resignations, transfer to low-profile postings in insignificant government departments, secondments with International Agencies, NGOs, extended sabbaticals to pursue study. The number of officers going into such “hiding” has never been this high in the past. Due to absolute

lack of loyalty to the institution, ownership to the Service, and apathy at the top, no steps can be expected to be undertaken to reverse the rot.

Fourthly, an outlier Chairman creates a robust incentive to under-perform. The exhortations by top political and bureaucratic leadership for an extra tax effort in the wake of expanding fiscal deficit have fallen on deaf ears of the Service pushed to the wall and with rock-bottom morale. While evaluating Tax Administration Reform Project (TARP)’s implementation during 2002-11, funding agency i.e. the World Bank rated it unsatisfactory and commented “that the security of tenure of key and senior FBR officials of at least three years was a desirable requirement to move the reform agenda forward. However, during nearly seven years of project life, four chairmen were appointed, with some of them coming from outside the income tax and customs services which did not go down well with some of FBR’s staff.”

Elites Ltd though ready to give in to IFIs’ all demands – from elimination of subsidies to jacking up utility tariffs, is not ready to budge an inch on their control of FBR through generalist minions. Thus, international extraction returns with a vengeance.

Lastly, this lack of loyalty and ownership on part of gentile Chairmen have caused an unprecedented slow-down in promotions, leaving mid-career tax managers sulking in a sense of injured merit. They have lost pride in their job to a significant degree – a prerequisite for optimal output in any organization – private or public. Average gap in promotion to BS-20 between officers of “generalist” groups and IRS officers, ceteris paribus, is, at least, half a decade. This also tells on performance of IRS officers in mandatory promotion-related training courses where they are pitched up against

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generalist officers way junior to them. Approximate batch-lag between officer of IRS and other groups to attend Middle, Senior, and National Management Courses ranges between four and eight years, respectively, under normal circumstances.\textsuperscript{43}

It is thus apparent that the way Elites Ltd. have manned and managed FBR – extractive function of state, negates all cannons of organizational development, human resource management, political foresight and governance wisdom. No organization of whatever import and size can be raised on solid footing and expected to perform optimally if, turnover of its heads is as high, and morale of its workforce is as low, as in case of FBR.

It is a veritable fact that IRS Pakistan has, in all periods of history, has operated under grievance of outside domation by generalists.

\textit{Judiciary’s Collusive Role}

On October 31\textsuperscript{st}, 2012, a Petition was filed in Supreme Court of Pakistan under Article 184(3) of the Constitution of Pakistan challenging appointment of Ali Arshad Hakeem – a non-professional – as Chairman, FBR. The Petition was filed to highlight steeply falling revenue which was causing budget deficit to balloon up beyond 7\%, rampant and rife stories of corruption, senseless appointments of below par officers on key positions both at head-office and field formations, and other issues of public import. The Petition was initially disposed of \textit{in-limine}, inter alia, on the grounds that: (a) it did not raise any issue of public importance; and (b) appointment was not violative of any fundamental rights of petitioner. This was in spite of fact that Supreme Court, in a plethora of case law, had

\textsuperscript{43} Mid-career Management Course (MCMC) is a 4-month training mandatory for promotion from BS-18 to BS-19, Senior Management Course (SMC) is a 5-month training pre-requisite for promotion from BS-19 to BS-20, and National Management Course (NMC) is a 6-month course required for promotion from BS-20 to BS-21. These courses are arranged at the National Management College, in a centralized manner for all civil service cadres by the Establishment Divison - a bastion of the ‘generalist’ groups.
already held that it was citizenry’s right to be governed by a capable, transparent, efficient, and merit-oriented dispensation. Similarly, as regards (b) the Supreme Court itself had admitted and decided a number of cases challenging appointments of heads of various institutions including Chairman, Oil and Gas Regulatory Authority (OGRA), and Chairman, Security and Exchange Commission of Pakistan (SECP). An appeal was filed against such a summary decision of Supreme Court. While revenue hemorrhage continued, appeal was not fixed during all cacophony of suo moto notices; repeated requests made in this regard to fix the case fell on deaf ears. Finally, on February 20, 2013, Supreme Court heard the case and held that: “The learned counsel for the appellant stated that in view of the facts and circumstances of the instant case, he contemplates to approach the learned High Court and if need be subsequent thereto, he would institute appropriate proceedings before this Court.”\(^4^4\) However, by the time it came up for hearing after good three months, shortfall in revenue had touched a staggering figure of Rs. 350 billion for the year.

Consequently, a fresh *quo warranto* Petition was filed in Islamabad High Court (IHC) under Article 1999 of Constitution. The Petition was accompanied by a request to stop Hakeem from performing his duties as revenue was consistently on bleed. The request was summarily rejected and generous time for a month was allowed to put up response by respondents – Chairman, FBR. It was only on April 8, 2013, that IHC passed a restraining order and stopped Hakeem from performing his functions as Chairman, FBR, but only when he was found guilty of employing evasive and delaying tactics.\(^4^5\) In its final judgment, IHC found Hakeem to have been illegally appointed, but by then an

\(^{4^4}\) Muhammad Ashfaq Ahmed Vs. Ali Arshad Hakeem, (Supreme Court of Pakistan, 2013).
irreparable damage to exchequer had been caused. Although, it was one of prime “prayers” that way of non-professionals coming over and ruling FBR like a fiefdom be blocked, but IHC conveniently chose to ignore that particular prayer, and even avoided making a judgment on it. The result being that after the intervening period of about three and a half months during which a professional Chairman was at the helm in FBR, on July 1, 2013, yet another generalist was posted to head state’s revenue function. He too came riding high on wings of old generalistic narratives.

On the contrary, in an effort to appease military elite and give them due share in the equation, bypassing all laid down rules and regulations, when PML-led coalition appointed a serving Major General as Director General, Military Land & Cantonment; Prime Minister was simultaneously “pleased to direct that since the post of Director General ML&C is a BS-21 cadre position of ML&C Group, therefore, it should, in future, be filled in accordance with the procedure laid down in the Establishment Division’s O.M for constitution of ML&C Group.”\(^{46}\) Such deferred magnanimity of sorts was not expressed in case of state’s revenue function while appointing a non-professional Chairman, FBR. Likewise, even when judicial activism was at its peak in Pakistan, no suo-moto notice by superior judiciary against appointment of non-professionals as heads of state’s extractive function was ever taken.

The so-called superior judiciary’s role loaded with all essentials of elitist overtones has helped elites-generalist duopoly to completely dominate revenue function for perverse gains in many other respects too. Judiciary at high court level has always come down to

spuriously safeguard elites from IRS on one pretense or the other. Resultantly, no audit has been conducted of rich and mighty as such for over a decade now. The judiciary has also played their effective role toward perpetuating banking secrecy regime in its most brutal form in Pakistan.

(ii) FBR’s Subservient Status

The Central Board of Revenue (CBR) – predecessor organization of FBR – was created on April 1, 1924 through enactment of the Central Board of Revenue Act, 1924. In 1944, a full-fledged Revenue Division was created under Ministry of Finance as revenue needs of British India government ballooned up in aftermath of World War II. After independence, this arrangement continued till mid-1960s as despite dire financial needs for defense, development, and rehabilitation of refugees, state chose to explore other sources of revenue as argued in Chapters 1 and 6. However, with effect from August 31, 1960, under recommendations of Administrative Re-organization Committee, which, in turn, was overly being influenced by military and industrial elite, stripped CBR of its independent status of a Division, and slapped it a subservient one of an Attached Department. This essentially meant that CBR would be directly dependent upon Ministry of Finance – already a bastion of generalists – for decisions on even most trivial of matters. Military elite and industrial elites made most of it as not only that they rigged industrial, and import and export policies, but also tax policy thoroughly in their favor. Throughout 1960s, a dysfunctional tax system ensured that bulk of national wealth got amassed in hands of proverbial 22 families, while state kept extracting from international sources, and feeding into elites-generalist duopoly under a process which could very well
be termed as extraction in reverse or even subtle predation.\textsuperscript{47} This matter has at length been explicated in Chapter 6.

In 1974, when nationalization became a buzzword in Pakistan, and state tried to assume some kind of a quasi-socialist welfare character, to a certain degree, importance of CBR was restored and some administrative changes were introduced to streamline it and its functions. Consequently, post of Chairman CBR was created and Secretary Finance was relieved of his duties as its ex-officio Chairman. However, this time status of Chairman, CBR, was relegated to a status of ex-officio Additional Secretary, and made to report to Secretary Finance, instead of Prime Minister – like all other federal Secretaries – through, of course, respective ministers. In late 1970s military elite and religious elite, in the wake of Soviet incursion of Afghanistan, joined hands to extract abundantly at international level, which process continued throughout 1980s and even later. However, as Afghanistan conflict came to a close, extraction at international level dried up, elitist state turned to CBR yet once again. In order to overcome impediments in exercise of administrative powers of a Secretary to Government of Pakistan, and formulation and implementation of effective fiscal policy measures, status of CBR as a Revenue Division was restored under Ministry of Finance on October 22, 1991.

However, Revenue Division was abolished yet once again in January 1995, and FBR reverted back to pre-1991 position, as elites-generalist duopoly and a state with empty coffers wrestled for an upper hand in the equation. The Federal Board of Revenue Act, 2007, which apart from renaming Central Board of Revenue as Federal Board of Revenue (FBR), granted some autonomy to the institution – never to be implemented. Revenue

\textsuperscript{47} This matter has at length been explicated in Chapter 6.
Division was re-raised on December 1, 2008, but in June 2009, status of FBR as an independent (Revenue) Division of Government of Pakistan was once again violated, when the then Secretary Finance was made Secretary, Revenue Division, clearly violating Federal Board of Revenue Act, 2007. This time elites-generalist duopoly re-exploited tested tools of 1950s to directly control and govern state’s extractive arm. The status of FBR was unwantingly restored in early 2010, but with a generalist Chairman at helm – who previously had been a generalist Secretary Finance.  

Plato perhaps depicted near-realistic picture of the working of Pakistan’s extractive function under a non-professional Chairman, in these very words: -

Imagine then a fleet or a ship in which there is a captain who is taller and stronger than any of the crew, but he is a little deaf and has a similar infirmity in sight, and his knowledge of navigation is not much better. The sailors are quarreling with one another about the steering – everyone is of opinion that he has a right to steer, though he has never learned the art of navigation and cannot tell who taught him or when he learned, and will further assert that it cannot be taught, and they are ready to cut in pieces anyone who say the contrary. They throng about the captain, begging and praying him to commit the helm to them, and if at any time they do not prevail, but others are preferred to them, they kill the others or throw them overboard, and having first chained up the noble captain’s senses with drink or some narcotic drug, they mutiny and take possession of the ship and make free with the stores; thus eating and drinking, they proceed on their voyage in such manner as might be expected of them. Him who is their partisan and cleverly aids them in their plot for getting the ship out of the captain’s hands into their own whether by force or persuasion, they compliment with the name of sailor, pilot, able seaman, and abuse the other sort of man, whom they call a good-for-nothing; but that the true pilot must pay attention to the year and seasons and sky and stars

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48 Salman Siddique, who had earlier been Secretary Finance, was appointed Chairman, FBR, on December 24, 2010.
and winds, and whatever else belongs to his art, if he intends to be really qualified for the command of a ship.49

Since it is a popular fad in Pakistan to draw comparisons with India in whatever respects possible, it would be educative to see how India dealt with its extractive function knowing that India’s tax-to-GDP ratio is currently running over 17 per cent. The Central Board of Revenue, India was bifurcated way back in 1963, into Central Board of Revenue Direct Taxes, and the Central Board of Revenue Excise and Customs.50 The division of CBR, India, into two specialized entities to be managed by two professional service cadres i.e. Indian Revenue Service and Indian Customs & Excise Service respectively shut all doors of non-professional generalists to have a go at state’s extractive function, adopt a servile attitude towards elites and sinisterly play their role towards preservation of status quo. Moreover, state chose to empower its extractive services with all requisite power tools. Quite unlike in Pakistan, Indian Revenue Service and Indian Customs & Excise Service are responsible to manage all affairs pertaining to revenue collection and enforcement of fiscal codes of all kinds e.g. Indian Stamp Act 1899 (to an extent falling Union jurisdiction), Central Sales Tax Act 1956, Narcotic Drugs and Psychotropic Substances Act 1985, Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act 1976, Foreign Exchange Management Act 1999, Prevention of Money-Laundering Act, 2002, and Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974.

50 In India, the Central Board of Revenue created in 1924 under the Central Board of Revenue Act, 1924, was split into the Central Board of Revenue Direct Taxes and the Central Board of Revenue Excise and Customs vide the Central Boards of Revenue Act, 1963, Act No. 54, of 1963, dated 30th December, 1963, which came into force w.e.f. January 1, 1964.
In addition to administration of aforesaid statutes, CBRDT manages a number of subsidiary organizations and departments which under-grid its revenue effort and implementation of fiscal codes in totality, like Central Economic Intelligence Bureau, Directorate of Revenue Intelligence, Central Bureau of Investigation, Central Bureau of Narcotics, Customs, Excise and Service Tax Appellate Tribunal, Appellate Tribunal for Forfeited Property, Customs and Central Excise Settlement Commission, Income Tax Settlement Commission, National Committee for Promotion of Social and Economic Welfare, Financial Intelligence Unit, India, Settlement Commission (Income Tax & Wealth Tax), and Income Tax Ombudsman. In addition, extractive arm of Indian state keeps its clout – through deputation of its officers – in other functions of state particularly economic ministries on regular basis under a set system of horizontal movement for professional cadres in overall bureaucratic structures of Indian government.

A simple comparison of organizational autonomy and sinews of power which Pakistan’s and Indian state has been according to their respective extractive machineries may as well provide a direct explanation for their outputs in tax-take terms. While in India, IRS is a dreaded organization – aggressive, forward-looking and enforcement-oriented, in Pakistan, it is paranoid, harassed, incapacitated, and compliance-oriented – no better than, to quote a jest by a senior IRS officer, district termite control department.

Section VI
United States IRS

In this part, framework of analysis developed in respect of Pakistan with particular reference to appointment of head of state’s revenue function and its powers and autonomy enjoyed by it, will be applied to U.S. to study as to how U.S. state and society
treat their extractive arm – essentially U.S.-IRS, whose performance then feeds back into state structures, and by implication, into exercise of governance of service delivery to public. The U.S.’s extractive arm as it stands today, traces its roots to the Revenue Act, 1862, which was passed by U.S. Congress essentially as a war measure to finance the American Civil War (1861-65). Once the President signed it into law on July 1, 1862, the Revenue Act, 1862 enhanced the U.S. fiscal state in three important ways. Firstly, it created a formidable institution of Commissioner of Internal Revenue, and vested it with requisite powers to collect all kinds of federal cesses. Secondly, it introduced excise duties on certain items that were exempt from the levy till then and jacked up excise duty rates on certain traditionally excised items – particularly liquor and tobacco. Thirdly, it imposed an income tax at graduated rates for five years i.e. till 1866.  

(i) The Commissioner, IRS

It was section 1 of the Revenue Act, 1862, that created “an office… in the Treasury Department to be called the Office of the Commissioner of Internal Revenue,” and outlined its responsibilities with regard to all “instructions, regulations, directions, forms, and licenses…pertaining to the assessment and collection of the duties, stamp duties, licenses, and taxes, which may be necessary to carry this act into effect.”

The Commissioner’s responsibilities and by implication those of IRS were further amplified in terms of “administering, managing, conducting, directing, and supervising the execution and application of the internal revenue laws or related statutes and tax conventions to which the United States is a party” as well as in terms of rendering advice

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52 Ibid.
to President regarding hiring and firing of IRS’s Chief Counsel. The IRS, from the very beginning, was intended to be raised as an enforcement agency with requisite power tools to sustain fiscal burden of an expanding state, unlike Pakistan, where FBR was never conceived to be in terms of a functional enforcement agency. In case of the U.S., it was posited that “Commissioner of Internal Revenue shall be responsible for the administration and enforcement of the Internal Revenue laws.” Moreover, in U.S., Commissioner IRS, by convention and law, is member of the "Federal law enforcement community." The set chain of command stipulates that the Commissioner, IRS, reports to Treasury Secretary through Deputy Treasury Secretary. The Commissioner is also “authorized to employ such persons as the Commissioner deems proper for the administration and enforcement of internal revenue laws and is required to issue all necessary directions, instructions, orders and rules, applicable to such persons.” The “IRS…possesses police powers,” and is “charged with enforcing revenue and tax laws.” It goes without saying that job security adds to professionalism and autonomy of operations. Traditionally, since there was no pre-determined tenure for a Commissioner, he would serve as long as he had the President’s blessings. However, in 1998, Section 7803 of IRS Code was modified to set a five-year term for Commissioner, IRS. “The first such term was applied to the Commissioner serving when this Act became law,

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54 Ibid.
Charles Rossotti, beginning with the date of his appointment. He served the full five years, from November 1997 to November 2002.”

A complete list of Commissioners, IRS, from 1862 to-date is given at Annexure – II.

There are a couple of very important factors that make Commissioner, IRS, a very solid state functionary and well-poised to achieve his organizational objectives, and render him distinct and distinguishable from Chairman, FBR. Firstly, though appointment of Commissioner, IRS is an executive function and a prerogative of US President, yet the fact that his nomination is approved by U.S. Senate raises his stature from that of a government functionary to that of state functionary. The legislature’s involvement into very process of appointment of such an important public functionary not only adds to transparency of process and nomination of most suitable person as chief tax collector of the state but also to his potentiality to perform his avowed functions. Secondly, even prior to 1998, a Commissioner, IRS, once appointed was not likely to be removed for political or non-professional considerations, yet fixation of five-year term brought in a strong certainty factor into the system. Once a Commissioner, IRS had been appointed he could conduct himself professionally without any fear of removal, relegation and reaction by political masters. This is how the U.S.-IRS has been in a position to keep its posture and perception of neutrality intact and be able to go after all and sundry indiscriminately.

The real-time evidence of robustness of system comes from the fact that all 48 Commissioners, IRS, appointed on regular basis (rest were posted on acting charge basis), so far worked fine and had their terms completed in a normal manner except

[59] IRS, ”Longest- and Shortest-Serving Commissioner of Internal Revenue”
Steven T. Miller who was asked by President Obama to resign in the wake of rife charges leveled upon IRS to unfairly treat Tea Party, its requests for approval as an NPO and its donors. But even that incident, in a way, bears witness to strength of the system.

(ii) Sinews of IRS

In U.S., the state, in totality stands behind IRS to equip it with necessary wherewithal required by it to be an effective enforcement agency. IRS has unambiguous powers in the realm of collection and recovery of government dues, as well as in area of determination of income and by implication tax liability. The societal consensus to keep IRS in an effective operational mode “extends the powers of IRS in all respects related to changing and adapting the accounting methods used by taxpayers for tax purposes, while limiting judicial review and providing a broad interpretation to IRS’s powers” in terms of IRC section 446(b), which are generally referred to “the broad interpretation of IRS powers.”60 These are no mean powers. What, in fact, IRS is empowered with is that it can require of “taxpayers to keep their books for tax purposes differently from the books they keep for accounting purposes, provided that, according to IRS’s position, the different method will properly reflect their income,” and courts have stood behind IRS stipulating “IRS has broad discretion to determine whether the accounting maintained by the taxpayer “clearly reflect income.”61

The subtle state-society consensus in U.S. to keep extractive arm in a formidable operational form, at times, renders IRS highly hated and feared enforcement outfit. It has been argued that because of atrocious powers that IRS enjoys, it exhibits propensity to

61 Ibid.
indulge into massive excesses ranging “from political manipulation to internal corruption.”  

There has been a lot of debate in public policy and civil society circles in U.S. to curtail IRS’s powers. Although, media, civil society opinion leaders and even Congressmen have been airing their views for a cut on tax administration’s powers, “Yet the U.S. Supreme Court seems unlikely to side with taxpayers in an important challenge to the power of the IRS to make you produce documents. Under the law, the IRS can issue a summons for information when a taxpayer refuses to provide it voluntarily.”

Forbes further stipulates that “Rogue agent or not, the power of the IRS is legendary.”

In addition to IRS’s mandate to implement and enforce Internal Revenue Code, its activities “include serving and educating taxpayers; determining, assessing, and collecting taxes; investigating individuals and organizations that violate tax laws; determining pension plan qualifications and exempt organization status; and issuing rulings and regulations to supplement the Internal Revenue Code.”

In case of default and willful flouting of tax laws, IRS has vast powers to not only impose civil penalties but also prosecute delinquents. “Congress has given the IRS unique and wide-ranging powers for administering the U.S. tax system and enforcing its laws.”

Likewise, “IRS also has the power to impose civil penalties for any of a number of violations of tax law. These penalties are seldom employed, however, and with respect to penalties, the IRS bears the burden of proving that the penalty is justified.”

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64 Ibid.
65 Ibid.
66 Ibid.
67 Ibid.
perception that IRS is massively potent may actually be true, too. Mythical Chicago bootlegger Al Capone, could not be nabbed and brought to justice, until IRS stepped in, in 1931, made the gangster pay massively in outstanding tax dues and was prosecuted and sent to jail for 11 years. IRS’s wide-going powers can pervade into most areas of economic life of the U.S. society. There is thus no doubt that IRS, and extractive function that it has performed has significantly contributed towards state-building in U.S. IRS has unbridled powers under various statutes to collect information about US citizens – in certain cases even about non-U.S. nationals. Likewise, IRS collects large amounts of information on companies, and other institutions. It has been argued that “most obvious example of this power is that each year all taxpayers must file tax returns containing detailed financial and personal information,” and that “Many organizations are also required to notify the IRS of any payments they make to individuals,” which way IRS ends up receiving “approximately one billion of these third-party reports annually.” Similarly, “IRS also has the legal authority to order banks, employers, and other institutions to provide information about a taxpayer without having to obtain a warrant from a judge; other law enforcement agencies, such as Federal Bureau of Investigation and local police forces, must obtain a warrant in such situations.” The Foreign Account Tax Compliance Act, 2010 (FATCA) is a shot in the arm for IRS, as it has empowered IRS to gather information not only from U.S. authorities but every country in the world about bank and other financial accounts and assets held by U.S. persons with any banking or non-banking financial institutions across the globe.

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69 Editor.
70 Ibid.
IRS has another very important power of withholding taxes at source on various counts. “The IRS was given this authority in 1943, when Congress passed legislation requiring employers to withhold from employees' paychecks the income taxes owed to the government.” The measure was intended to speed up inflow of revenues into national exchequer at the earliest possible so as to line up adequate resources for World War II purposes. “Today, automatic withholding accounts for the majority of tax dollars paid to the government, with only a small portion sent in with tax returns by April 15, the IRS annual tax deadline.”

The powers that U.S.-IRS enjoys duly headed by a non-partisan Commissioner, and beefed up by financial autonomy that the institution enjoys, make it an effective and fearsome enforcement outfit. Although, “it is the president who nominates the head or chief executive of the IRS, and who has the authority to remove the individual in that post at his or her will,” yet his act’s validation by U.S. Senate injects great amount of stability, impartiality into the system. The Obama administration called the IRS “an independent enforcement agency with only two political appointees.” Perhaps the greatest boon of U.S. system is that both “By law and by practice, the Treasury keeps an arms-length relationship with the I.R.S. on matters of tax administration, enforcement and … on matters of tax policy and regulations, it works closely with the I.R.S.”

Section VII
Conclusion

While, in U.S., in 152 years of IRS history, 48 Commissioners have been appointed to manage and preside over state’s revenue function, in Pakistan, in a total of 67 years that

71 Ibid.
72 Ibid.
74 Ibid.
FBR has been there, 38 Chairmen, FBR, have been appointed, out of whom most have been generalists and part-timers. Non-fixation of tenure and stipulation of professionalism for Chairman, FBR, along with subservient status accorded to FBR may be the root causes of Pakistan’s revenue system malaise; which in case of U.S., are its very strengths. Like in U.S. where courts and judicial system has stood behind IRS, in Pakistan, courts have always fallen hard on FBR and its field formations – rarely validating its pronouncements and decisions.

The out-right monopolization of revenue function by elites-generalist duopoly has tremendous negative fall-out in multiple governance areas in Pakistan – unlike in U.S.

Firstly, Pakistan’s effective tax-to-GDP ratio has rarely gone beyond 10% which may be lowest in the world at the moment, and absolutely insufficient to sustain state operations in long run. On other hand, tax-to-GDP ratio in U.S. has consistently run in mid-twenties.

Secondly, it has put civil services of Pakistan in a bitter and simmering conflict and fissures between professional and generalist cadres. Therefore, any meaningful analysis of civil services should be within given context of fractured paradigm i.e. professional service groups pitched up against non-niche, non-professional groups as their dynamics, approach, and operating philosophy are totally different. Thirdly, elites-generalist duopoly’s brutal control on politico-economic system has resulted in substantially sub-optimal management of public sector, reduced service delivery, and increased criticism for government directly leading to and weakening of already fragile state-society relationship. Fourthly, elites-generalist duopoly stratagem proffered customized opportunities to underlying interest groups to have a go at state’s policy formulation process with tremendous ease and perpetuate extant economic status quo. Lastly, as
elites-generalist monopolization got stronger by the day, weakening state-society bonding and eroding government writ, and thereby opening up vast expanse of strategic space for non-state actors of all shades and hues to scramble, fill it up, take on state itself through violent or non-violent (but extremist) views of world, dragging the entire country into a quagmire of unmeasured depths – with little capacity to react and trigger a suitable recoil.

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References


192


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Chapter 4
System Domination: Historical Perspective – Incremental Approach

Section I
Introduction

The previous chapter helped explain how, at strategic level, in case of Pakistan, state’s extractive function is dominated by Elites Ltd by creating collusion with generalist mandarins. It was explained that couple of favorite ploys employed by the duopoly are (a) subjugating FBR into a subsidiary state of given dysfunction, and (b) appointing a non-professional generalist lackey to head state’s revenue function, and as a consequence thereof generating an infinite amount of dissonance in rank and file of tax administrative structures, and thus pushing them into withdrawal mode. It is this demoralized workforce which is then deputed to implement a tax policy, which is precisely tailored to suit elitist interests as explicated in chapter 1. In this and the next chapter an attempt will be made to explain whether elitist model of controlling extractive function of state and its two main tactical ploys have played any role in country’s history; if yes, to what effect and extent?

Historically, at strategic level, Elites Ltd has resorted to a mutually reinforcing and complementing two-pronged approach to monopolize and rig state’s extractive function: first, incremental or year-to-year approach; and two, shock approach. Both of these approaches would be explained at length to detect operationalization of elites-generalist framework developed in earlier chapters, geared to monopolize state’s revenue arm with perverse overarching objectives during various periods of Pakistan’s history in this, and next chapter, respectively.

The chapter divides itself into ten sections. After section I introduces the subject, Section II contextualizes and defines the very concept of incremental approach against which
various periods of Pakistan and U.S. histories are discussed and examined from the perspective of operationalization of elitist framework developed and built upon in foregoing chapters. Section III explores into roots and pre-independent disposition of rational actors with regard to revenue function of newly obtained state. While section IV is a critical commentary on first period of Pakistan’s history, that is, from 1947 to 1960, section V deals with 1960s and dissects antics of military rule. Likewise, section VI takes care of the most turbulent decade of country’s past, that is, 1970s, section VII discusses 1980s – second prolonged stint with military elite in power. Section VIII is an attempt to snapshot Pakistan’s revenue system in the wake of withdrawal of Soviet Union from Afghanistan and consequent waning of U.S. interest in South Asia. Section IX is a brief comment on Pakistan under General Pervez Musharraf and his handling of state’s revenue arm. While section X takes a brief account of economic melt-down of Pakistan since 2010, to-date, section XI is a survey of U.S. tax history, before section XII completes the chapter with a short conclusion.

**Section II**

Incremental Approach – Concept

Adopting incremental approach, Elites Ltd influences and manipulates tax policy and attempts to dis-empower tax administration in terms of its capacity to enforce tax laws, in routine, at budget-time each year. Every year towards on-set of budget preparation exercise, elites systematically start a propaganda campaign to vilify and malign tax system for corruption, high-handedness, harassment of taxpayers, inefficiency, and exploitation etc. Media takes bait as it fails to detect ulterior motives behind systematically launched and vigorously sustained campaign, and without identifying real dynamics of demands for loaded tax policy and enforcement changes, rally support to
such elitist demands and start articulating their demands right into center of the public policy debate. Parliament already being a bastion of elites, readily buys argument, and takes to further clipping powers of tax administration through budget-time finance acts. There already being a generalist lackey well-entrenched as head of revenue function, eagerly takes to implementing elitist parliamentary vision of tax system. The result now is that Pakistan’s tax administration, in an international comparison, may be the weakest in the world be it from perspective of power-tools available to it, tax policy, operational enforcement autonomy, or availability of resources, that is, overheads measured in terms of collection cost. This is now a set pattern. In order to explore into traces of incremental approach within overall context of operationalization of elitist model, analytical periods are cut out into decades since this study subsumes importance of regime changes, as elitist juggernaut has ensured and under-written domination and maintenance of status quo irrespective of composition of ruling coalitions.

Section III
Pre-Independence Predilections

It is an investigation worth-undertaking as to whether elites’ rational actor means-maximizing behavior exhibited consistently over past six decades of Pakistan’s history, was acquired at time of formation of state itself and acquisition of its control or it had, in any manner, an element of path dependency about it with its roots latent in pre-independence days. Why, after all, Pakistan’s tax-to-GDP ratio has traditionally remained stagnant and hovered around 10% of GDP, while India’s has got to soar in high teens

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1 In chapter 1 (Theoretical Framework), leading mediamen, proprietors of successful media outlets, prime-time TV anchors, and op-ed journalists have been classified under sundry elite.
2 Ordinarily, all changes in tax laws are introduced through annual finance acts passed by the parliament in June every year.
although both had started from same pedestal in 1947 or slightly before.\textsuperscript{3} By way of an aside, case of Bangladesh is more akin to Pakistan than India when it comes to its national tax effort. This might apparently sound willfully provocative and conspiratorial to argue that anomie of under or less-paying in lieu of governance overheads got embedded into psycho-social mores of Pakistani nation even before establishment of state itself, that is, since demand for a separate country for Muslims of subcontinent was put forth, but there is data is support the proposition. The study posits that this tendency may have been acquired sometime around 1940. Incidentally, Pakistan Resolution was passed on March 23\textsuperscript{rd} 1940. Is there a correlation? This point is driven home by proving that historically British India Government’s tax-to-GDP ratio had remained around 10 per cent. The expenditure and revenue figures consolidated by Raychaudhri et al for the period 1900-01 to 1946-47 as plotted below are usefully instructive in this context.\textsuperscript{4}

\textbf{National Income, Public Expenditure, & Revenue in British India, 1900-01 to 1946-47}

<table>
<thead>
<tr>
<th>Period</th>
<th>Public Expenditure (Rs. Million)\textsuperscript{a}</th>
<th>Total Revenues (Rs. Million)</th>
<th>Public Expenditure</th>
<th>Total Current Revenues</th>
<th>Total Tax Revenues</th>
<th>Non-Tax Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900-01</td>
<td>958</td>
<td>817</td>
<td>10</td>
<td>8</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>1917-18</td>
<td>2,845</td>
<td>1397</td>
<td>16</td>
<td>8</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>1921-22</td>
<td>2,132</td>
<td>1516</td>
<td>8</td>
<td>6</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>1930-31</td>
<td>2,086</td>
<td>1692</td>
<td>12</td>
<td>10</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>1940-41</td>
<td>2,149</td>
<td>2061</td>
<td>11</td>
<td>10</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>1946-47</td>
<td>7,973</td>
<td>5,942</td>
<td>16</td>
<td>12</td>
<td>9</td>
<td>3</td>
</tr>
</tbody>
</table>

\textit{Notes:} * The national income of British India has been calculated from the per capita national income at current prices for undivided India given by S. Sivasubramoniam and the population of British India given by K. N. Reddy.
\textsuperscript{a} Public expenditure is total of central and state government expenditure on current and capital account, as shown in the budget. The figures include interest payments and retirement of the public debt, but exclude the bulk of expenditure on the railways (for which there was a separate budget after 1925).
\textit{Source:} Kumar (9182), table 12.6, p. 926.

\textsuperscript{3} By way of an aside, it may be added that Bangladesh’s case may be more akin to Pakistan than India when it comes to its national tax effort.
\textsuperscript{4} Tapan Raychaudhuri et al., \textit{The Cambridge Economic History of India} (Cambridge [Eng.]; New York: Cambridge University Press, 1982).
Apart from F/Y 1946-47 when total tax revenues shot up to be 9 per cent of national income, it had always remained 7 or under 7 per cent. Thus, when in post-independence scenario demand on revenues took a steep rise due to emergent law and order situation, problem of refugees, conflict in Kashmir, need for raising and re-building credible defense forces, elites were called upon to surrender their means more than what they used to do not merely as cost of self-governance, but also as a premium of independence, they failed to rise up to occasion. This appears to have been done neither in Pakistan nor in Bangladesh, where tax-to-GDP ratio is only slightly better than Pakistan, but in India. Indeed, while Indian elites rallied support to cause of independence by practically offering more to state to meet its needs, Pakistani elites drastically cut on their contribution to nascent fledgling state.

The Assets and Liabilities Committee – one of 12 committees set up by Lord Mountbatten, viceroy and Governor General of India to complete Preparatory Work for Partition of Sub-Continent in June 1947 – formed a sub-committee comprising two economists (one Muslim and one Hindu) and entrusted it with arduous task of formulating basis for sharing assets and liabilities between two emerging states. According to Qureshi, Sub-Committee “…undertook an examination of the Central Revenues statistics with a view to allocation of the shares of revenues between India and Pakistan in the proportions in which their respective citizens contributed to the Central Exchequer. The years selected were three pre-war (1936-37, 1937-38, and 1938-39) and three war years (1943-44, 1944-45 and 1945-46).”5 Qureshi goes on to summarize the situation: “The total income from Corporation Tax in 1938-39 was about Rs. 2,04 lakh

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and the receipts from taxes on income other than Corporation Tax amounted to Rs. 15.24 lakh. Thus, we find that before the War the total income from Income Tax and Corporation Tax was a little more than Rs. 17 crore. In 1945-46 Corporation Tax receipts were Rs. 75 crore and receipts from Taxes on Income were Rs. 102 crore. Out of this the share contributed by Pakistan is disproportionately and almost negligibly low as compared to its population.6 The relevant data are plotted below.

Pakistan's Share of Central Revenues (Customs, Central Excise, Income Tax)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Pakistan</td>
<td>British India</td>
</tr>
<tr>
<td>Customs</td>
<td>5,97,38,000</td>
<td>39,15,09,000</td>
</tr>
<tr>
<td>Central Excise</td>
<td>1,34,18,000</td>
<td>7,61,55,000</td>
</tr>
<tr>
<td>Income Tax</td>
<td>88,00,000</td>
<td>15,95,00,000</td>
</tr>
<tr>
<td>Total</td>
<td>8,19,56,000</td>
<td>62,71,64,000</td>
</tr>
<tr>
<td>%-age Pakistan’s share</td>
<td>23.06% (Pre-War Years)</td>
<td>8.23% (War Years)</td>
</tr>
</tbody>
</table>


The data further reveals that while (a) share of pre-creation Pakistan in total revenues of British India Government during pre-war years was 23.06 per cent, it had sharply dwindled to 8.23 per cent during the post-war years; (b) share of income tax in pre-independence Indian Government revenues (excluding pre-creation Pakistan) rose by 942.82 per cent whereas in case of pre-creation Pakistan it rose only by 680.8 per cent; and (c) share of Central Excise increased by 361.59 per cent during post-war years as compared with pre-war years in case of British India, whereas in case of pre-creation Pakistan it rose by 361.59 per cent during latter period as compared with former. The aforementioned trends are despite the fact that in order to finance World War II (1939-45) arguably a better system i.e. “Pay as You Earn” had been introduced in 1944 so that

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6 Ibid., 118.
due amount of tax could reach government coffers as soon as it became payable. These trends are consistent with the proposition that elites do tend to shift their fiscal burden.

The operation of rational actor dilemma within elitist model being at work was rather detected early. In 1950, Vakil in his effort to assess economic impact of partition on both newly created countries, noted that “Customs duties account for 31 per cent, of the Central revenues in India as compared to nearly 41 per cent in Pakistan. Prior to the war customs duties enjoyed the pride of place in the tax structure of the Government of Undivided India. Since then taxes on income have shown larger receipts. This is now even true of India, though the same cannot be said of Pakistan.”7 Interestingly, the observation made right at the time of partition or slightly after holds good sixty years down the road. Pakistan’s direct taxes regime is fractured, riddled with loopholes, and is driven to benefit only elites of the country.

Again, analyzing comparative revenue receipt figures of both India and Pakistan for F/Ys 1948-49, 1949-50, and 1950-51, Vakil explained “that whereas the corporation tax in India yields a revenue of more than Rs. 38 crores or 11 per cent of the total revenue, its contribution to the Central fisc in Pakistan is meager and amounts only to less than 1 per cent of the total revenue… Even if the taxation on personal incomes is considered, whereas it accounts for nearly 38 per cent of the revenues of the Government of India, it constitutes only about 10 per cent of the total revenue in Pakistan. Taking together both the corporation tax and the personal income tax (excluding the provincial share) the total share of direct taxes in the revenues of the Government of Pakistan and India are 12 per

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7 C. N. Vakil, Economic Consequences of Divided India; a Study of the Economy of India and Pakistan (Bombay: Vora, 1950), 484.
cent and 35 per cent respectively.”\(^8\) He then went on to prophetically suggest that: “Under these circumstances, it is quite possible that Pakistan may have to levy new taxes on agricultural classes,”\(^9\) only to be proven wrong even after lapse of six decades. Feudal elites in quid pro quo non-zero sum transactions have managed deferment of imposition of tax on agricultural income thus far and look well-set to keep it managed in future, too. Thus, the state that peoples inhabiting areas constituting Pakistan had created for themselves willingly with a significantly low propensity to pay as cost of governance, needed to develop a better version of themselves by paying a higher amount of taxes as a cost of self-governance so as to sustain and develop society on lasting footing. On the contrary, as plotted above, very decrease in revenue collection in Muslim majority areas from 23 percent to 8 percent – coincidentally concomitant with demand for a separate state – is rather intriguing. One ready plausible explanation is that elites had evolved into an organized political party primarily to secure and optimize their economic gains. One must not forget that Congress Party had strong communist leanings during run-up to independence. From this perspective, a specter of brute economic libertarianism appears to have been at work, instead of any ideological dynamics as heretofore propounded. Was ideological varnish painted on façade first of (independence) movement to coalesce, control, and rally rudderless folks, and then on face of state itself to give it some palatable moorings over greed and libertarianism? Maulana Abul Kalam Azad, in 1946, in New Delhi, in an interview given to Shorish Kashmiri about the creation of Pakistan, diagnostically argued:

\(^8\) Ibid.
\(^9\) Ibid., 485.
In future, India will be faced with class problems, not communal disputes; the conflict will be between capital and labor. The communist and socialist movements are growing and it is not possible to ignore them. These movements will increasingly fight for the protection of the interests of the underclass. Muslim capitalists and the feudal classes are apprehensive of this impending threat. Now they have given this whole issue a communal color and have turned the economic issue into a religious dispute.10

On August 14, 1947, both polity and society of new state stood at crossroads. The elites who had led the movement for an independent state had an option to make Pakistan a decent society and a functional state, and they had an option to make a mess out of it a la so many other states that were created with great euphoria but whose hopes withered away soon after getting rid of colonial shackles. The elites being rational actors opted for the latter as first one carried a price-tag – price of governance. Was entire Pakistan movement for liberty – instead of independence?

Section IV
Scramble to Power 1947-1960

Pakistan’s emergence on world map was marred by deteriorating “economic conditions – rampant inflation, the shortage of food-grains and essential commodities, widespread hoarding, smuggling and black-marketeering – (which) were all powerful indicators of the potential for social unrest and the grave political consequences;”11 defined by a strong twin-desire to augment its defense and industrialize simultaneously; and surreptitiously attended by rise of elites with tremendous ability to organize, an impressive grit to

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ruthlessly pursue their economic agenda, and a piercing ability to penetrate into structures of polity on durable footing. In fact, the kind of deformities that Pakistan was born with, required an immediate start of building up process of an independent, strong, and vibrant tax system with the ability to generate enough revenues to meet above-par outlays on defense and rehabilitation of refugees in short term; sustain developmental expenditure on infrastructure and industrialization in medium terms, and establish an equitable and fair fiscal function – taking from the wealthy and distributing amongst impoverished – and contribute towards serious nation-building needs in longer term.

However, since establishment of such a system ran counter to aspirations of elites, it did not happen. After Independence from the British, Pakistan Government adopted the Income Tax Act, 1922, as amended up to that date. It appears that pre-partition predilections on part of elites to use their ability to infiltrate into and formulate ruling coalitions to maximize their economic gains by parasitizing on others – seeped into structures of new state during very first decade of its history. The elites readily got into cut-throat riches-maximization exhibiting requisite ability to outsmart any other social group in the polity. By 1949 – within two years of country’s creation – Elites Ltd could effectively distract tax incidence from their own coffers to shoulders of marginalized millions. “Since direct taxes on incomes constituted a mere 10 per cent of central revenues, defence expenditure had to be met in large part through indirect taxation and the drawing down of the sterling balances owed by Britain.”

One would not require a microscope to spot that all ploys of elites rational actor dilemma had pervaded state governance patterns full well from its very inception. Vakil, while

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12 Ibid.
comparing “Combined Central, State and Provincial Revenues in India and Pakistan, 1950-51” writes: “Excluding taxation by local authorities, like District Boards and Municipalities for which up-to-date data are not available, it appears that the per capita burden of taxation of Central, Provincial and State governments in India is higher than that in Pakistan.\textsuperscript{13} He goes on to explicate this point rather more emphatically. “In other words, governmental authorities in India can shoulder the responsibility of relatively larger public debts and can undertake developmental schemes, which in the neighbouring country would seem extravagant.”\textsuperscript{14} A similar pattern was markedly visible at the provincial government level. Keeping in view the fact that “At the time of partition, the tax structures in the two countries were very much similar both at the Centre and in the Provinces”\textsuperscript{15} comparison of per capita revenue across provinces or states in both countries just a few years down the road will be instructive.

\textbf{Revenue & Expenditure of Provinces in India and Pakistan 1950-51 (Budget)}

<table>
<thead>
<tr>
<th>Country</th>
<th>Province</th>
<th>Revenue (Rs. in lakhs)</th>
<th>Expenditure (Rs. in lakhs)</th>
<th>Population (in millions)</th>
<th>Per capita Revenue (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>Bombay</td>
<td>2,85,51</td>
<td>2,83,87</td>
<td>259.7</td>
<td>14.08</td>
</tr>
<tr>
<td></td>
<td>Madras</td>
<td>55,21</td>
<td>55,57</td>
<td>54.3</td>
<td>10.19</td>
</tr>
<tr>
<td></td>
<td>Orissa</td>
<td>10.65</td>
<td>11.41</td>
<td>14.4</td>
<td>7.40</td>
</tr>
<tr>
<td></td>
<td>Assam</td>
<td>9.10</td>
<td>9.88</td>
<td>8.5</td>
<td>10.61</td>
</tr>
<tr>
<td></td>
<td>West Bengal</td>
<td>33.89</td>
<td>35.22</td>
<td>24.3</td>
<td>13.95</td>
</tr>
<tr>
<td></td>
<td>U.P.</td>
<td>55.26</td>
<td>52.21</td>
<td>61.6</td>
<td>8.48</td>
</tr>
<tr>
<td></td>
<td>Bihar</td>
<td>25.90</td>
<td>25.92</td>
<td>39.4</td>
<td>6.57</td>
</tr>
<tr>
<td></td>
<td>East Punjab</td>
<td>16.63</td>
<td>16.13</td>
<td>12.6</td>
<td>13.21</td>
</tr>
<tr>
<td></td>
<td>C. P.</td>
<td>17.57</td>
<td>16.16</td>
<td>20.9</td>
<td>8.41</td>
</tr>
<tr>
<td>Pakistan</td>
<td>East Bengal</td>
<td>17.93</td>
<td>19.66</td>
<td>45.9</td>
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<tr>
<td></td>
<td>West Punjab</td>
<td>19.62</td>
<td>18.60</td>
<td>20.2</td>
<td>9.82</td>
</tr>
<tr>
<td></td>
<td>Sind</td>
<td>6.70</td>
<td>7.32</td>
<td>5.1</td>
<td>13.38</td>
</tr>
<tr>
<td></td>
<td>N.W.F.P.</td>
<td>4.09</td>
<td>4.24</td>
<td>8.6</td>
<td>11.30</td>
</tr>
</tbody>
</table>

Source: Vakil, \textit{Economic Consequences of Divided India; a Study of the Economy of India and Pakistan} (Bombay, Vora, 1950) 498.

\textsuperscript{13} Vakil, 476.
\textsuperscript{14} Ibid.
\textsuperscript{15} Ibid., 477.
What the data pertaining to revenue and expenditure of provinces in India and Pakistan for F/Y 1950-51, explicates is that on the whole, per capita revenue contribution to provincial governments in India was higher than that in Pakistan by nearly 60 per cent. Significantly, per capita revenue contribution of East Bengal, which was two thirds of total population of Pakistan, was less than that of poorer provinces in India like Assam, Orissa, and Bihar. The per capita provincial tax burden in West Bengal, which had only half of population of East Bengal, was nearly four times as great as that of the latter.\textsuperscript{16} It is fascinating to observe Elites Ltd’s well-defined orientation of their economic interests, focused single-mindedness, clarity as to tactical gambits, and an ability to engage and manipulate the fledgling state institutions for economic gains.

If the carry-on baggage that was all the time piling up was not enough, Pakistan’s decision not to devalue its currency in the wake of the sterling’s devaluation on 15 September 1949, and a day later Indian rupee’s devaluation – mainly orchestrated by the Commerce Minister, Fazal-ur-Rahman – East Pakistan’s jute industrialist by background – had dubious credentials. “The Pakistan chambers of commerce and industry as well as individual businessmen were among the most zealous crusaders against a devaluation of the rupee.”\textsuperscript{17} The effort was actually resulting in concrete outcomes, too. “Textile importers could expect to make profits up to the tune of 70 per cent.”\textsuperscript{18} Zahid Hussain, the governor State Bank, was thoroughly convinced by mid-1950 “that the non-devaluation policy was ‘proving ruinous to Pakistan’, … (and) was alarmed by the heavy budget deficits, the rapidly growing internal debt, a wholly unsatisfactory tax situation and Pakistan’s failure to find alternative markets for its exports, especially those of raw

\textsuperscript{16} Ibid., 498.
\textsuperscript{17} Jalal, 99.
\textsuperscript{18} Ibid.
jute. Depressed and disheartened by the ‘selfishness of a few who were making unconscionable profits’… ‘expressed grave fear of developing social unrest’ and thought ‘Pakistan might be forced to turn to some modified form of state socialism or statism.’”19

The decision not to devalue rupee was ignominiously dubbed by the then Indian Prime Minister as the one befitting “a gang of brigands, cut-throats and robbers.”20

This significant crisis resulted in “Only the few (doing) well out of the general social duress,”21 and simultaneously gave rise to massive budgetary deficit thereby creating another opportunity for elites to have a substantial foray on tax policy. “A series of indirect taxes, mainly import duties, were expected to help finance the budget deficit. But at the same time the central government abolished the capital gains tax, reduced the super tax and cut duties on various capital goods. As for the provinces, there was no prospect of their getting any substantial development grants in the near future.”22 Even after all bloodbath, elites scrambled to claim vindication of policy choice on non-devaluation when in the wake of substantial inflows of foreign exchange in consequence to exports triggered by the Korean war, India accepted value of Pakistani rupee in February 1951,23 and “Pakistani rupee was not devalued until 1955.”24 Afterwards, even when “rupee was devalued in 1955 … multiple exchange rate was introduced to safeguard the industrialists.”25

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19 Cited in ibid., 100 from Minutes of interview between Zahid Hussain and Wolf, despatch no. 50, 8 July 1950, NND.842909, RG 99, Box 5548, 890D.131/7-850, NA.
20 Cited in ibid., 96 from Grafftey-Smith to the secretary of state [CRO], a review of events, September-December 1949, 21 February, 1950, F0371/84198, PRO.
21 Ibid., 100.
22 Ibid., 99.
23 Cited in ibid.from Dawn, 27 February 1951
24 Ibid., 100.
On the other hand, non-elites, that is, “average consumer was much worse off after the non-devaluation. Prices for practically all consumer goods were ‘as high, if not higher.’ Those elbowed out of agricultural land (due to unprecedented declines in the prices of jute and wheat) and left to seek employment in the urban areas found it impossible to ‘sustain life on even a reasonable level’. The government’s own employees were in a hapless predicament – the ‘costs each month for the bare necessities of diet and clothing … [were] almost invariably in excess of wages received.’”

It has been argued that “Low wage levels and a web of price spirals loudly hinted at the potential for political unrest, much of it already in the making.” Adding insult to injury, state’s leanings towards an indirect taxes regime not only whipped up inflation but also added to accumulation of economic resources. “The limitations of the revenue base of the central government indicate why political stability was so easily endangered…. During 1949-50, indirect taxes – customs and excise duties, the sales tax and salt duty – contributed most of the center’s revenues; customs receipts alone accounted for 40 per cent.”

The deliberate ad hoc and elitist policy choices gave rise to an alarming deficit of Rs. 380 million (U.S. $115 million) in the budget for F/Y 1950-01 – equivalent to 35 per cent of total government expenditure. The defense expenditure alone amounted to one and a half times of total deficit, and approximated 66.8 per cent of revenues of central government. Taking account of expenditure on armed forces charged to capital account (68.5 per cent of total capital expenditure), total cost of defense amounted to approximately 100 per

26 Cited in Jalal, 98 from Wolf’s despatch no. 133, 2 February 1950, NND. 842909, RG 59, Box 5542.890D.00/2-250, NA.
27 Ibid., 98.
28 Ibid., 94.
cent of current revenues. However, elitist state was dying to avoid resorting to solid
direct taxation and increase system’s capacity to collect from ones it was due.

The Finance Minister, caught in a deluge of problems, singled out one and emphasized
that “refugee problem is one of such stupendous proportions that even after we have
utilized our existing resources it will be necessary for us to explore further possibilities,” and went on to hint at the possibility of entering into a borrowing
program of some magnitude. The government’s desperate efforts to raise soft loan for
rehabilitation of refugees did not materialize. Thus, closer-to-home (domestic) options
were explored only after failing in their efforts at the international level to extract. In
order to raise additional revenues from taxation for expenditure on the relief and
rehabilitation of refugees, the “…Finance Minister had to introduce fresh taxation
proposals to the extent of Rs. 2.10 crores in his Supplementary Budget for 1950-52.
Duties on petrol, cigarettes, surcharges on railway tickets, additions to the levies on
entertainment and betting taxes and a tax on newspaper advertisements, a cess on land-
owners in East Bengal and on agricultural incomes in West Punjab, a levy on
broadcasting licenses and land revenue in Sind, fees for licenses in respect of import and
export, and for motor vehicles and vessels lying in inland waters and toll on goods carried
by road were included in the proposals.” In a bizarre move, “Government of Pakistan
… levied an excise duty on salt, which on the eve of independence was forsaken for good
by the Government of India.” The Quaid-e-Azam Relief Fund was also set up to receive
donations. It is interesting to note that while taxation measures could only yield an

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29 Cited in ibid., 99 from Budget of the Central Government of Pakistan, 1950-51, and Wolf’s despatch no.
276, 15 March 1950, NND.842909, RG 59, Box 5547, NA.
30 Cited in Qureshi, 150.
31 Vakil, 532.
32 Ibid., 477.
amount of Rs. 10 million against projected sum of Rs. 21 million, the Fund was able to fetch Rs. 35 million during the same period. This trend, again, continues to-date, and state does not feel blushed to resort to this ploy in any calamitically-oriented situations.

In order to stem tide of communism in society, elites rallied to propel state to levy and collect estate duty (inheritance tax) on principal value of movable and immovable properties, which passed on to legal heirs on death of a wealthy person. Feudal elite were able to muster quid pro quo support from business elite and industrial elite to get value of agricultural lands deleted from tax base for estate duty purposes. Feudal elite had extended support to industrial elite and business elite by observing silence to lethal decision of not devaluing Pakistan rupee.

Even during the republic’s nascent years, elites-generalist duo’s natural bias in favor of expenditure side of fiscal policy proved fatal towards nurturing and improving extractive capacity of the state. The first four chairmen, CBR, that is, Victor Turner, Abdul Qadir, Mumtaz Hassan, and A.H. Majid presided over Pakistan’s revenue function purely as part-timers. They had neither time, nor will, nor understanding of importance of a strong, well-established and independent revenue system as evidenced by tax policy choices exercised. The part-time generalists heading state’s extraction, aware of emerging revenue imperatives of new state but unaware of an absolutely required need of establishing a robust tax system, instead took tax policy for bargaining chips and dole-out bits to woo elite individuals and groups into coalition formation processes. While India heavily invested in raising tax administration on solid footing, Pakistan completely ignored it. Vakil talking of and comparing ‘Direct Demands on revenues’ states: “These

account for the cost of collection of various taxes. Their proportion to total revenue in India is higher than that in Pakistan.”

Not astonishingly, then tax policy was used as a bait to win over support of various influential elites groups into ruling coalitions and elbow out certain others when they had lost their utility. If all that was not enough, in 1958, a notorious Tax Amnesty Scheme was announced to provide an opportunity to members of Elites Ltd to whiten their black money which they had been able to, till then, amass. A Taxation Inquiry Committee was also set up in June 1958, which was represented by officials and representatives of trade and commerce and other economic factions. The Income Tax Act, 1922, was readily amended to give effect to some of Committee recommendations. Resultantly, in 1959, Super Tax was abolished on income of all persons except registered firms and companies. The rates of each slab were also expressed as a percentage of income.

Towards close of the decade, the state with weak revenue function, had also started to fall victim to subtle and sustained predation by coercive function – military. The state, in fact, came across two distinct choices. Firstly, it could have got into grip of things, and reversed trend that it had borrowed from pre-partition days, and spent on defense and performed its fiscal function full well. Vakil, as early as in 1950, had rightly pointed out that “Looking to her heavy defence expenditure, it would not be wrong to conclude that Pakistan budget is largely a defence budget.” Secondly, it could have fallen a prey to subtle predation on part of strong elite groups and left alone weaker ones. It exercised second option and ruling oligarchs operating under rational actor model, started managing means from elsewhere but taxation and feeding (external) coercive function at

34 Vakil.
36 Vakil, 88.
the expense of the (internal) coercive function i.e. law enforcement (police), and revenue function. It was difficult but elites were able to strike subtle balance between keeping state afloat and their own riches intact. Soon people, who had sacrificed so much aboard ideological bandwagon of a separate homeland for Muslims of sub-continent, found that their El-dorado had gone rusty and themselves were in a cul-de-sac.

Section V
Consolidation of Gains 1960-1970

Exploiting Industrial Policy of April 1948 (which had an essential thrust on import substitution and therefore predictably inequitable in effects), and its re-articulation in Industrial Policy in February 1959, government “recognize(d) that foreign investment can play a significant role in promoting economic development of under-developed countries, where capital formation is generally slow, technical know-how limited and trained personnel not always available.”37 The Elites Ltd in which military elite were dominant shareholders at the time, adopted a two-pronged strategy to monopolize process of industrialization. Firstly, Central Government assumed unto itself responsibility for “overall planning of industrial development, fixation of targets and priorities, location of selected industries in specific areas, determination of the levels of production and prescription of standards and quotas for exports.”38 Additionally, Central Government assumed exclusive responsibility in respect of: (a) Industries located in Federal Areas; (b) Industrial undertakings owned wholly or partially by Central Government or by a corporation set up by Central Government; (c) Mining of oil and natural gas; and (d)

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37 CBR, Tax in Pakistan : A Brief Outline with Particular Reference to Tax Concessions to New Industries and Incentives for Foreign Investment, ed. Central Board of Revenue (Karachi: 1965), 10.
38 Ibid., 24.
Marine Fisheries. In the equation, Provincial Governments were given responsibility “for implementing industrial policy of the Central Government and exercising jurisdiction over all industries (other than those mentioned above) already established or to be established in the provinces.” In a way, the state was so obsessed with promoting industrialization that consciously or unconsciously all its overtures were directed towards augmenting the process of establishing industry at times even at cost of other important economic sectors and areas of governance. “The Commission has noted that in the anxiety to promote industrialization and to foster the growth of an entrepreneurial class almost all our economic policies including the tax policy, the credit policy and the exchange rate policy were subordinated to this objective.” CTT further argued that in addition to substantial tax incentives and concessions extended to industrial sector, quantitative restrictions on imports of consumer goods made available a ripe market for products of domestic consumer goods industry. It has also been posited that exchange rate policy also had the effect of subsidizing industry at the cost of agriculture since non-devaluation decision of 1949, as also exclusion of primary goods from purview of Export Bonus Scheme reflected this approach. Moreover, entire governmental institutional framework was geared to backstop establishment of industry. “The price polices pursued in respect of agricultural commodities resulted in adverse terms of trade for agriculture and thereby further enhanced the profitability of industry.” The outcome of this obvious policy tilt was that industry grew under an overly favorable and extremely protective

39 Ibid.
40 Ibid., 25.
42 Ibid.
43 Ibid.
44 Ibid.
conditions. “This along with the rising effective demand in the economy on account of rapid monetary expansion has created conditions of high profitability for domestic industries.”\textsuperscript{45} This was also done through licenses and permits in the industrial sector. Such exercise of angular policy choices helped divert bulk of benefits of industrialization to a chosen few - elites. The chickens came home to roost soon as effects of asymmetrical policy choices had started to become visible beyond doubt by mid-1960s. Secondly, Elites Ltd posing themselves champions of industrialization and hence of country’s economic development asked for and were granted unprecedented tax exemptions. Things did come to such a pass that literally every industrial unit established anywhere in Pakistan was tax-exempt under one or another provision of the Income Tax Act, 1922, SRO, Order, Directive etc.

Tax holiday scheme was introduced in 1959. It had two major objectives: to accelerate industrial growth in the country and to encourage dissemination of industry to relatively less-developed regions. Before tax holiday scheme, profits of new industrial undertakings were exempt from tax only up to 5\% of capital employed regardless of area in which undertaking was located. New industries set up between 1959 and 1965 were granted tax holiday for 8, 6 and 4 years depending on their location, longer periods of tax holiday being meant for relatively less developed areas. These industries enjoyed, in addition, liberal depreciation allowances on original cost, on expiry of tax-holiday. It may be mentioned that apart from new industries, existing industrial undertakings were also entitled to tax holiday but benefit was restricted to such expansion as constituted either an identifiable new unit or an identifiable new process. For industries set up between 1965

\textsuperscript{45} Ibid., 12.
and 1970, period of tax-holiday was reduced to 6, 4 and 2 years. Also, depreciation became admissible after expiry of tax-holiday period, on written down value of assets rather than on their original cost.\textsuperscript{46} In 1960, Pakistan’s financial year was changed to commence on 1st of July and end on 30 June, from previously in vogue that would start on 1st April and end on 31st March. In 1965 Self Assessment scheme was introduced to satisfy demands of business elite who in view of fiscal favors going to industrial elite and business elite, were feeling left out.

Subsequently, through a flurry of more SROs, exemption cover was extended to hotel and a number of other industries. Likewise, tax concessions were made admissible to enterprises engaged in prospecting and extraction of those minerals, which were considered “essential to the national economy.”\textsuperscript{47} A comprehensive tax exemption was also extended to “any other industry notified later by government.”\textsuperscript{48} Additionally, apart from statutory deductibles, industry-specific lavish allowances and rebates were offered in the shape of Depreciation Allowances, interest on foreign loans, acquisition of technical expertise from overseas, and expenditure on scientific and technical training.

According to CBR, tax incentives and concessions were provided deliberately by Government of Pakistan to step up pace of industrialization and to attract foreign capital. “We believe that that the tax holiday, the generous depreciation allowances, the reasonable tax rates, the special tax treatment accorded to the exploration and exploitation of minerals and the freedom to remit profits as well as the original investment, inclusive of its appreciation, make Pakistan a most attractive country for new

\textsuperscript{46} GOP, \textit{The Taxation Commission Report (Volume 1)} (Islamabad: Ministry of Finance, 1974), 85.
\textsuperscript{47} CBR, 15.
\textsuperscript{48} Ibid., 11.
investment. The fact that industrial undertakings have been earning high profits makes the investment climate in Pakistan even more attractive."\textsuperscript{49} The policy choice exercised was not only deliberate but blatant, too. CBR did not mince words as to the purpose of extending such an outlandish regime of tax incentives, concessions, and exemptions. On the other hand, “continuation of export taxes on principal export crops under those conditions had a further depressing effect on their domestic prices. The drop in jute prices led to a diversion of land to the production of rice, resulting in an increase in its supply and consequent downward pressure on its price."\textsuperscript{50} The single-mindedness with which industrialization was pursued had also other side-effects. CTT observed:

An important concomitant of an industrial growth has been the problem of concentration of economic power. It has to be vividly realized that what we face in this country today is really the problem of the concentration of economic power and wealth rather than the problem of cartels and trusts. While we have been able to create an entrepreneurial class in the country, it has failed to grow and expand rapidly with the result that the same parties have come to acquire increasing control and power over our economic system. The same set of people have not only acquired control over a larger segment of activity but there has taken place a combination and concentration of several functions in the same set of individuals. For instance, land-owners have become industrialists, exporters, importers and bankers. New enterprises instead of drawing forth new initiative have had to lean heavily on the old and established entrepreneurs. The result is the problem of concentration continues to grow.\textsuperscript{51}

\textsuperscript{49} Ibid., (ii).
\textsuperscript{50} Nurul Islam, \textit{Foreign Trade and Economic Controls in Development : The Case of United Pakistan} (New Haven [Conn.]: Yale University Press, 1981), 212.
\textsuperscript{51} GOP, \textit{The Commission on Taxation and Tariff (First Report)}. 
Elites Ltd successfully continued its efforts to shift fiscal burden of the state from direct to indirect taxes – quite in accordance with rational actor model elaborated in chapter 1. Islam posits:

The relative significance of indirect taxes increased over time. While the ratio of direct taxes to GNP increased from about 4.4 percent in the late 1950s to 5.4 percent in the early 1960s and 6.6 percent during the late 1960s. Duties on trade were the most important component of this trend, even in the late 1960s, when incomes of the large and medium farmers increased substantially, consequent to a technological breakthrough. Pakistan did not succeed in formulating an adequate, efficient, and equitable system of either the land tax or the agricultural income tax to mobilize a part of the large increase in income.52

In an effort to harness excessive influence and might of industrial elite and business elite, military elite who directly ruled the country, ended up imposing a (wealth) tax on net wealth of a person as on 30th June of every year as base of tax.53 Military elite were to rue their decision to impose wealth tax subsequently as with passage of time they outsmarted every other rival elite group in amassing wealth and riches over time. This primarily happened due to significant appreciation in value of urban property, which is major asset in their wealth mix.54 But these lopsided policies had a negative fall-out; the rich became richer and the poor’s condition further deteriorated. The industrial and agricultural sectors responded very well, but opportunity was squandered as fiscal capacity of state was not systematically built. The industry did pick up and show impressive progress but there appears little connection between policies pursued by the regime and the industrial growth; it could have been accidental in nature. Similarly, it has been argued that

52 Islam.
54 Military elite repealed The Wealth Tax Act, 1963, in late 1999, as soon as they found an opportunity to do it.
“increase in agricultural production was attributable both to favourable weather conditions and the improved supply of physical inputs like water, fertilizers, seeds and pesticides.”

The state was hard-pressed for revenues but Pakistan’s alignment with the western bloc in the wake of Cold War helped improve its ability to extract internationally. The effort yielded impressive dividends that were utilized – under subtle predation – to finance coercive arm of state while weaker segments of society suffered. But there appears to be an overarching consensus to such a lopsided politico-economic dispensation. “Between April 1953 and March 1969, Pakistan was ruled by a governing corporation that drew the bulk of its intellectual and moral strength from the Civil Service of Pakistan, the higher echelons of the military, and elements within the judiciary sympathetic to it.”

While in India state’s extractive function was comprehensively being overhauled in early 1960s so as to muster enough revenues to meet developmental needs of state – in particular, education, health, and defense; in Pakistan, elites were found engaged in optimizing their economic group gains. India, in order to effectively eliminate generalists’ role from state’s extractive function, split CBR into two independent, autonomous, and professionally reorganized Central Board of Direct Taxes (CBDT), and Central Board of Indirect Taxes (CBIT) with effect from April 1, 1963. Since then no generalist could be posted to head either of CBR in India. In Pakistan, on the contrary, throughout 1960s, generalists M. Ayub, Mumtaz Mirza, M.M.Ahmed, Ghulam Ishaq Khan in capacity of being Finance Secretaries, continued to head revenue function as well on part-time basis. Mr. M. Ayub heading Ministry of Finance, and by way of an

additional charge, CBR, too, suited Elites Ltd for his tremendous ability to extract internationally and be generous back home to Industrial elite and business elite. In 1960, at time of consultations with the World Bank, Mr. Ayub is reported to have stated: “Pakistan was confident to persuade the various countries attending the World Bank consortium meeting in Washington to give loans, aid and private foreign capital to meet the foreign exchange requirements of her Second Five-Year Plan. We have preferred to cut down our development expenditure than to get the reputation of a defaulter.” The articulation of available options on economic management of country and exercise in favor of a particular one thereof, sounds rather intriguing.

M. M. Ahmed was a generalist belonging to pre-partition colonially-oriented civil service heritage. He had been qualified at Universities of London and Oxford. His major portfolios included Finance Secretary, Deputy Chairman (Planning Commission), Executive Director, World Bank, and part-time head of CBR with effect from March 6, 1963 to May 30, 1966. Additionally, his role in pooling up resources from various countries for Tarbela Dam a la Mangla Dam, Indus Water Basin Treaty, and restoration of Economic parity between East and West Pakistan, U.S.-China thaw is considered to be of much importance. Over two years that he headed extractive function of state on part time basis, apart from imposition of wealth tax that too riddled with angular exemptions and other fiscal waivers as narrated already, nothing was done to strengthen revenue system as had started to be done world over.

Ghulam Ishaq Khan who headed FBR for five years with effect from May 31, 1966 to September 8, 1970 – again as a part-timer – had an M.S. in Nuclear Chemistry from University of Peshawar, and was not even a trained generalist bureaucrat. He had started his career as a Tapedar (a low-ranking official), and then joined PCS (NWFP) in 1940, and during One-Unit days got himself inducted into CSP.\textsuperscript{60} Khan was a self-proclaimed economist and a past master in having his way with authority. He remained Chairman, WAPDA, Secretary Finance, Governor State Bank, Minister for Defense, Minister for Finance and Revenue, Chairman Senate, and then finally President of Pakistan. One would be tempted to argue that amongst all of portfolios he held, one he was least equipped for was that of head of revenue agency. Khan’s docility and strong elitist leanings helped transform Pakistan into a tax free zone, and fiscally unable to meet developmental needs of the country. The financial requirements of coercive function were met through extraction at international level, but domestically masses were alienating with state as rich got richer both through pro-elite industrial policy coupled with open-ended tax exemptions and a weak revenue system.

The exclusive elites-sponsored public policy formulation paradigm alienated federating units, and their frustration within federal fiscal arrangement reached its peak. The most important of Awami League’s famous Six Points was its demand that “The power of taxation and revenue collection should be vested in the federating units and the federal center would have no such power. The federation would be entitled to a share in the state taxes to meet its expenditures.”\textsuperscript{61} Fully cognizant of fact that “taxation levied from

\textsuperscript{60} Ibid.
Bengal was one of the major props of the Mughal Empire,” what Awami League, in fact, was aspiring to do was to snatch taxing rights of state from elites-generalist rent-seeking oligarchs in Islamabad, and shift them to Dacca. Through secession in 1971, Awami League achieved a partial success as Bangladesh continues to have Wealth Tax, Estate Duty Tax, Gift Tax, Land Revenue Tax unlike Pakistan wherein all of them stand either abolished or un-imposed. The political muddle, which ensued resulted in the break-up of the country, opened up vast expanse of strategic space in rump Pakistan allowing military elite in collusion with industrial elite and business elite to spread their tentacles and amass great amounts of economic resources and power. Simultaneously, fiscal burden continued to be shifted to ordinary citizens of Pakistan one way or the other. “The FED has been an important source of revenue. As early as 1948-49, its share was 14.5% in total federal taxes, and it touched the highest mark of 43.1% in FY: 1967-68.”

All five generalists who headed CBR during 1960s, lacked vision, knowledge, and essential realization of how critically important it was to have a functional extractive arm of the state. They were all part-timers and their entitlement to head revenue agency was their ability to please ruling masters. The existentialist mode in which generalist lackeys operated impelled them to go officiously overboard to ingratiate themselves with industrial elite, business elite, and military elite, and in process transformed entire country into a tax free zone. “A protected market, fiscal benefits like tax holidays and exemptions, the economically degenerating bonus voucher scheme, liberal credit facilities and manifold investment incentives were the hallmark of the socio-politico-

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63 FBR, *Year Book 2009-10* (Islamabad: FBR Directorate of Research and Statistics, 2010), 16.
economic infrastructure which existed for over two decades and a half in Pakistan enabling re-channelization of resources from the poor masses to a handful of industrialists and entrepreneurs."\textsuperscript{64} There is no doubt that the entire public machinery for promotion of trade, commerce and industry was geared to the same goal, that is, concentration of wealth in a few hands depriving toiling millions of even basic amenities of life.\textsuperscript{65} CTT remarked as far back as 1965, “that in recent years the amount of black money floating about has been on the increase… obviously … accounted for by tax evasion.”\textsuperscript{66} Such brute maximization of economic gains at cost of both state and masses was bound to have consequence, worst being dismemberment of country itself that had now, as decade drew to a close, started making nebulously visible on the horizon.

Section VI  
Flirtation with Socialism 1970-1980

Throughout 1960s, Pakistan had served as industrialists’ paradise not only in the sense that elites-generalist kleptocracy controlled economy through permits and licenses for almost every economic activity, but also in the sense that whatever they earned was tax-free with the result that rapidly citizens (selected though) got richer and state poorer alongside general populace, which stood expelled from the economic process. The military elite, who directly ruled country during 1960s, in collusion with industrial elite and business elite had pursued an economic model that concentrated only on growth in complete disregard of requirements of socio-economic justice. This was done at the cost of country itself, and by 1970, the entire structure of policy was in shambles. No sooner

\textsuperscript{65} Ibid.  
\textsuperscript{66} GOP, The Commission on Taxation and Tariff (First Report).
the country had finally broken up in 1971, there “was social discontentment, political unrest, and psychological restlessness throughout the society. The nation was confronted with an economic crisis of massive proportions, which was reflected in the sluggish growth of national product, stagnation in industrial and agricultural output, low levels of savings and investments, and an acute disequilibrium in the balance of payments.”

Even this economic slow-down was effectively used by elites-generalist kleptocrats to maximize on their perverse interests. “The practice led to the accumulation of wealth in the hands of a small class and glaring differences in income levels.”

The PPP-government led by Zulfiqar Ali Bhutto, first as President and then as Prime Minister, after coming to power in December, 1971, in the aftermath of dismemberment of the country, was fully cognizant of fact that a “fundamental restructuring of national economy was, therefore, one of the first tasks that the people’s Government,” had to undertake and it resorted to nationalization as a tool to undo the accumulation of national wealth in fewer hands. The tax concessions for industries – tax holiday scheme – was first suspended in 1972 and then completely abolished in 1973, on recommendations made by the Taxation Reforms Commission in its Interim Reports of May, 1971 and 1972. The new government believed that “it is within the public sector that all the major sources of the production of wealth will be placed. The private sector will offer opportunities for individual initiatives in the areas of production where small enterprises can be efficient.”

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69 Ibid.
January 1, 1972, which entitled the Government to take over the management and control of 32 industrial units in 10 categories of basic industries. For a certain period, the Government managed these industries under special powers without acquiring ownership.\textsuperscript{72} Resultantly, public expenditure/GDP ratio rose as high as 25 per cent, which, on one hand, indicated “an extensive Government participation in economic activity,” and on other, manifold increase in demand on Government for an improved delivery and better management.\textsuperscript{73} “During 1972 and 1973, the Government organized its administrative set-up for the efficient management of the taken-over industries.”\textsuperscript{74} Bhutto also expelled 302 senior civil servants on charges of corruption and inefficiency, and undertook massive civil service reforms but generalists in combine with Elites Ltd were to turn tables on Bhutto as well as hijack and re-contrive entire reform process as explicated in chapter 3 of this study.

Bhutto impelled by his public commitments to change economic conditions of the poor, attempted to overcome fiscal failures of state through tax policy by imposing agricultural income tax for first time in country’s history. It, of course, did not go well with landed elite who formed bulk of PPP’s upper crust. A corresponding exemption to landholdings up to 25 acres irrigated and 50 acres of un-irrigated land, and an “investment allowance to promote productive investment in agriculture,”\textsuperscript{75} were also introduced and corresponding provisions inserted into tax laws to make policy choice palatable.

When military elite conjured a coup d'etat to again take direct control of the state into their own hands, in an aggressive move, the Estate Duty Act, 1950, was abolished in

\textsuperscript{72} Hashmi, 5.
\textsuperscript{73} GOP, \textit{The Taxation Commission Report (Volume 1)}, 19.
\textsuperscript{74} Hashmi, 5.
\textsuperscript{75} PPP, "Manifesto-1977" \url{http://www.ppp.org.pk/manifestos/1977.html}.
1979 “without debate or deliberation by any law-making forum in Pakistan.” 76 Ghulam Ishaq Khan, the Finance Minister, making Budget Speech 1979-80, on radio and T.V. merely stated that “Estate duty which in the western world had been brought in as a battering ram against inherited wealth has in our context of Islamic system of inheritance largely become irrelevant. Considering its low yield over the years it was also serving more as an irritant than a source of revenue or serving any social objective and is accordingly being abolished.” The abolishment of tax was also justified on “grounds that large estates should be broken up and the wealth be distributed in order to reduce inequalities and disparities.” 77 Religious elite supplied ideological explanation for abolishment of inheritance tax in terms of its being an un-Islamic tax, and since it also suited other elite groups, they lent support to churn out needed legislation. No measures were taken to break up large estates and distribute wealth amongst rightful aspirants – Haris, tenants, and poor of Pakistan, but an effective and time-tested tool of redistribution of resources namely estate duty tax was abolished. The military elite also in an effort to co-opt landed elite reversed decision to impose agricultural income tax.

The most important of generalist stalwarts who headed extractive function of Pakistan during 1970s was A.G.N. Kazi – a Physicist by academic background and an ICS officer of pre-partition pedigree. He was yet another self-acclaimed economist who spearheaded Ministry of Finance during turbulent times leading to breakup of the country, and by implication also CBR – on part-time basis. He was also the last one to head the country’s revenue system on a part-time basis, as new political realities were to create harrowing revenue imperatives compelling Elites Ltd to appoint Chairman, CBR, on full-time basis.

77 Ibid.
Except M. Zulfiqar, other two Chairmen, CBR, that is, Riaz Ahmad, and N.M. Qureshi – were generalists to core. The economic stagnation of late 1970s fuelled by political turmoil that ensued 1977-elections to national and provincial assemblies, had effectively sent the polity into a serious fiscal squeeze. Since domestic taxation on stable footing was not an option available to Elites Ltd, state had to look-out for opportunities to extract internationally. The Income Tax Ordinance, 1979, was enforced by abolishing the Income Tax Act, 1922, with effect from 1st July 1979, inter alia, to introduce a broad-based Self-Assessment Scheme on the demand of industrial elite and business elite.

Section VII
Ideological Polarization 1980-1990

Shafqat optimizing on Flanagan’s model of crisis and structural change – designed in broader framework of system’s paradigm – attempts to explain dynamics of Pakistan’s political system from 1947 till 1989. Flanagan suggests that changes in international environment and performance of government generate systemic crisis which lead to structural change. In the case of Pakistan of late 1970s, while internal pressures were of key importance first towards formation of an anti-PPP broad-based Pakistan National Alliance (PNA) in which both extreme right of centre parties like Jamiat Ulama-e-Islam (JUI), Jamiat-e-Islami, and Jamiat Ulema-e-Pakistan (JUP), and left of centre parties like Awami National Party (ANP) participated with equal zest to oust socialist-in-rhetoric but feudalistic-in-practice Bhutto-led PPP from power through 1977 elections.

Bhutto, during his turbulent times in power, namely 1972-77, had rubbed all members of Elites Ltd – including those in his own party – the wrong way.

The two-pronged pivot of regime’s orientation was liberalization and Islamization of economy. Interestingly, pivot reflected and satisfied major demands of society’s elites. Although, most industries were privatized or returned to their original owners, banks were kept under government ownership and management. In a nutshell, Islamization was more important than liberalization, and both criss-crossed each other at many a places resulting in chaos and confusion. “Zia’s economic policies represented a rather sharp contrast between reasonably satisfactory short-term economic management and an almost total neglect of long-term policy issues. The long period of political stability and sustained growth under Zia-ul-Haq offered major dealings with the underlying structural issues but these were not exploited.”

During this period of direct control of power, military elite significantly expanded their industrial base and got hold of prime lands all over country – both urban and agricultural. The Defense Housing Authority (DHA) came into existence through Presidential Order No.7 of 1980 and was later approved by National Assembly of Pakistan.

The regime’s association with Western bloc gave fillip to ingrained state tendencies of extraction from international sources. “The Russian invasion of Afghanistan in 1979 propelled Pakistan to the forefront of international political attention. Not only did it give political legitimacy to a regime which was facing credibility problems of its own, it also set the way for substantial infusions of foreign aid and war-related assistance that would...

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… provide a safety valve for the Pakistani economy.”

Foreign aid flows both in cash and kind in lieu of nation’s mercenary role in Afghanistan eased up fiscal pressure to a good extent. However, fiscal space created was not utilized to reform and strengthen revenue system, and instead was expended by the military elite to pacify various interest groups in economy and dole out taxing incentives to Elites Ltd so as to prolong their domination of state.

In 1985, Elites Ltd in yet another foray on country’s revenue system abolished gift tax without due diligence, explanation, or hue and cry thereby allowing free-of-charge transfer of assets in economy to exclusive advantage of well-to-do segments of society. Dr. Mahbub ul Haq, delivering Budget Speech 1985-86, on May 23, 1985 in the National Assembly, stated “After the examination of the gift tax, we have reached the conclusion that net collection under this tax is low (only rupees fifteen million), but it is source of considerable inconvenience to the tax payer and involves sizeable administrative expenditure. Government has, therefore, decided to abolish gift tax. A Presidential Ordinance is being issued to this effect.”

Earlier, religious elite had provided ideological moorings to the policy choice by stipulating that under Shariah law registration of a gifted asset was not required, and that Shariah required only occurrence of gift itself, intent and consent (though verbal) of donor, and acceptance of gift (though verbal) by donee were sufficient to effect a transaction of whatever denomination. The depth and breadth of ideological incision apart, such an ambiguous and open-ended orientation, further crippled enforcement of all direct taxes, that is, income tax, wealth

tax, gift tax, and estate duty (inheritance tax) before it was abolished in 1979, as cumulative tax base increasingly got porous, and tax administration grew defeatist in tone and tenor in face of every other case being knocked down by judiciary under Shariah laws. Additionally, it proved to be one final nail in the coffin of state’s efforts to document its economy. Elites Ltd members found convergence of interests and were to reap full benefits of the policy choice for next three decades. The comfort zone in which Elites Ltd spearheaded by military elite operated in 1980s and managed country’s economy mainly through extraction at international level impelled by a strong propensity of path dependency and induced by a rentier role in Afghanistan, put a thick lid on country’s fiscal failures. “At the end of the war in 1918, income tax collections accounted for 12% of revenues, not substantively different from the 14% of total tax revenues achieved in Pakistan in 1985, with considerably higher rate structures.”

The only generalist of note – I. A. Imtiaz, a CSP of 1949 batch – who headed CBR in mid-1980s, was known for supine and supple demeanor. He excelled his fellow generalists in subservience to military elite – sole reason behind his appointment to head this critically important organ of state. The case for abolishment of gift tax was processed within one day. During 1980s fiscal writ of state started to erode significantly when Elites Ltd members began to take its revenue arm for a ride in the wake of society’s pervasive melt-down along religious, ethnic, sectarian, geographical, and linguistic fault-lines. The ensuing chaos rendered the task of conducting revenue operations and administering tax laws ever more difficult for an agency which was already been kept in a given dysfunctional state. It is generally believed that military-led regime did more harm than

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good to Pakistan. The ideological varnish given to both state and society under state patronage in search of legitimacy to prolong illegitimate rule fundamentally changed the character of Pakistani society for all times to come. “Inertia, banality and the easing of fiscal pressures enabled the government to adopt a policy of least resistance at home even as it radicalized and destabilized Pakistani society for the purpose of supporting the anti-Soviet resistance in Afghanistan.”

Since neither an attempt had been made to strengthen revenue system, nor any surplus funds were generated to invest into building the sovereign’s overall capacity, a couple of decades down the road chickens have come to roost as non-state actors created, propped, and promoted during 1980s under military-led regime’s auspices, have finally gained enough strength to take on state itself – with military elite themselves being in the line of fire.

Section VIII
Rattling of the Polity 1990-2000

It was during 1990s that Pakistan started going downhill in most respects. Economic growth nosedived to between 3 and 4 per cent, poverty rose to 33 per cent, inflation entered double digits, and foreign debt mounted to nearly entire GDP of Pakistan. The political instability resulting in repeated change of governments in Islamabad bore heavily both on economy and polity. Towards the turn of the century Pakistan’s total public debt as percentage of GDP was highest in South Asia – 99.3 per cent of its GDP and 629 per cent of its revenue receipts, compared to Sri Lanka’s 91.1 and 528.3 per cent, and India’s 47.2 and 384.9 per cent, respectively in 1998. Internal Debt of Pakistan in 1999 was 45.6 per cent of GDP and 289.1 per cent of its revenue receipts, as compared to

Sri Lanka’s 45.7 and 264.8 per cent, and India’s 44.0 and 358.4 per cent, respectively in 1998.\(^8\) The state, like before, stayed hijacked to Elites Ltd and national exchequer continued to be financed by all and sundry through indirect taxation and extraction at international level. “The country, however, remains saddled with a variety of indirect taxes, special levies, and relatively high rates that invite evasion and discourage legitimate business.”\(^8\)

In the wake of Soviet withdrawal from Afghanistan, the state started finding extraction at international level more and more difficult. The opportunities of extending state-sponsored mercenary services were now less on offer as competitors like U.S. entered Middle Eastern market, and Bangladesh, Ethiopia and India started bidding for UN peacekeeping missions. The successive governments constrained to put up national budgets and run country as international aid component in equation got slimmer and slimmer with every passing year. The decade started with much-touted reform process which Nawaz Sharif government initiated in almost all sectors of economy. “Shortly after taking office in November 1990 the Sharif administration followed up on its election pledges by appointing six committees for formulating policies aimed at transforming the country into a rapidly industrializing, self-reliant economy through comprehensive liberalization, decontrol, privatization, and investment promotion.”\(^8\) These committees were set up in six areas: (i) Exchange and payment reforms; (ii) Industrial policy and investment; (iii) Deregulation and disinvestment; (iv) Tax reform; (v) Increasing exports;

and (vi) Self-reliance.\textsuperscript{88} The entire process was elites-led and dice was once again loaded against hapless people of Pakistan.

The hallmark of neo-liberalist onslaught, that is, the Protection of Economic Reforms Act, 1992, was the biggest success of Elites Ltd; it opened up the economy to what was later to be called “dollarization of economy,” and whitening of black economy with impunity. Ahmad et al. wrote as far back as in 1991 that Pakistan’s “tax system is excessively reliant on indirect taxes in general and on customs in particular. It was inherited at independence and has developed through the accretion of ad hoc measures in response to pressures for revenue and from particular interests. It is now a system which has little logical coherence, is full of administrative complication and difficulty, and is not delivering the required revenue. If it is not subject to major reform in the near future its deficiencies may become a substantial brake on the impressive growth rates Pakistan has achieved in the last quarter of a century.”\textsuperscript{89} The call was perhaps heard and a comprehensive reform process was initiated to reform the revenue system. A new construct “Presumptive Income” prescribing an upfront withholding minimal tax rate say between 1-5 per cent was introduced thereby relieving business elite of their responsibility to finalize annual accounts. The measure proved spurious as it not only made the state abdicate its essential powers of assessment of its charge on citizens, but also that rendered the life of low income groups miserable.

The dried up extraction at international level had a rattling effect on state which compelled Elites Ltd to, at least, momentarily sideline generalist lackeys and, instead,

\textsuperscript{88} Ibid.
\textsuperscript{89} Ehtisham Ahmad, “The Political Economy of Tax Reforms in Pakistan: The Ongoing Saga of the G.S.T, 2010,” Bonn.
rely on professionals to head extractive function. However, background intrigues from generalists never abated as none of professional heads of CBR could survive beyond a year and a half at maximum. Ahadullah Akmal, Sajjad Hassan, Alvi Abdul Rahim, Shamim Ahmed, and Mian Iqbal Farid were appointed and shown the door and replaced by generalists – more supple and existentialist in their approach. The average tenure of a professional chairman, CBR comes to a meager 1.3 years. The generalists like Mubeen Ahsan, Javed Talat, A.R. Siddiqui, and Hafeezullah Ishaq were professional failures as far as revenue system itself was concerned. Qazi M. Alimullah was an officer of Audit and Accounts Group and had been much lower even on merit at time of entry into civil service if that is an argument to support generalists to rule the revenue system. For the first time in the country’s history a non-civil servant i.e. Moinuddin Khan (January 2, 1998 to November 6, 1998) was also appointed in the wake of Prime Minister Nawaz Sharif’s press statements that CBR was being privatized within broader context of a large scale privatization program that had been launched by his government. For good or bad, privatization of CBR could not be undertaken as military elites, in a bloodless coup d'état on October 12, 1999, took power joystick directly into their own hands, yet once again.

Section IX
Squandering of the Opportunity 2001-2010

During the first decade of the 21st century, that is, till 2007-08, Pakistan’s economy on average grew at 7 per cent. There was a boom visible in every sector particularly in banking, industrial, and services sectors. The fall of twin-towers in New York and U.S. decision to undertake a hot pursuit of presumed culprits hiding in Afghanistan, opened up new vistas for extraction at international level, and domestic extraction was ignored when economy had capacity to offer an extra pound of flesh. Expectedly, era of extraction at
international level returned with vengeance. Substantial foreign exchange inflows powered economic activity. The War on Terror-induced crackdown mainly sponsored by U.S. CIA on *hundi* and *hawala* means of foreign remittances emanating from anywhere particularly Western Europe and North America also contributed to ease pressure on current account effectively for first time in history of the country.

If ever there were an opportunity for the state to dig in so as to improve its capacity by taming fat-purse elite, this was now. It was not done and opportunity was squandered. The decade started off by launching an all-comprising “New Tax Amnesty Scheme, 2000.”\(^90\) The scheme offered extremely lenient rates of 11, 12, 13 and 14 per cent for declarations to be made by deadlines of August 31, 2000, September, 30, 2000, November 31, 2000, or December 30, 2000, respectively. A key feature of the scheme was acceptance of declared value of assets created out of untaxed funds. The declared value was defined as actual cost of acquisition or value specified for stamp duty purposes applicable on 30\(^{th}\) June of relevant tax year, whichever was higher.\(^91\) It is a known fact that stamp duty rates are too low in Pakistan and reflect only fraction of actual investment made into acquisition of real estate assets. The Circular stipulated that “where a declaration in respect of undisclosed income has been properly made and the tax due on such income has been fully paid, such declaration shall be accepted by Deputy Commissioner Income Tax concerned without any further proceedings and the declarants shall be informed accordingly.”\(^92\) Another important aspect of the adventure was that the

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\(^90\) The "New Tax Amensty Scheme, 2000" was launched vide Cricular No. 19 of 2000, dated August 2, 2000.
\(^92\) Ibid., 3.
declarations made under the amnesty scheme were to be “treated as confidential” and not to be made a basis for any action under Central Excise, Customs or Sales Tax laws.\textsuperscript{93}

Even World Bank in one of its reports held that “government’s commitment to major tax policy reforms wavered over time, especially during the boom years (2005-2008) when higher economic growth generated modest revenue gains.”\textsuperscript{94} But Elites Ltd harvested full fruits of maneuvered policy choices. The process initiated to reform the revenue system was imperceptibly and effectively exploited to shift revenue administration from enforcement mode to facilitation mode only as self-assessment became a buzzword and an order of the day in respect of all taxes sans any audit or deterrence. Tax rates were reduced and requirements for calling Wealth Statement – an important tool to curb corruption and nab tax evasion – were rendered stringent. “Similarly, government in an attempt to attract money obtained from illegal sources into rural industrialization declared that no questions will be asked regarding the source of funds going into new investments.”\textsuperscript{95}

Abdullah Yusuf, who was appointed as Chairman, CBR, in June, 2004, was the most significant lackey to have headed extractive function for over four years. Yusuf was known for “single-outing…from the department (he) head(ed) through harsh and contemptuous attitude towards the staff and officers;” “over-react(ing) by blaming officers to be corrupt, superseding tens of officers on charges of corruption without any justification or even instancing a single case for the corruption and portraying (him)self to be someone alien on a different planet despite using all the benefits of that

\textsuperscript{93} Ibid.
\textsuperscript{95} Looney, 12.
planet;”…“presenting on every TV channel by sacrificing already set important official meetings and engagements, disregarding the awaiting officers and staff; associating himself with “some selected ‘Business Community’ and a tax consultants’ firm;” consistently violating “dignity of officers;” transforming CBR into ‘The Mad House’ where nobody knew what to do; cowing down officers with “arrogance, aggression, belligerence;” “mishandling of prime institution responsible for smooth sailing of national economy;” starting “sweeping measures taken to unduly favor ‘selected’ business community;” taking excessive credit for “achieving revenue targets” that was “direct outcome of economic boom due to flow of foreign capital in form of increased remittances, foreign loans and aids plus impact of inflation and devaluation of rupee;” putting in place “over exaggerated facilitation measures;” and thereby rendering “Income Tax department…totally toothless and ineffective;” and introducing self-assessment “in Income Tax, Sales Tax and recently in Customs” and simultaneously suspending audit.96 Yusuf’s favorite fad was purging tax system of corrupt elements without realizing that if direct taxes system of a country was fully functional, one might not even need multiple and multi-layered anti-corruption outfits. He appears to have intentionally kept his focus on corruption – as a distraction – and not on taxation. Astonishingly, anti-corruption establishments be those under provincial or federal governments are present in every district headquarter (all 101 of them), whereas tax system’s geographical presence was effectively confined only to 13 major cities. Under Yusuf, tax system saw a major roll-back from 34 to 13 locations, thereby undoing progress achieved over past five and a half decades in terms of laying down infrastructure, logistics, and physical presence. “The

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FBR under TARP replaced 757 income tax circles, working under 139 ranges, 32 zones, and five regions, into functional divisions without proper homework.‖ The tax offices even in major cities like Jhelum, Sahiwal, Sargodha, and Bahawalpur were replaced with Tax Facilitation Centers (TFCs), which move, for a jest, was equated with “call centres.” Other lucky generalist lackeys who headed country’s revenue system during first decade of twenty-first century included Ahmed Waqar, an officer of Audit and Accounts Service, whose only entitlement to Chairman, FBR, was that he was a pawn in hands of military elite. When he was appointed as Chairman, FBR, his own batch-mates in IRS and PCS (and coincidentally much higher on merit at civil services entry-point), and with a lifetime experience of handling tax matters were made to serve under him. A gentleman of average intelligence quotient, had simply no ability to understand and delve into tricky taxation matters potentially having massive fall-out for economy and, by implication, for country. When Sohail Ahmed – another generalist was appointed to head FBR in June 2009, he was the junior most officer in BS-21 in entire civil services of Pakistan. While Finance Minister, Shaukat Tareen – an elite banker by profession, rhymed his typical generalistic meta-narratives to plant him in FBR, top-brass of IRS and PCS officers corps (senior to him) refused to work under him putting state’s revenue operations to a grinding halt. Except that he fulfilled some important structural conditionalities with IFIs under various financing arrangements, no upward trigger in revenue was observed. He was removed in December, 2010, to make way for Salman Siddique – yet another generalist.

In sum, despite having invested massive sums borrowed form World Bank under TARP, “expected gains in domestic revenues did not occur.” Tax collection under all four

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98 Ahmad.
streams continued to nosedive. “The GST collections continued to decline (from a high of 4.1 percent of GDP) to almost 3 percent of GDP at the end of the decade—and that is after ten years of tax administration reforms and a hike in the rate of the GST. The tax/GDP ratio also fell in tandem, to under 9 percent of GDP by 2009 – one of the lowest in the world for a large and complex economy with a population approaching 180 million.”^99 Indeed, by close of decade, revenue system was much weaker than ever before, just not good enough to generate sufficient revenues for state to perform its avowed functions.

Section X
Economico-Political Meltdown 2010-2015

Siddique’s most important feature was his ability to ingratiate and coexist with ruling elites of whatever background or ideology. On his retirement in January 2012, Mumtaz Haider Rizvi – a PCS officer was appointed to head FBR on part-time basis for full second half of fiscal year. In July, 2012, Ali Arshad Hakeem was appointed Chairman, FBR, with much trumpet as a technology-savvy expert who could revolutionize revenue system through introduction of technology. Hakeem was a generalist of rather dubious credentials, and was appointed Chairman, FBR, solely because of his subservient affiliation with the then ruling coalition – led by PPP. Out of desperation, IRS invoking Article 184(3) of Constitution filed a Petition before Supreme Court of Pakistan seeking scrutiny of his appointment. The Petition was not fixed for hearing for good six months, and when it was finally fixed, it took Supreme Court five minute and five lines to dismiss it. A fresh quo warranto Petition was filed in Islamabad High Court under Article 199 of

^99 Ibid.
the Constitution seeking Hakeem’s appointment ruled nullity ab-initio. The petition was finally granted in April, 2013. Ansar Javed – an IRS officer in BS-22, was appointed as Chairman, FBR, in place of Hakeem, clearly as a stop-gap arrangement by interim government (installed to conduct free and fair elections), as Javed was to attain age of superannuation in a couple of months time. When government accounts were closed on June 30th, 2013, a revenue hemorrhage to the tune of Rs. 465 billion had taken place.

In 2013, the country’s tax-take received the biggest hit; a loss of Rs. 465 billion against the set target was unprecedented. The year-on-year increase was only 3 per cent which was not good enough to offset the inflation – mostly in double digits during the year. Against such a dismal backdrop, PML-N government ventured to launch yet another “New Tax Amnesty Scheme” in Pakistan. The amnesty scheme provided immunity to the investment in green-field industrial undertakings, and to an individual taxpayer who has not filed tax returns for the tax years from 2008 to 2012. Thus, the entrepreneurs could invest any amount without any questions as to its source. Likewise, individuals could pay just Rs. 20,000/- for a tax year and whiten any quantum of ill-gotten wealth, and inject into the formal economy, and also shield themselves off from penalty, default surcharge, audit, and selection for audit under sections 182, 205, 177, and 214C of the Income Tax Ordinance, 2001, respectively. It goes without saying that not only that initiative was elitist in tone and tenor but was also milked to the full by a select number

\footnote{New clause (86) was inserted in Part I of Second Schedule to the Income Tax Ordinance, 2001.}

\footnote{New clauses (87) and (88) were inserted in Part I of Second Schedule to the Income Tax Ordinance, 2001.}
of target people. On Javed’s retirement on June 30, 2013, bigger elitist plan unfolded when Tariq Bajwa – another generalist was appointed as Chairman, FBR.

One of the direct outcomes of nonperforming revenue function is low performance of the fiscal function. Since state could not extract from those who possessed the ability to contribute and expend on those who desperately needed delivery of public goods. The World Ultra Wealth Report 2012-13 identifies Asia as home to 42,895 Ultra High Net Worth Individuals (UHNWIs) with a combined net worth close to U.S. $ 6.3 trillion. The report suggests that while 915 individuals exited ranks of the ultra-wealthy since release of the World Ultra Wealth Report 2011-12, in overall terms, Asia saw a loss of 2.1% of its ultra-wealthy population. It further indicates that Sri Lanka saw the largest percentage reduction in UHNW population, followed by Bangladesh and Kazakhstan. “In absolute terms, India suffered the largest reduction in UHNW population, losing 485 ultra-wealthy individuals, followed by China who lost 265 UHNWIs and Japan who lost 210.”

In a sharp contrast to this egalitarian trend sweeping across the region, Pakistan’s UHNW population increased by 8.9 per cent, increasing number of Pakistani billionaires from 285 to 310 – behind only Mongolia in entire Asia. Pakistan’s Gini co-efficient and Lorenz Curve also bear witness to the general perception that the rich are growing rich and the poor poorer in the country. This trend is not likely to see reversal because the state’s governance mechanism is rigged beyond any prospects of a recovery. All other important indicators like national debt, unemployment, fiscal deficit, exchange rate, and inflation etc. are disturbed and reflective of a state in tatters and at the end of the tether.

104 Ibid.
The situation on social indicators is not better either as Pakistan has effectively missed out on all MDGs – a rare distinction in the world. In fact, resource-constraints are telling on each and every aspect of Pakistan’s national life now.

Section XI
Capsule History of U.S. Tax System

As it has already been argued in chapter 1, how both countries have put (or not) put in place, legally sanctioned mechanisms of factions management, in the present chapter it will be seen how those mechanisms are operationalized by states to assert themselves simultaneously allowing interest articulation feeding into national interest aggregation reflecting in terms of tax policy bits, and national tax-take in final analysis. While in the foregoing sections, a decade-wise analysis of Pakistan’s revenue history was undertaken to attest and explicate basic hypotheses of the study, in this section a run-down of major tax events in U.S. history would help galvanize the debate in a comparative context.

Colonial Period

The U.S. may be the only country, which, to a good extent, owes its very independence to taxation. During pre-independence period, Great Britain imposed not too heavy taxes on the colonists as compared with its own citizens. It has been argued that colonists paid between 2-4 per cent of their per capita as compared with their counterparts living in Great Britain. The seeds of American Independence could well be traced to the Great Britain’s Seven Years War fought on the North American continent between 1756-63, which although apparently it won and had “France ceding to Britain all of its territory east of the Mississippi River as well as all of Canada and Spain surrendering its claim to
Florida, yet war effort had financially drained it so much that it was compelled to resort to excessive taxation. Moreover, as soon as war came to a close, London decided to establish a standing army to guard newly acquired territories and to enforce its laws therein, which took cost of running America to the empire to almost unbearable proportions. In almost a frenzied manner, London ended up legislating a flurry of taxing statutes. The Sugar Act of 1764, the Stamp Act, 1765, the Quartering Act, 1765, and the Townshend Acts, 1767, were some of prominent measures that carried twin-aim of boosting revenue and strengthening the administrative machinery, and facilitating British government in running colonial set up.

The American colonists reacted sharply to these taxation measures – in particular, the Tea Act, 1773. The British Parliament had passed the Tea Act, primarily to salvage and pull the East India Company out of deep financial woes, by allowing it to ship its surplus tea stocks piled up in London to American colonies free of customs duties, which essentially meant that Americans drank only British tea that was enough to anger them. A violent protest, euphemistically called the Boston Tea Party, occurred on December 16, 1773. A group of Bostonians branding themselves as “Sons of Liberty,” and led by impetuous Samuel Adams, camouflaging as Indians, attacked British tea ships parked in Boston harbor. “They took boxes of tea and dumped them into the water.” The British administration closed the harbor and handed down a series of punitive laws better known as the Intolerable Acts, which were aimed at coercing the colonists into paying for tea lost. It can be argued that since as a result of duty-free tea coming from Great Britain


\[\text{106} \] Ibid.
would have reduced the price of tea substantially for the consumer in American market, violent reaction to the Tea Act could only be explained in terms of reaction by interest groups indulged in importation of tea from other countries. Whatever, the Boston Tea Party is now regarded as the most concrete trigger point of the American Revolution.

Post-Revolution Period

Given the fact that U.S. Constitution did not permit the federal government to resort to direct taxation, the revenue collection mechanisms employed during earlier period of U.S. history hardly bore any similarities or likeness with modern-day U.S. tax system. The resources were generated from taxing imports at rather a high rate. Till 1900s, tariffs constituted almost 84 per cent of government receipts. Further, revenue effort was buttressed through imposition of excise taxes, which contributed substantially. In 1900s, around 60 per cent of total domestic revenue collection was contributed by excise duty on liquor and another 20 per cent on cigarettes. Since there was no specialized national revenue service or administration in place, all states were responsible to administer their own imports and excise duties. Therefore, major tax bouts occurred at sub-national level across all states. In the post-Revolution period, although leadership was cognizant of revenue needs of a burgeoning state, yet enormity of attended problems compelled it to defer putting in place an effective tax system. It has been posited that in U.S. “emergence of modern taxation was closely intertwined with the problems of state- and nation-building in a socially and ethnically fragmented society.”107

Thus, from the very beginning, one of cardinal questions that “American politicians were confronted with (was) as to whether Afro-American slaves were to be counted as “persons” or as “property.”108 The labyrinthine and mazy tax debates were in a way an effort to get around question of slavery.” In framing the Articles of Confederation, Continental Congress avoided the issue by adopting a completely unworkable scheme of apportionment among the states based on real estate value. As this plan was never realized, a 5 percent “impost” on imported goods was introduced. “The delayed institutionalization of federal taxes in the United States was therefore closely linked to the existence of slavery.”109 Since fundamental questions were evaded, state governments were left to fend for themselves crumbling under the burden of debt picked up during revolutionary war years, devaluing properties, and insufficient resource generation. This created friction amongst people and state governments, which made expression in a variety of ways but most importantly by challenging state’s authority to tax; tax more. In this regard, three most important tax-related rebellions occurring during or immediately after American Revolutionary War (1776-83) and their analysis would help us understand dynamics of revenue-generation in U.S.

*Shays’ Rebellion – 1786-87*

The build-up to Shays rebellion could well be traced in a couple of prequels. First, in October 1781, Job Shattuck, fomented denizens of Groton to thwart revenue collection by force.110 While still “serving as town selectman, Shattuck was one of eighteen men obstructing the tax collecting efforts of two constables on three separate occasions, a

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108 Ibid.
109 Ibid.
series of events called the "Groton Riots." Shattuck had been British colonial soldier during the Seven Year War, a landowner of Groton – a small town in Middlesex County, Massachusetts. Although, in April 1782, he got away with a soft punishment of ten pounds after having pleaded guilty to rioting, and obstructing tax collection, yet community continued to vote him to negotiate on behalf of revolutionary soldiers.

Second, in line was the mass protest-turned-riot, which occurred on February 3, 1783, in Uxbridge – a small Massachusetts town. The mob protesting against heavy taxation on multiple counts and recaptured a property confiscated by the state for defaults. Governor Hancock – though populist in tone and tenor and amenable to people’s demands – had the sheriff suppress unruliness and rioting. Shays’ Rebellion refers to an armed struggle led by Daniel Shays in Springfield Massachusetts in 1786-87, against aggressive and regressive taxation, angular economic policies, corruption and cronyistical governance.

Howard Zinn, quoting a note of thunder by a farmer at a meeting that had been called by commoners, has very succinctly, summarized dissatisfaction with system and prevailing politico-economic situations, in following words: -

I have been greatly abused, have been obliged to do more than my part in the war, been loaded with class rates, town rates, province rates, Continental rates and all rates ... been pulled and hauled by sheriffs, constables and collectors, and had my cattle sold for less than they were worth...The great men are going to get all we have and I think it is time for us to rise and put a stop to it, and have no more courts, nor sheriffs, nor collectors nor lawyers.

Shays was a Revolutionary War veteran duly supported by Luke Day, Job Shattuck, and Eli Parsons, first made an attempt to Massachusetts’ Supreme Judicial Court and then

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111 Ibid.  
112 Ibid.  
Springfield Armory, both times failing. The Rebellion eventually fizzled out sans any major bloodshed. A few thousand people were arrested, tried for treason, and freed under an amnesty. Some of Shaysites, however, were convicted, but had their punishments reversed in courts, and pardoned. Two convicts, namely, Charles Rose, and John Bly, however, were executed on December 6, 1787.\footnote{L.L. Richards, \textit{Shays's Rebellion: The American Revolution's Final Battle} (Philadelphia: University of Pennsylvania Press 2003), 38-41.} Shays having gone into hiding after the Rebellion withered away, was pardoned in 1788, but he continued to be castigated by Massachusetts press for a time as a libertarian and an anarchist.\footnote{Ibid., 117.} The rebellion is credited to have “fundamentally altered the course of United State’s history” in many respects.\footnote{Ibid.}

\textit{Whiskey Insurrection – 1794}

President George Washington, finding it difficult to run the government due to financial crunch, imposed a tax on whiskey, in 1991. It was generally thought to be unfair and against the American spirit. In particular, western-frontier farmers took to resist imposition of the whiskey tax on by force. The resistance reached its climax when farmers particular those from western Pennsylvania region attacked General George Neville – the tax collector. Washington called upon governors of New Jersey, Pennsylvania, Maryland and Virginia to send in troops to quell the rebellion. Washington chose to command the expedition himself. Although, by the time Washington’s force reached at the sight, rebels had already dispersed and returned home, yet the Whiskey rebellion remains and is cited as a watershed in fiscal history of U.S. Again the factions –
the Whiskey distillers – that were directly going to be hit by the levy, took up arms and chose to fight the state.

Fries Rebellion – 1799-1800

In July 1798, while U.S. and France were engaged in a bitter “Quasi-War,” Congress ventured to raise $2 million by levying a direct tax the base of which was “dwelling house, lands, and slaves.” Out of total projected revenue of $2 million, Pennsylvania was required to raise about $250,000 – an amount which it found hard to come by as there were hardly any slaves in Pennsylvania. Resultantly, with revenue target remaining constant, remaining two bases i.e. land and built-up properties were started to be surveyed and taxed rather rigorously and ruthlessly. Tax collectors going around and mapping properties charging tax on size and number of windows created wide-going discontentment in length and breadth of the state. John Fries, an auctioneer by profession, took to resisting such aggressive and hostile taxation. Milford, primarily a German-American township, refused to let tax collectors do their work initially through hooliganism and subsequently through brandishing of weapons and intimidation.

Fries organized an anti-government gang, trained it, and set it in hunt of tax collectors then operating in Quartertown, with a view to appending them. They were able to get hold of some tax officers, who were released “with a warning to return and to tell the government what had happened to them.”118 With mass scale desertion starting to take place amongst tax collectors, “Federal warrants were issued, and the U.S. Marshal began arresting people for tax resistance. Fries and his people chased government militia to

Bethlehem to get the men released.” The high-risk maneuver failed and Fires and second tier leadership of group was arrested. They were all put on trial and handed down various punishments with Fries getting death penalty. President John Adams, adopting a narrow and strict interpretation of Constitution, pardoned Fries and his cohorts, adding they were “as ignorant of our language as they were of our laws" and were being used by "great men" in the opposition party. It has been argued that the Federalist Party overshot their reaction and mismanaged the whole affair. Charles Adams see Fries Rebellion as a defining event in U.S. tax history.

In overall terms, these rebellions coupled with a few other isolated events, may have imperceptibly contributed towards putting U.S. government on track and bridging the gaps in state structure that were left unstitched. In the wake of War of 1812, U.S. Congress continued to rely on indirect taxes, excises, duties and treasury notes, which were rolled back in 1817. Over the next half century or so, government had to maintain itself on revenues from customs duties and from sale of government lands.

Civil War & 1st Income Tax

When American Civil War broke out in 1861, it was thought to be a quick-in-and-out engagement. In order to bolster Union revenue inflows, the Revenue Act, 1861, was quickly legislated reviving excise duties abolished previously and imposing a direct tax on income of individuals. “A new bureaucracy was established to collect these charges,

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119 Ibid.
121 Ibid.
The collection of the tax was, however, deferred for a year, in an effort to remove certain apparent distortions and contractions in the law and the system conceived. With the realization that War would drag on, and direct tax already in a logjam, Congress chose to resort to indirect taxes heavily in 1862. Moreover, withholding tax on salaries was introduced to ensure prompt inflows into national exchequer. In the post-Civil War scenario, with federation still in the minimalist state mode, direct tax was rolled back in 1872 and bulk of revenue continued to be collected from the indirect sources.

The Congress was meted out a significant setback when a flat rate tax on profits to be collected by Federal government imposed in 1894, was declared unconstitutional by the U.S. Supreme Court in 1895 by a majority vote of 4 to 5, holding that though it was a direct tax yet it was “not apportioned according to the population of each state.” Under compulsion Congress decided to amend the Constitution itself to alleviate stress on the exchequer through 16th Amendment to the Constitution, which essentially waived off condition of population-based apportionment for any tax on income imposed by Federal Government. When 36 states had ratified the 16th Amendment, Congress ended up enacting a new taxing statute in 1913, imposing a tax on income at graduated rates starting from 1 and going up to 7 per cent of an individual’s annual income. Although, there was wide-spread opposition to enactment of a direct tax, “politics behind the 1913 income tax provision reflected and resulted from the defection of “insurgent” Republicans to the Progressive Party and subsequent rise in power of Congressional

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124 Pollock V. Farmers' Loan and Trust, (US Supreme Court 1895).
Democrats.\textsuperscript{125} In a way, the diversion of Congress’s attention to direct tax was brought about by industrialists and importers, who bore no more indirect taxes on their products.

The introduction of taxation on income and the way it actually rolled out into actuality, transformed U.S. government into a leviathan. In 1916, Congress finally deleted word “lawful” from taxing statute putting to rest the debate as to what constituted “lawful” income. This rendered IRS the only government agency to nab and go after delinquents who could not be tried or successfully prosecuted under any law or by any other agency. Subsequently, U.S. Supreme Court also ruled that 5\textsuperscript{th} Amendment to the Constitution was not available to illegal incomes and their earners. Another important aspect of this new trigger in socio-economic life of U.S. citizen was that this placed all vital information in public domain, which was heretofore considered confidential. This created wide-spread murmurs, and in response to popular public demand, in 1916, Congress had some degree of protection extended to citizens “by requiring that information from tax returns be kept confidential.”\textsuperscript{126}

Inter-War Period

When U.S. jumped into World War I, it was a foregone conclusion that engagement would increase demand on exchequer manifold. “The Democratic tax program, which was implemented in the wartime Revenue Acts, transformed the experimental, rather tentative income tax into the foremost instrument of federal taxation.”\textsuperscript{127} The Revenue Act, 1916, jacked up minimum tax rate of 1 to 2 per cent and lifted the maximum rate

\textsuperscript{126} Ibid.
from 7 to 15 per cent, and “also introduced federal estate tax.”\textsuperscript{128} While the War Revenue Act, 1917 down-scaled exemptions and up-scaled tax rates, the Revenue Act, 1918, increased lowest rate to 6 and highest rate to 77 per cent. The economic boom of 1920, enabling tax-to-GDP ratio had touch 13 per cent, created enough fiscal space for Congress to act again and cut down tax rate a few times finally fixing top and bottom rates at 1 and 25 per cent, respectively. The onset of Great Depression in October, 1929, had revenue receipts collapse dramatically. The launch of New Deal resulting in massive expansionary spending theoretically prescribed by Maynard Keynes and politically espoused by President Franklin Roosevelt, had the economy bounce back, prompting Congress to act again and jack up lowest and highest tax rates to 4 and 79 per cent, respectively, in 1936. It has been argued “it may be more important to understand early New Deal tax policy in terms of the politics of inadvertence, better revealing the New Deal’s other priorities than its tax-policy commitments.”\textsuperscript{129}

World War II – To-date

The U.S. entry into World War II exerted tremendous amount of pressure on the exchequer, which was attempted to be released through upward revision of tax rates in 1940, and a third time in 1941. The hikes in tax rates resulted in tax-take from under $ 9 billion in 1941 to over $ 45 billion by 1945. This was partly achieved through expanding scope of withholding taxes, which was to have a positive externality in terms of raising citizen awareness about this important socio-economic-political responsibility. After World War II had come to an end, peace-time tax cuts reduced tax burden on ordinary

\textsuperscript{128} Ibid., 62.
taxpayer substantially, and tax-to-GDP ratio came down in 1950 to under 15 per cent from 1944 war-time high of 21 per cent.

In 1953, Inland Revenue Service (IRS) replaced the Bureau of Internal Revenue Service primarily to accord focus to element of “service” in the process. IRS soon started to computerize itself with a view to transforming itself into “world’s largest accounting, collection and forms-processing organization.” This could, on one hand, have rendered tax dodge difficult, and on other, IRS efficient and free enough to go after big tax delinquents. In 1974, IRS-sponsored project “to create a massive automated tax administration system,” was quashed for funding by IRS for unclear reasons. The Congress, after deliberations and “Operating through a panel of its Office of Technology Assessment, … examined the IRS proposal for … issues such as tax equity, privacy, security and control over large-system complexities and simply said no to the IRS.”

Although, it has been argued that IRS’s politically motivated audits “left Congress indisposed to support the agency,” yet on flip-side it is believed that certain big business interest groups and some lobbyists were at work in getting the proposal being shot down by Congress. 

It was not until 1950s, when tax policy was started to be viewed more of macroeconomic stabilization sinew than a mere revenue generation instrument. This also meant that it now carried a greater potential to be hijacked by interest groups to optimize on their perverse economic group gains. Throughout 1970s, tax-to-GDP ratio hovered in the

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131 Ibid., 61.
vicinity of 21 per cent paving ground from tax cuts through bi-partisan Congressional consensus via Economic Recovery Act, 1981.

The alterations brought about into the tax system through Congressional acts of 1981, 1982, and 1983, had created quite a number of difficulties and distortions not only for taxpayers but also for IRS itself. There was thus widespread demand and appetite for a comprehensive rehashing of tax system in entirety. “The 1986 Tax Reform Act created the most comprehensive overhaul of the federal tax code in 30 years,” while keeping net impact of reforms revenue-neutral.¹³² Still tax-to-GDP ratio rose to 18 per cent by 1990, with a projected surplus of $280 billion by 2001, and $5.6 trillion by 2010. This provided a perfect amphitheater to Republican-dominated Congress under George Bush to legislate the Economic Growth and Tax Relief and Reconciliation Act, 2001, lowering, in a phased manner, top rates from around 40 to 33 per cent.

President Obama’s latest efforts to rectify distortions in tax system revolve around following five pillars. Firstly, lowering tax rates with lesser number of brackets. Secondly, cutting tax breaks and exemptions. Thirdly, cutting the deficit by over $700 billion by asking rich Americans to pay their fair share of running the state through American Taxpayer Relief Act, 2012. Fourthly, increasing job creation by incentivizing Americans that have hid money abroad, to invest in U.S. thereby creating job for jobless Americans. Fifthly, observing the Buffet rule thereby ensuring that any family earning over $1 million per annum must be made to pay more than an average American family or taxpayer.

In overall terms, Republican Party’s tax policy emanates from the conviction that “money the government spends does not belong to the government; it belongs to the taxpayers who earned it,” and that “Americans deserve to keep more of their own money to save and invest for the future,” and further that “low tax policies help drive a strong and healthy economy.”\(^{133}\) Thus, relief in overall tax burden on an American family is Republican roadmap of triggering economic growth. On the contrary, Democratic Party “calls for raising certain taxes to provide money for government spending, which in turn generates business,” and that “government spending provides "good jobs and will help the economy today."\(^{134}\) Within these diametrically opposing positions on how to stoke economy in desired stable and flourishing direction, there is vast space available with interest groups to make an attempt to maximize their group gains – employing all kind of tools and tactics at their command.

**Section XII**

**Conclusion**

In U.S. and Pakistan, both state and society, have been reacting to the question of taxation in markedly different ways. Firstly, while Americans have an established tendency to go violent, rebel and revolt against taxation, if it is perceived to be unjust, discriminatory or without solid legal basis e.g. “No taxation without representation,” Pakistanis have never gone violent. They, instead, prefer to cheat. Secondly, while in U.S. there has always been empathy on the part of state structures to listen to and engage factions and economic interest groups and provide them with structured window of interaction, in Pakistan, there has been no such tradition. In fact, no legally sanctioned


\(^{134}\) Ibid.
mechanisms of engagement of all factions across the board was devised and put in place. In the absence of any laid down policy of mutual engagement, only powerful and mighty factions have been able to engage state structures, get themselves heard, and promote their economic agenda. Thirdly, while throughout U.S. tax history it would appear that state has never been cowed down by economic factions – hence violence, in Pakistan, state has always played to their tunes. “One important lesson American history teaches us,” it has been argued “is if you are going to raise taxes or create new ones, you’d better have a darn good reason.”\textsuperscript{135} In a nutshell, Pakistan has throughout operated as a captive state; it is U.S. that can be dubbed as an autonomous or, at least, a relatively autonomous state throughout its fiscal history. Thus, it is certainly not astonishingly that Pakistan is currently running one of the lowest tax/GDP ratios in the world – 169\textsuperscript{th} in this category. The low revenue generation has compelled the state to further withdraw itself from performance of its other functions like service delivery and institution-making. The state’s weak revenue function fed into coercive function, and the non-state actors – economically stronger than the state itself – are now aggressively taking on the state.

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Chapter 5
System Domination: Historical Perspective – Shock Approach

Section I
Introduction

The incremental approach, as explained in the preceding chapter, is exploited by Elites Ltd slowly and steadily, year after year, to maintain the economic status quo, build on their riches, and enhance their economic agenda. The shock approach, on the contrary, is exploited to cash in on abnormal opportunities for a substantial shake-up in tax policy and enforcement regime for a bonanza. Elites Ltd has always been found ever-ready to optimize on the crisis situations, which, by any standard, are not in short supply in Pakistan. But that does not mean that Pakistan elites just sit on the margins and await such opportunities to arise. They have exhibited tremendous grit and ability to also sponsor, design, and create such abnormal situations. Naomi Klein has posited that upheavals, crises, and calamities – natural or socio-political ones triggered by design - have been a favorite opportunity with the powers that be, to unleash agents into a given polity to assign it a new desired direction, or to attain certain objectives.¹ Pakistan elites have successfully marshaled all kinds of shock situations which were either triggered by themselves or just fell their way – like natural disasters, wars, law and order crises, and political upheavals – to maximize on their economic endeavors. But their favorite mode has been to sponsor, design, plan, and implement tax reforms – once every half decade on the average; then rig them to their exclusive maximum advantage.

A look at all major reform attempts undertaken by the state to strengthen its extractive function – all of which instead, not coincidentally though, ended up furthering the malaise and infirmities of the tax system, each time implanting more tax evasion apertures, creating distortions, shifting away from the universally accepted ground rules of taxation to pukes and aberrations in the name of home-grown solutions of dubious credentials, boosting accumulation of wealth with chosen few, shifting of more fiscal burden onto the marginalized millions, and eroding the fiscal base of the state in the process – will be educative.

The chapter divides itself in XV sections. While section I introduces the subject, and section II deals with theoretical framework of tax reforms, section III briefly lays bare the methodology adopted to analyze revenue reforms process in Pakistan and their linkage with domination of extractive system by elites. Likewise, section IV provides a capsule context of tax reforms, and section V is a concise summary of initial reform attempts made in Pakistan. Section VI deals with the Taxation Enquiry Committee (TEC), 1957-61; Section VII covers the Commission on Taxation and Tariff (CTT), 1964-66; Section VIII takes care of the Taxation Commission (TC), 1970-74; section IX is a thorough diagnostic analysis of the National Taxation Reforms Commission (NTRC), 1985-87; section X is a comment on the Taxation Reforms Committee (TRC), 1990-91; section XI explicates in detail various dimensions of the Resource Mobilization & Tax Reforms Commission (RMTRC), 1991-94; section XII is an elaborate account of the Commission on Tax Reforms (CTR), 1997-98; and section XIII summarizes the Task Force on Tax Administration (TFTA), 2000-01. The chapter briefly takes stock of the tax reforms experience in the U.S. in section XIV, and section XV concludes the discussion.
Section II
Tax Reforms – Theoretical Underpinnings

Prior to that, however, an understanding of the theory of taxation and tax reforms is important in part because it may enhance our comprehension of the associated socio-political processes, and in part because it may unravel interplay of various underlying dynamics at work within the elitist framework. The knowledge created in the broad field of political economy over the past century or so has started to illuminate understanding of the complex process in which states interweave political choice with economic decision-making. The optimal or sub-optimal outcomes for both economy and society that result from exercise of various policy options can then be worked back to dissect and study the way a particular decision was made as well as the intentions of the decision-makers within, of course, the perimeter of bounded rationality. The theory of social choice that sheds light on the way society collectively exercises its choices from within a range of available multiple tax policy bits and from the demands on exchequer for public expenditures, particularly in the absence of markets to signal consumer preferences (through relative prices), is of particular relevance. The theory posits that the process by which decisions are made affect the ultimate choice and that different political structures could result in radically different outcomes which may clash with objective notions of rationality, like rules for optimal taxation developed by neo-classical economics.²

One of the major concerns of the political economy analysis is the focus on the role of special interest groups and what they can gain at the expense of the population at large.

² “Neoclassical economics” implies application of various approaches to economics focusing on the determination of prices, outputs, and income distributions in markets through supply and demand, often mediated through a hypothesized maximization of utility by income-constrained individuals and of profits by cost-constrained firms employing available information and factors of production, in accordance with rational choice theory.
“It demonstrates that through lobbying efforts and formation of effective coalitions there can be incentives to pursue actions in the interest of the few, which conflict with general considerations of economic efficiency and equity." While the positive role of interest groups towards optimization of public policy formulation process cannot be understated, it has been argued that developing a clear-cut framework outlining transparent terms of engagement of interest groups (euphemistically also dubbed as stakeholders) ensures greater fair-play, reduces opportunities for a chosen few to maximize their gains at the expense of all, and shuts windows of rent-seeking for the intermediaries. For example, an elaborate historical context and legal framework is extant in the United States, wherein the Constitution itself was crafted, in part, to solve the problem of special interests, represented by organized professional lobbyists, and by allowing conflicting interest groups allowing and egging them to compete for optimal policy outcomes. James Madison identified a faction as "a number of citizens, whether amounting to a minority or majority of the whole, who are united and actuated by some common impulse of passion, or of interest, adverse to the rights of other citizens, or to the permanent and aggregate interests of the community." He argued that there was less risk of injury by a narrowly-focused faction in a large republic if any negative influence was counteracted by other factions. In the realm of political economy, the role of interest groups is of significant importance with regard to both the expenditure and tax policies and their implementation.

The term “tax reforms” as used in literature, refers to the process of changing the way government manages taxes and administers its tax machinery. The objectives of tax

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reforms may vary in differing spatial and temporal zones. But in a given situation, a particular tax reform may be driven by any or any subset of a broad set of tax reform objectives, including but not limited to: (i) reducing the level of taxation on all or some persons; (ii) rendering the tax system more or less progressive; (iii) simplifying the tax system to increase compliance; (iv) making the tax administration more transparent, corruption-free, and accountable; and (v) bringing efficiency to the tax system so as to enable it to decrease externalities and increase production. Thus, the design of any tax reform would predominantly depend upon what it is intended to achieve, but in reality, there could be apparent and not-so-apparent objectives of a given tax reform process.

What a country can achieve by launching a process of tax reforms is squarely determined by its overall governance capacity. Simply put governance capacity underwrites what a reform program could achieve. Pasha posits that governance in the context of the matter means “the capacity of the state to organize the tax system according to some basic and universal principles, and to enforce compliance with rules… (and) implies a minimum degree of autonomy from pressure of special interests in the formulation of policy.” In turn, political will and ability of the rulers to articulate the need for reform within an integrated economic and social vision, cohesiveness and co-ordination among government agencies, success in putting together support coalitions and mechanisms for compensation of losers (if necessary) and presence of capable bureaucratic cadres committed to the proposed reforms, are the vital ingredients of a given state’s governance capacity. 

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5 Pasha, “Political Economy of Tax Reforms: The Pakistan Experience.”
6 Ibid., 3.
After comprehensively appraising various theories of taxation, Ahmad and Stern prescribed a general theory of reforms. The general theory of tax reforms makes use of the concept of welfare loss associated with an increase in the tax sufficient to raise Rs. 1 in revenue, and discounts a differentiation of the structure given distributional, incentive and revenue concerns by a judicious balancing of tax instruments such as a single or dual rate VAT together with systems of excises. The proponents of the theory then move on to prescribe guiding principles for tax reforms, the salient features of which are: -

(i) That, wherever possible, lump-sum taxes and transfers, or close approximations, should be used to raise revenue and transfer resources.

(ii) That, it can, at times, be misleading to look at one set of tax tools in isolation of what is happening elsewhere in the tax system.

(iii) That, the focus of indirect taxation should be final consumption. This means that intermediate goods should not be taxed unless there is difficulty in taxing final goods or there are special distributional reasons for taxing these intermediates. This applies also to tariffs, which should be rebated on intermediate goods and linked to other taxes on final goods.

(iv) That, where producer prices and shadow prices coincide, indirect taxes should be guided by a trade-off between efficiency and equity and, in the absence of well-functioning schemes for income support, there is no prescription for uniformity of the system of indirect taxation.

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8 Ibid.
9 For instance, redistribution should not be allocated to income taxes and revenue raising to indirect taxes. Both taxes affect distribution and resources allocation and raise revenue. In particular, the desirability of the differentiation in commodity taxes on distributional grounds is closely related to other policies towards distribution. The stronger the other tools, the smaller the redistributive role for commodity taxes.
10 It must be recognized that the elimination of tariffs except for protection is a long term goal which for revenue reasons cannot be achieved in the short or medium term in countries with very few tax handles.
(v) That, in principle, the economic rationale, for corporate income tax, as distinct from personal income tax, lies in taxing foreign incomes and monopoly rents. Occasionally these elements will be of overriding importance.

(vi) That, since a structured framework for working out the benefits of corporate tax reform is not yet available and, at present, guiding principles should be simplicity, practicality and neutrality.\(^\text{12}\)

This is quite apparent that there are no monolithic models of an “ideal” tax system. Countries try to approach and conceive their “ideal” tax system as per their own needs and aspirations. The characteristics of an “ideal” tax system for a developing country, as prescribed by IFIs like IMF include:

(i) Heavy reliance on a broadly-based sales tax e.g. VAT, preferably with a single rate and least exemptions, and excise taxes on petroleum products, alcohol, tobacco and perhaps a few luxury items.

(ii) Zero reliance on export duties, except possibly as a proxy for income tax for hard-to-tax sectors such as agriculture.

(iii) Reliance on import duties for protective purposes only – since the domestic sales tax is assigned the revenue-raising function – with a low average rate and a limited dispersion of rates to minimize effective rates of protection.\(^\text{13}\)

(iv) An administratively simple form of personal income tax, with exemptions limited, if possible, to personal dependents’ allowances, a moderate top marginal rate, an exemption limit large enough to exclude persons with modest incomes, and a substantial reliance on withholding.

(v) A corporate income tax levied at only one moderate-to-low rate, with depreciation and other non-cash expenditure provisions uniform across sectors and minimal recourse to incentive schemes for new ventures.\(^\text{14}\)

\(^{12}\) Ibid.


\(^{14}\) Ibid.
The above prescription traces its origins in the neo-economic liberalism as enshrined in the so-called Washington Consensus.¹⁵ Over the past couple of decades, IFIs across the globe, have been advising their client countries to extricate themselves from the welfare function, try to balance their budgets, and fall back upon international frameworks only for balance of payments purposes. Accordingly, fundamental focus on role of taxation appears to have shifted of late, when both academicians and IFIs started to assign much narrower a role to the tax system that it “should focus on raising revenues.”¹⁶ It has also been exhorted, “that taxation creates distortions and the main object of tax policy is to design a system that raises enough revenue to meet a Government’s revenue target while minimizing the level of associated distortions.”¹⁷ It follows that the main purpose of taxation is to raise resources to finance government expenditure, and therefore, a tax system ought to be designed and reformed in a manner which is administratively and politically feasible and which promotes equity and efficiency as far as possible. The IFIs-sponsored prescriptions targeted at raising revenues – that too VAT-propelled revenues – have been widely challenged at the intellectual plain, but the countries facing BOP constrains had no alternative but to walk into implementing the recommended design of the tax system, and Pakistan has been no exception.

Section III
Methodology
In part, the approach adopted to unravel underlying dynamics of the reform efforts is essentially ethnocentric which, contextually implies that the political/professional or economic group considerations, interests, preferences and biases of a given tax reform

¹⁵ For an elaborate discussion on Washington Consensus, and the neo-liberalist onslaught see Klein.
commission member are centrally important in driving his actions as well as in the
determination of his position on various important issues, and that all other groups’
interests are viewed and measured in relation to his own. The overall backdrop against
which the analysis of the tax reform attempts takes place is the elitist framework
developed in the first chapter. The socio-economic perspective within which an interest
group forms the unit of analysis and enters into a class struggle for economic gains
through the proxy of its agent-member at a tax reform commission, gives the study a
pretty much neo-Marxist orientation. Since dissection and analysis of each and every
recommendation of a given tax reform is neither possible nor required, only the major
ones having holistic design implications are picked up and explicated within the overall
context of the study. In sum, it is an effort to map history of tax reforms in Pakistan while
laying bare underlying dynamics that have underpinned all such initiatives – resulting in
their intended success and apparent failure.

Section IV
Tax Reforms in Pakistan

At least about a dozen major attempts have been made at strengthening Pakistan’s tax
system, but intriguingly its tax/GDP ratio is consistently running under 10 per cent.
Lately, it has even declined to as low as 8.5 per cent in A/Y 2011 and that too, right in
face of some back-to-back grueling reform efforts. Why, after all, all major attempts at
reforming Pakistan’s tax system have so miserably failed? One might be tempted to ask if
reforms intended at bettering a tax system have ever worked; anywhere? In fact, tax
reforms, in some African countries have shown tremendous results. For instance, Uganda
posted an increase of over 5000 per cent in tax-take in 21 years, Rwanda 700 per cent in
seven years, and Burundi 100 per cent in four years.\textsuperscript{18} Thus, in Pakistan’s case there could be something fundamentally wrong that has held back tax system’s forward march despite continued efforts to inject some vitality into it so as to be able to perform its avowed functions well enough.

Multiple explanations have been advanced for such consistent failure of attempts at tax system’s reforms. Firstly, since most attempts, if not all, were donor-driven, they did not have cognizance of real malaise which the system was inflicted with, and therefore, were bound to fail, and they failed. Secondly, the reforms were undertaken without taking into account shortcomings of the tax system in a holistic way. Therefore, reforms attempted in bits and pieces at different occasions, even retrofitting certain parts, failed to provide comprehensive solutions needed by the system. “There exists a total misconception in the minds of our policymakers that by merely reframing tax laws the entire tax system would be reformed automatically.”\textsuperscript{19} Thirdly, there was clear-cut lack of consensus amongst the stakeholders as regards the conception, direction, and implementation of the tax reforms. For instance, Pasha categorized the tax department as “losers” and thus averse and opposed to the tax reform of the 1990s within his framework of analysis.\textsuperscript{20} Fourthly, tax system being a sub-system of the overall governance apparatus of the country, and since the governance machine was going through a period of definite deficit; any efforts to reform the tax system were destined to fall stillborn or stay half-bloomed. Lastly, according to Ahmad, since “the interests of administrators and the powerful vested

\textsuperscript{18} Keiran Holmes, “Tax Reform as a Prerequisite for Development Assistance,” \textit{The Guardian}, April 18, 2013.


\textsuperscript{20} Pasha, "Political Economy of Tax Reforms: The Pakistan Experience."
groups reinforce each other,”21 the reforms were an effort in futility from the word go. He further accentuated “the role of special interested groups – in particular a rent-seeking bureaucracy—as well as the role of informality, and more recently the constraints faced within the context of a weakened center and resurgent provinces keen to score points in maximizing access to resources,”22 by way of an explanation to Pakistan’s failures at reforming the tax system.

In order to delve deeper into dissection of major tax reforms undertaken and their failure, drawing upon the theoretical framework developed in chapter 1, the study takes the position that Elites Ltd being their main sponsor and architect the tax reforms in Pakistan invariably failed because they were conceived, designed, and implemented to fail – if the objective of reforms was revenue maximization. This postulation is based on the following hypotheses: One, tax reforms in Pakistan have always been elitist initiatives in that they are sponsored by elites to shake up tax administration and tax policy to their perverse gains. Two, members of tax reform commissions entrusted with the task of redesigning tax system are carefully selected and broadly reflect relative economico-political power wielded by each elite group in Elites Ltd that, in turn, drive the polity. Three, assistance and cooperation of the IFIs is sought and overplayed to give the tax reform ploys legitimacy. It has rightly been argued that “Pakistan has received more advice on tax reforms from academics, and international agencies than most developing countries.”23 This point has further been accentuated that “Since 1970 many attempts have been made to improve tax system in Pakistan with the assistance of academicians

22 Ibid.
23 Ibid.
and international donor agencies like the World Bank and International Monetary Fund.”

Four, while tax reform commission reports apparently read balanced, theory-laden, and in consonance with dominant international trends, but in effect, those are deftly framed to camouflage and transmit elitist agenda. Five, it is at implementation stage that Elites Ltd’s juggernaut is unleashed with vengeance as only those reform recommendations are implemented that promote elitist interests, and those that could even indirectly be suspected of strengthening state’s revenue function are initially deferred indefinitely, and then discarded. Six, generalist lackeys under-grid elitist design and efforts to rig and further weaken polity’s extractive arm first by implementing only those recommendations that promote elitist interests, then by failing to stock-take and evaluate a given reform process’s implementation and outcomes, and instead, by proposing to launch yet another tax reform initiative. These hypotheses provide a recurrent pattern, run throughout its length and breadth, and underpin the study.

Section V
Initial Attempts

At independence, Pakistan inherited a revenue system which had largely been shaped by The Constitution Act of 1935, under which income tax, customs duty, central excise, and sales tax on services were central levies, while taxes on agriculture, sales tax on goods, and residual bases were states’ (provincial) sources of revenues. The painful process creating a new state was bound to mount pressure on the kitty sending both politicians and mandarins on the look-out for resources from wherever possible. Finance Minister, Ghulam Muhammad, delivering his Budget Speech 1947-48 on February 2\textsuperscript{nd} 1948, in the

\end{footnote}
Parliament in Karachi, at length dealt with the magnitude of the challenge which fledgling state faced, and projected revenue collection on account of central excise duty at Rs. 1.50 crores, income tax at Rs. 50 crores and customs duty at 100 crores.\textsuperscript{25} Since the revenues were still not even close enough to expenditure needs, “export duty on raw jute was imposed with effect from 14\textsuperscript{th} November, 1947.” Government also ended up reimposing excise duty on salt, with projected “revenue of about 2\frac{1}{2} crores in a full year,” and “Railways fares were increased by 22\% w.e.f. 1\textsuperscript{st} January, 1948.\textsuperscript{26} Announcing Government’s decision to join IMF and the World Bank forthwith to open up opportunities of international extraction, the Finance Minister announced that “necessary data required by the authorities of the Fund and the Bank have already been prepared and the applications for membership will be dispatched shortly.”\textsuperscript{27} He also declared that “I have a feeling that the administrative machinery for collection requires tightening up and I am taking suitable steps in that direction.”\textsuperscript{28}

Firstly, appointment of Agrarian Reforms Committee (ARC), in February 1949, comprising five ruling PML members and headed by Mian Mumtaz Daultana, was a step in that direction. Although, ARC was essentially tasked to recommend necessary actions that must be taken in order to bring drastic changes to the then existing system of land tenure management, it did dilate upon issues pertaining to land revenue system on the tangent. ARC submitted its report in June 1949.\textsuperscript{29}

\textsuperscript{26} Ibid., 26.
\textsuperscript{27} Ibid., 18.
\textsuperscript{28} Ibid., 6.
\textsuperscript{29} ARC-proposed short-term measures ranged from security of tenure, abolition of jagirs and inam, and reduction of owner’s share in the crop-sharing arrangement of cultivation to abolition of occupancy tenancies. Long-term measures included restriction on large land ownership and expropriation of excess land to cultivating tenants - with compensation. ARC further suggested to seek adjustments of the social
Secondly, the Finance Minister delivering his Budget Speech for 1950-51, in the Parliament at Karachi, proposed “to appoint a Committee, consisting of officials and non-officials, including Trade representatives, to examine and report on the administrative, general structure, incidence of sales tax and leakage of revenue.”30 He assured “the business community that the recommendations of the Committee will receive most careful consideration and the Government would be prepared to affect such modifications in the existing law and procedure as may be necessary to achieve an equitable incidence of the tax and to ensure an effective administrative machinery which would best serve the interests of the Government, the Trade and the Public.”31 STC 1950 was to be headed by Dewan Sir Abdul Hamid and included as its members (i) A. M. A. Hameed, MCA; (ii) M. H. Gazdar, MCA; (iii) G. Allana; (iv) Khan Bahadur Habibullah; (v) Jamshed Nusserwanjee; (vi) Fazlul Qadir Chowdhury; (vii) F. M. Innes; (viii) K. B. Abdul Haque Dubash; (ix) Said Khan, Joint Secretary; (x) M. Ismail, Deputy Secretary; (xi) Anwar Ali, Deputy Secretary; (xii) Zafar Ullah, Deputy Secretary; (xiii) Dr. Anwar Iqbal Qureshi, Deputy Economic Adviser; (xiv) Maj. A. A. Khan, Under Secretary; (xv) S. Ikramullah. Out of fifteen STC members, one-third i.e. (iii) to (viii) were from private sector. STC although headquartered at Karachi, made efforts to reach out to all parts of the country to structure in an evolutionary rather than a violent manner. In other words, ceiling on land holdings was reckoned too drastic and something to be avoided. Simply put, it was a classic attempt on ARC’s part to appease its party members from West Pakistan - most of whom owned large tracts of land. The recommendation on holdings - to be implemented at a deferred stage - was 150 acres for irrigated and 450 for un-irrigated land. Keeping in line with ARC-sponsored short-term measures, the Provincial Tenancy Acts were legislated in Sindh, Punjab and NWFP between 1950 and 1952, which was, in fact, too little too late, and did any thing in concrete terms to abate hardships being faced by farming class. No measures were undertaken to ameliorate the conditions of tillers of Baluchistan and princely states of Bahawalpore and Khairpur etc. Later, the First Five Year Plan (1955-60) proposed similar land-holding ceilings - never to be implemented.

31 Ibid.
seek feedback of the business community to its questionnaire. One STC member (Zafar Ullah) even proceeded “on a rapid tour of U. K., U. S. A. and Canada to study the Sales Tax Systems of those countries.” STC after detailed deliberations ended up making five important recommendations. Firstly, acquiescing to industrial elite and business elite’s persistent “demand for the adoption of a single point tax in toto,” unanimously recommended that “Pakistan Sales Tax should be a single point tax and it should be recovered: (a) in the case of goods imported into Pakistan – at the time of clearance through the Customs; (b) in the case of goods produced, processed or manufactured in Pakistan – at the stage of sale by the producer or the manufacturer.” Secondly, STC once again unanimously recommended “that the Sales Tax should continue to be a Central Tax and its administration and proceeds should vest in the Central Government,” and the provinces should continue to receive their due share to be determined in consultation amongst both tiers of government. Thirdly, a large number of exemptions were allowed rendering the tax base porous and shredded. The recommendation was implemented full well. Fourthly, dilating upon administrative aspects of matter, STC recommended that “existing system which combines the administration of Sales Tax with that of the Income-tax is most economical” and “that the present set-up should not be disturbed.” In order to protect revenue from going down the drain, it was further recommended that “an officer of the Sales Tax Department would have to be deputed at every Land, Sea and Air Customs post to collect Sales Tax which would be a condition

33 Ibid., 8.
34 Ibid.
precedent to clearance through Customs.” The point was further hammered home by stating that “the Sales Tax Officer at the Customs post would ensure the filling up of certain prescribed forms which would enable his Department eventually to carry out an effective check-up or to recover Sales Tax wherever due.” This particular recommendation was never implemented. Lastly, STC, with a view to inspiring popular confidence in the tax administration, “strongly” recommended “that small Advisory Committees of non-officials representing the Chambers of Commerce, Trade and Industrial Associations and other interests should be attached to each of the Sales Tax Commissioners.” It was further ordained that the “Commissioner would consult the Committee on all problems of a general nature relating to the administration of the Sales Tax.” This particular recommendation is good enough to trace back infiltration of interest groups into state’s revenue structures.

Thirdly, in 1951, the Punjab Government also set up an Agricultural Income Tax Committee (AITC) to examine, inter alia, “the question of the fairness of the basis of assessment of the Tax.” AITC had outrightly recommended imposition of tax on agricultural incomes like tax on incomes from any other source.

Section VI
The Taxation Enquiry Committee (TEC), 1957-61

While delivering Budget Speech for F/Y 1957-58, Finance Minister, Syed Amjad Ali, averred that the far-reaching changes and economic development that had “occurred

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36 Ibid., 14.
37 Ibid.
38 Ibid.
39 Ibid.
40 An identical effort was made in India in 1953, when Indian Taxation Enquiry Commission was constituted to look into various aspects of the tax system in the post-independence scenario.
41 AITC report could not traced at all likely points e.g. Punjab Board of Revenue Library, Lahore, Directorate of National Archives, and Cabinet Division Libery, Islamabad.
since independence,” had “brought about a considerable redistribution of income among the various income groups,” which, in turn, had greatly increased the responsibilities of the Government, that now was being “called upon to play an active role in the development of the country … and assume greater responsibilities for the provision of social services,” whereas the taxation system that was inherited at the time of Independence did not take full account of these developments, warranted an urgent “scientific and comprehensive enquiry into the system of taxation in the country so as “to examine closely the whole structure of taxation system,” and the incidence of various taxes “in order to ensure an equitable distribution of tax burden on different income groups,” and to mobilize larger resources “for stepping up the pace of economic development,” simultaneously providing incentives “for promoting private saving and investment and for facilitating capital formation for development,” proposed appointment of “a Committee of experts…to survey the whole field of taxation,” which work “will provide a realistic and useful basis for the work of the National Finance Commission.”

The Government of Pakistan appointed the Taxation Enquiry Committee (TEC) on July 4, 1957. TEC rightly observing that the “last revision of the tax system was undertaken by a Taxation Enquiry Committee as far back as 1924,” indicated to the fact that since 1924, the tax system had by and large remained untouched, and claimed that in the

43 TEC was appointed by the Government of Pakistan under Ministry of Finance Resolution No. T.E.C/57, dated July 4, 1957.
context of Pakistan, it was first effort of note to fully examine and critically reform the tax system since its creation.\textsuperscript{45}

**TEC Personae**

TEC was originally to be headed by Zahid Hussain, Governor, SBP. However, upon his untimely death in November, 1957, Abdul Qadir was appointed to head TEC in July 1958, in addition to his own responsibilities as Governor, SBP. Other TEC members were (i) G.S. Kehar, (ii) Dr. Nurul Huda, (iii) M.A. Rangoonwala, (iv) K.F. Haider, (v) Mahbooduddin Ahmed, (vi) S. Ikramullah. Upon Ikramullah’s retirement, S.M. Abbas was appointed as TEC’s member in his place in November, 1959. Muhammad Zulfiqar, the then Assistant Commissioner, Income Tax, was appointed as Secretary, TEC.

Zahid Husain (1895-1957) – an ICS by background – was Pakistan’s first High Commissioner to India, first governor, SBP (June, 1948 - July 1953), first chairman, PC, and author of Pakistan's First Five Year Plan. Before Partition in 1947, Hussain had also served as vice-chancellor of Aligarh Muslim University. No doubt, Hussain was a personality of his time and known to be impeccable, but if he carried valid credentials to head TEC remains a question. Abdul Qadir succeeded Hussain as TEC head upon his death. Qadir was ethnically a Punjabi, having been born in Jalandhar and educated at the Forman Christian College, Lahore, and originally belonged to Indian Audit & Accounts Service, was gifted with special knack to socialize and ingratiate with ruling landed elite. He had already served in New Delhi, Nagpur and Calcutta, before his posting to Ministry of Finance, Government of British India, in 1936. He was selected for the Finance &

Commerce Cadre and served as Commissioner Income Tax for the Punjab, Delhi and NWFP before partition. Subsequently, he was appointed Secretary Finance on Victor Turner’s retirement in February, 1950, which position he held till February, 1952, and by implication he also headed the state’s revenue function as Chairman, Central Board of Revenue, on part-time basis. Unlike his predecessor who was generalist to the core, Qadir’s experience of having served as Commissioner, Income Tax, in the late 1940s, and then Chairman, CBR, came in handy and added value to TEC proceedings and its report.

An important TEC member Ghulam Rasool Sher Khan Kehar (G.S. Kehar) had started his career as Assistant Tehsildar in the Sindh Provincial Revenue Service, and rose to become Deputy Collector, Collector, Secretary Government of Sindh, Secretary Government of West Pakistan, Minister for Food & Agriculture, West Pakistan, and then finally Speaker, Sindh Assembly during 1973-77. Kehar though not a landlord of note himself, yet had a feudalistic mindset and always optimally used his presence at TEC to protect and advance the interests of landed elite. While TEC recommended taxation of agricultural income by including it in the total income of a taxpayer, Kehar added a vociferous note of dissent awkwardly arguing against it. Muhammad Aly Rangoonwala (M.A. Rangoonwala) – another significant TEC member – belonged to a well-known business-industrialist family of British India with business interests in Rangoon, Calcutta, Madras, Colombo, Singapore, Penang, Soubaya, and Batavia. His class-consciousness could be gauged from the fact that he was the Founder-President of Karachi Chamber of Commerce and Industry; Founder-President of Federation of Pakistan Chamber of Commerce & Industry, President of International Chamber of Commerce in Paris, and a Founder-Member of Karachi Stock Exchange. He was instrumental in legislation of The
Pakistan Trade Bodies Ordinance, 1960. Although an accomplished philanthropist in his
own right yet his stature as leader and establisher of trade and industry in Pakistan was
unrivaled. He was a passionate promoter of interests of industrial elite. His voice carried
weight as he had been an associate of Muhammad Ali Jinnah – father of the nation.

Elites Ltd has always been eager to seek support from and co-opt the international
frameworks so as to lend legitimacy and credibility to the policy choices that the state
exercised or implemented or the ones not exercised or not implemented. The United
Nations Technical Assistance Board, at Government of Pakistan’s request, sent Dr. Louis
Shere, Professor of Economics and Tax Research at Indiana University, on a 10-week
assignment in June, 1958, to give input to TEC on its assignment. Dr. Shere, had been
Director of Tax Research, at Federal Treasury Department, U.S. Government. In 1950s,
he had also been sent by U.S. Government to Haiti and Philippines to study their tax
systems, detect malaise, and prescribe remedies. Earlier, in the aftermath of World War
II, when the U.S. undertook a major reform initiative of the Japanese tax system, Dr. Carl
Shoup was preferred to Louis Shere. Shoup and Shere – two known public finance
specialist of the era – held contrasting visions of a tax system. While the former believed
in establishing a strong and holistic direct taxes system straddling on income tax, wealth
tax, capital gains tax, gift tax and inheritance tax on solid footing, latter preferred indirect
International Taxation Section, Department of Economic and Social Welfare, United
Nations, was also deputed to assist TEC in its work.
Government set TEC the following terms of reference (TORs): -

(i) To examine the whole field of taxation – Central, Provincial and Local.

(ii) To examine the incidence of taxation on various classes of people in the country and to make recommendations for removing inequalities in the burden of taxation between different classes of tax-payers.

(iii) To examine the suitability and effectiveness of the existing system:

   (a) For the development program of the country;

   (b) For capital formation and the maintenance and growth of productive enterprises; and

   (c) For removing and preventing concentration of income and wealth which are detrimental to the interests of common man in terms of Article 29 of the Constitution.

(iv) To consider the problem of the evasion of the payment of taxes, particularly those on income.

(v) To consider matters relating to taxation which the Committee may consider important from the point of view of the tax-payer.

(vi) To make recommendations for modifications in the present system of taxation and for promoting the growth of public revenues from taxation.\textsuperscript{47}

**TEC TORs warrant a careful deconstruction and analysis.** The intensity of rot that apparently had started to undermine the polity from within was yet not very severe in that the Federation was still powerful enough to undertake an examination of “the whole field of taxation – Central, Provincial and Local,” and that “provincial autonomy” was still not fashionable enough to push critical state imperatives under the carpet; state still could talk them out. There still was rigor in some minds at the helm of affairs that a holistic examination of the incidence of taxation on various classes of persons in the country

\textsuperscript{47} GOP, *The Taxation Enquiry Committee Report (Volume 1)*, 2.
needed to be undertaken and ways and means had to be identified to eliminate inequities in the existing tax system, and its suitability and robustness gauged from the perspective of sustaining country’s future development programme, capital formation and removing concentration of wealth that was now visible across the board, and to “consider the problem of evasion of the payment taxes, particularly those on income.” The TORs appear to be emanating from the visibly weakening state-society relationship resulting from abject poverty which vast majority of people were living under induced by inflation, unemployment, and a universal perception that Pakistan’s wealth had been amassed by a chosen few. TEC framed a comprehensive program of basic studies relating to the economic background and the taxation system of the country. Input by way of filling up the questionnaire was sought from all sections of the society including but not limited to academia, professionals, business and industry representative organizations.

**TEC Recommendations**

TEC final report consisting of two volumes and 700 pages was submitted to the Government on June 30th, 1960. The report comprised four parts each dealing with an overall appraisal of the existing of revenue system, Central, Provincial, and Local taxes. In total, the report carried over 250 recommendations concerning taxes administered at all three tiers of government. However, just about a dozen of them pertaining to the

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48 In October, 1957, a Press Note was issued inviting suggestions on issues to be covered by the TEC in framing a comprehensive Questionnaire. A preliminary draft of the Questionnaire was prepared in February, 1958, and the first meeting of the TEC was convened in March, 1958, to consider the draft Questionnaire. The Central and Provincial Governments were requested to offer their comments by April 30, 1958. Finally, the TEC, in May, 1958, approved the final draft of the Questionnaire which had four major parts i.e. (a) Taxation Structure; (b) Federal Taxation; (c) Provincial Taxation; and (vi) Local Taxation.
overall structural design of the tax system are recognized and explicated in the succeeding paragraphs by way of testing the hypotheses.

(i) Fragmentation of State’s Fiscal Base

In Pakistan, historically state’s fiscal base has remained fragmented and porous on account of taxing rights being distributed amongst various tiers of government particularly between the federal and provincial governments.\(^49\) The trend having an element of path dependency is nested in the constitutional conundrum laid down in India during the British period. Against such a glum background, TEC appeared concerned about addressing this critically important matter of the republic. However, before laying bare TEC concerns about fragmentation of the country’s fiscal base, it would be instructive to see as to what is meant by the term “fiscal base.” There is plethora of literature on the topic but the crispest and granular definition comes from Canada’s Carter Commission dating back to 1960s. Carter Commission held that “In order to allocate taxes in accordance with the equity principles we espouse, we must specify a tax base that would estimate consistently the economic power of each individual and family relative to others.”\(^50\) CC then went on to lay down three categories of economic gain to constitute the tax base that are enumerated as under: -

(a) The market value of goods and services used up by the tax unit during the year to satisfy its own wants.

(b) The value of goods and services given to other tax units during the year.

(c) The change over the year in that value of total net assets held by the tax unit.

\(^{49}\) “Fragmentation” refers to vertical allocation of fiscal base along various tiers of government e.g. federal, provincial, and district governments.

TEC categorically stating that “for the successful operation of fiscal policy it is essential that jurisdiction to tax all types of income should vest in single agency”\textsuperscript{51} unequivocally recommended that “the Central Government should assume power to tax all incomes, whether agricultural or non-agricultural,”\textsuperscript{52} and that the “total income of a person should be computed as including both agricultural or non-agricultural income and should be taxed under the Central Income-tax.”\textsuperscript{53} This, TEC argued, is because in “the advanced tax systems, it is the Central Government, which is given the responsibility for equalizing the overall tax burden and securing the various objectives that direct taxation is designed to attain,”\textsuperscript{54} and that “Income taxation is a powerful means of furthering the economic and social objectives and can help greatly in rectifying the anomalies in the distribution of the tax burden.”\textsuperscript{55} It was further contented that “For purposes of taxation, all forms of property, whether agricultural or non-agricultural, should be included in the interest of equity.”\textsuperscript{56} Without being oblivious of an equitable fiscal federalism, TEC attempted to address the issue of proceeds of such taxation amongst the federating units as fairly as possible and recommended “that the entire proceeds of income-tax on agricultural incomes less cost of collection should be allocated to Provincial Governments.”\textsuperscript{57} In the same vein, strongly hitting out at the exclusion of agricultural estates from the purview of The Estate Duty Act, 1950 – a federal levy – categorically took the position that “While the duty should be levied and collected by the Centre, the provinces should receive a share from receipts from agricultural land according to some basis mutually agreed upon

\textsuperscript{51} GOP, \textit{The Taxation Enquiry Committee Report (Volume 1)}.  
\textsuperscript{52} Ibid., 111.  
\textsuperscript{53} Ibid.  
\textsuperscript{54} Ibid.  
\textsuperscript{55} Ibid.  
\textsuperscript{56} Ibid., 207.  
\textsuperscript{57} Ibid., 313.
between the Centre and the provinces.”\(^{58}\) Despite TEC’s vociferous call against fragmentation of state’s fiscal base, no measures were taken to reverse the situation. Those being One-Unit days, meek voices were generally being raised by the regional-nationalist leadership in every nook and corner of the country, but since the issue of fragmentation of state’s fiscal base was not brought into centre stage of national public discourse, what position various elite groups took on it, is neither documented nor determinable. The trend continues unabated to-date. The Eighteenth Amendment to the Constitution proudly passed by two-thirds majority of Parliament in 2010 may already have fixed last nail in the coffin of the state’s capacity to tax and generate enough revenues to sustain itself. “The passage to federalism in Pakistan requires a paradigm shift. We must abandon the wrong-headed philosophy that a strong centre is the guarantee of a robust Pakistan, and realize that only by strengthening the Provinces we will ensure a stable federation.”\(^{59}\) A separate study would be required to analyze the fiscal conundrum within which state has landed as a result of the Eighteenth Amendment, but in a nutshell, fiscal base stands torn almost completely whereby various governance tiers are neither able to formulate a compatible tax policy nor implement it with authority.

(ii) Information Aggregation Apparatus

TEC in 1960 had pointed out with abundant clarity that informational compartmentalization of state’s extractive framework within their own silos may be at the heart of its below par performance.\(^{60}\) Reducing its focus to “the asessees in the higher

\(^{58}\) Ibid., 157.
\(^{60}\) TEC’s analytical framework in 1960 was confined only to intra-CBR departments, which meant that shackles of secrecy were so stringent that information about a persons' economic activities could not be shared by one department with another under CBR itself. No doubt the secrecy regime was operative on
ranges of income” who “are in some business which takes them into the field of other Central Government taxes for example, Customs and Central Excise,” TEC observed that instead of there being a mutually facilitative cooperation amongst various revenue departments, there exist “legal bars to passing on such information vide Section 167(79) of the Customs Act, Rule 232 of the Central Excise Rules and Section 54 of the Income Tax Act,” which situation was accentuated by the fact that there was no one “such agency at present nor are the officers of one Department authorized to collect information from another Department in the normal course of investigation,” and recommended that “in order to prevent large scale tax evasion, it is essential that information collected about the different aspects of their business should be coordinated by one Government agency.” TEC even went on to draw a broad silhouette of such an agency, which would operate as information aggregator within the state’s institutional network. TEC wrote: -

The proposed organization should work in coordination with all other agencies working under the Central Board of Revenue. The organization will not only collect information directly through its own staff, but will also receive information, but will also receive information from other units. It will coordinate the information so received and pass it on to all officers who may be able to make use of it. The Central Board of Revenue may draw up a plan for the organization and working of the proposed Directorate. Suitable amendments may be made in the legal enactments on the subject to remove the bars on passing of information from one revenue officer to another.

sharing of information at inter-agency level, too. The secrecy cover has only thickened in Pakistan with every passing year.

61 GOP, *The Taxation Enquiry Committee Report (Volume 1)*, 133.
62 Ibid., 134.
63 Ibid.
64 Ibid.
However, nothing was done to establish an organization where information about all economic agents of the country and their economic activities could be gathered, aggregated, profiled, and utilized by various state functions – particularly revenue function nor were legal bars on sharing of information removed. Obviously, this particular prescription was a non-starter from the word go since had it been implemented, it would have created a harrowing specter for members of Elites Ltd. The non-creation of an information aggregation agency at the Centre had its implications and five and a half decades down the road, polity is still groping in the dark for a foothold in terms of collecting actionable information bits about economic agents’ income-generating activities, and for an ability to extract its due share.

(iii) Taxation of Agricultural Income

TEC took an unequivocal position on taxation of agricultural income like any other income, by stating that the “splitting of agricultural and non-agricultural incomes under the present system results in a more favourable tax treatment of agricultural incomes, which is inequitable and causes loss of revenue.”\textsuperscript{65} While suggesting “the abolition of the distinction between agricultural and non-agricultural income … under the Central Income-tax Act,”\textsuperscript{66} it recommended “that the present system of taxing agricultural incomes in … Pakistan should be replaced by a proper method of determining the real income of the tax-payer in each year and subjecting it to progressively rising rates of tax,”\textsuperscript{67} which in TEC’s view was “both practicable and equitable.”\textsuperscript{68}

\textsuperscript{65} Ibid., 312.
\textsuperscript{66} Ibid.
\textsuperscript{67} Ibid.
\textsuperscript{68} Ibid.
Realizing that there was a serious need to protect “the small and marginal cultivator from undue harassment from the tax authorities,” prescribed an ingenious dual basic exemption whereby “in addition to the monetary exemption limit fixed by the Annual Finance Act,”⁶⁹ a person whose main source of livelihood was cultivation and the total area of land held by him did not exceed 30 acres of irrigated and 60 acres of non-irrigated land in West Pakistan and 90 standard biggas of land in East Pakistan, he was not to be subjected to tax.⁷⁰ In order to further placate landed elite, TEC specifically recommended “that in computing the taxable income, land revenue, water rate, and all rates, rents and cesses on land should be allowed as a deduction in addition to the expenses on cultivation.”⁷¹ In an effort to maintain a difficult balancing act, TEC also suggested “that entire proceeds of income tax on agricultural incomes less cost of collection by the centre should be allocated to Provincial Governments.”⁷² While TEC recommendations to tax agricultural income and assign its administration to the Central Government received kudos, the liberal “additional exemption limits suggested for this tax and the proposed increases in land tax rates” were criticized for being “too modest to serve the underlying purpose.”⁷³ Despite an unequivocal recommendation to tax agricultural income like an income from any other source, it was not implemented. A decision to tax income from agriculture was not taken despite TEC’s incentive to allow double exemption – a decision that still continues to search its makers.

⁶⁹ Ibid., 111.
⁷⁰ Ibid.
⁷¹ Ibid., 312.
⁷² Ibid.
(iv) Estate Duty Tax – Removal of Exemptions

TEC recommended administration of Estate Duty with integrity by plugging loopholes and exemptions that had eroded its base and rendered it porous. In particular, it took to task the special exemption allowed to a deceased’s investments in 20 specified industries and demanded its withdrawal.\textsuperscript{74} Similarly, TEC castigated West Pakistan legislature’s move of passing an Act on May 5, 1958, abolishing Estate Duty on agricultural land with retrospective effect i.e. from March 23, 1953. TEC failing to find “any justification for exempting agricultural estates from the purview of estate duty,” recommended that “estate duty should cover all estates, including agricultural estate” by withdrawing the exemption granted in this connection.\textsuperscript{75} TEC, in this regard, could not be more unequivocal, clear-cut, and solid. Elites Ltd did not accept the recommendations to plug the identified loopholes. Thus, neither Notification No. 2 of 1953 was rescinded nor the value of agricultural lands was included in the base of Estate Duty for charge purposes.

(v) Imposition of Wealth Tax

TEC drawing upon its TORs, which inter alia, had stipulated to achieve the essential objective of removal and prevention of concentrations of income and wealth in a few hands, strongly recommended imposition of a tax on the net wealth of a person on the specified date. TEC report also laid down that the “tax may be levied on the net worth of a person i.e., his assets minus liabilities and should include agricultural estates and property of every kind.”\textsuperscript{76} Interestingly, TEC having built up its entire case for imposition of a tax on wealth was supposedly more egalitarian and equitable, but in the end silently

\textsuperscript{74} This infamous Notification No. 2, dated July 20, 1953, was issued under Section 35 of The Estate Duty Act, 1950.
\textsuperscript{75} GOP, The Taxation Enquiry Committee Report (Volume 1), 156.
\textsuperscript{76} Ibid., 326.
recommended that “the tax should be assessed at a flat rate of one per cent.” It was observed that TEC’s exhortations to impose Wealth Tax and corresponding prescription of a low flat tax rate of 1 per cent did not synchronize. The Wealth Tax Act, 1963, was legislated enforced on July 1, 1963, imposing a flat tax rate of 1 per cent on the net worth of a person as on June 30th each year. Appeasing landed elite, military-led ruling coalition took out agricultural land and a wide range of other assets from the charge of the levy.  

(vi) Non-imposition of Gift Tax

After entering into a lengthy scholastic litany on pros and cons of gift tax, TEC apparently appeasing religious elite and stating that “the tax would also arouse religious controversy,” declined to recommend its introduction “due to its low revenue potential and difficulty of administration.” By way of plugging the major loophole in the direct taxes regime caused by the non-taxation of gifts, it safely confined itself to merely suggesting that the “extension of the inter vivos transfers from one year to three years for purposes of estate duty will, … be a sufficient safeguard against the misuse of gifts as instruments of evasion.” Although, TEC did not recommend introduction of gift tax, yet The Gift Tax Act, 1963, was promulgated and enforced w.e.f July 1, 1963.

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77 Ibid.
78 The polity took a decade to correct the wrong. In 1969-70, agricultural land was included in the definition of “taxable assets” for computation of charge under The Wealth Tax Act, 1963, but simultaneously a generous special exemption of one lakh rupees in PIU value was extended. Again the method of valuation of agricultural land was based on Produce Index Units (PIU), which resulted in only a fraction of an asset’s value being charged as compared to its actual value in the open market. Thus, extension of The Wealth Tax Act, 1963 to agricultural land was indirectly but effectively neutralized by applying PIU method for valuation purposes coupled with a special exemption of one lakh rupees. This was, of course, in addition to Section 5A thereof which ordained coverage of the tax only to the persons who were income tax assessees. Thus, landed elite who had no income other than agricultural income irrespective of its quantum, were not liable to Wealth Tax.
79 GOP, The Taxation Enquiry Committee Report (Volume 1), 212.
80 Ibid., 326.
81 Ibid.
Excise Duty on Liquor/Intoxicants

After spending fair amount of time and energy on tracing the history of excise duty in the sub-continent from various angles, TEC observed that objective of excise policy was “that the consumption of liquor and other intoxicant and injurious drugs must be minimized,”82 and that “one way of reducing their consumption is the raising of the price beyond the reach of a man of ordinary means,”83 implying thereby that men of extraordinary means could consume them. The question arises as to how the religious elite who had been quite emboldened by their socio-political gains achieved during the 1950s (e.g. persecution of Ahmadis and other minorities), could have stayed silent on the policy choice. The only way the question could be answered is that it must have been due to quid pro quo inter-elite transactions. The religious elite were accommodated in terms of exclusion of “Endowment Trusts, Properties held by Charitable, Religious and Educational Institutions, … and in case of Waqf alul Aulad, the portion dedicated to charitable purposes”84 from the base of Wealth Tax that TEC had recommended for legislation. By way of a bonus, Gift Tax was not recommended for legislation by TEC because of “a low revenue potential in view of the large scale exemptions, which have to be allowed for dower and religious and charitable purposes.”85 TEC recommendation was readily accepted, and Excise Duty rates applicable to Liquor and other intoxicants was left as such, and no change was introduced.

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82 Ibid., 256.
83 Ibid.
84 Ibid., 326.
85 Ibid., 211.
(viii) Sales Tax

TEC accentuating “that increased reliance will have to be placed on indirect taxes, particularly taxes on consumption for raising additional revenue during the Second Plan period,” recommended that “Sales tax being as near an approximation to a general consumption tax as possible... the basic rate of sales tax may be raised from 10 per cent to 12.5 per cent.” In the same vein, while recommending an outright general exemption “to all goods which are exported,” TEC ended up recommending a domestic tax rate for a few select items at as high as 20 per cent. TEC recommendation on Sales Tax was accepted and the rates were jacked up – though selectively.

(ix) Capital Gains Tax (CGT)

Despite its checkered history and multiple manners in which it can be administered, Capital Gains Tax has long been considered an equitable, stable, and desired source of state revenues. Government of British India had subjected capital gains to tax for the first time in the sub-continent in 1947. After Independence, while CGT continued to be levied in India, Elites Ltd had it abolished in Pakistan in 1950 without citing any cogent and tenable supporting reason. Noting that “No specific reason was given in the Budget Statement of 1950 for discontinuance of the Capital Gains Tax,” TEC observed “that there is a strong case for the re-imposition of this levy particularly in view of the developments since 1950.” Arguing further that “In a developing economy the value of capital assets rises steeply in consequence of industrialization and urbanization so that

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86 Ibid., 172.
89 Ibid.
investment in real estate grows in attraction,“90 which factor “militates against the more productive use of savings;”91 and conversely therefore, a “tax on capital gains corrects to some extent the tendency to excessive investment in real estate.‖92 It was further argued that CGT “would also help the fight against inflation by curbing speculation in real estate and other capital assets.‖93 TEC stating that while “we all agreed in principle that capital gains should be taxed, one of the members94 felt that the actual implementation of this recommendation may be postponed for a few years so that its probable adverse psychological impact on investment climate in the country may not conflict with tax concessions we have suggested in this Report,“95 outrightly recommended taxation of capital gains without any exception as to its source or type. The prescribed tax rates though looked on lower side in an international comparison but were “justified from the standpoint of incentives to capital formation.‖96 TEC recommendations on CGT particularly with regard to taxation of surplus arising from sale of urban real estate were ignored, and continue to be ignored, and identified as a black-hole in the tax system.

(x) Rate Reduction vis-à-vis Tax Incentives – Elimination

“There is no country in our knowledge which levies as high a tax rate on corporate income as we do in Pakistan,“97 observed TEC and venomously lambasted the government’s proclivity of allowing incentives for investment stating that “short-term

90 Ibid., 102.
91 Ibid.
92 Ibid.
93 Ibid.
94 An extended effort was made to determine as to which member took such a position. While TEC Report itself and other documents pertaining to its working are totally silent, ancedotal evidence boils down to M.A. Rangoonwala. In the overall theoretical framework of the study it is a typical elitist position i.e. immediately operationalizing the recommendations that suited Elites Ltd. and indefinitely deferring those that did not.
95 GOP, The Taxation Enquiry Committee Report (Volume 1), 104.
96 Rab, “Pakistan Taxation Enquiry Committee Report,” 282.
97 GOP, The Taxation Enquiry Committee Report (Volume 1), 90.
concessions cannot produce desired result unless general level of corporate taxation is brought in line with that obtaining in other countries.”198 TEC thus stating “that a reduction in the general rate of tax would be a more powerful incentive from a long-range point of view in comparison to a short-term holiday,”199 recommended “that in order to provide a really effective and long range tax incentive for capital formation the basic rates of company taxation should be revised downwards … (and) that the tax rate on domestic companies be brought down to 45 per cent”100 Similar, recommendations were also given in respect of taxation of Individual incomes.101 No wonder, the recommendation was implemented immediately to downward revise the applicable tax rates in the Finance Act, 1960, but correspondingly proposed exemptions and incentives were not withdrawn. Adding insult to injury, as if existing incentives regime was not enough, soon a flood of further exemptions swept across the polity and continued to do so throughout 1960s.

(xi) Taxpayers’ Facilitation

Although, much-touted IFIs-sponsored jargon “taxpayers’ facilitation” appears to have entered lexicon of taxonomy much later, yet TEC took pains, by utilizing its equivalents, to drive home the point that taxpayer in Pakistan was a sacred cow – even then. Since TEC TORs did not touch upon this aspect of the tax administration, one was tempted to be optimistic that purpose of reform effort could be strengthening of revenue function and enhancing its enforcement capacity, yet TEC went overboard to prescribe that

98 Ibid.
99 Ibid.
100 Ibid.
101 Ibid., 80.
“cooperation of the Chambers of Commerce should be enlisted,”102 and that “more attention should be paid to public relations aspect to obtain cooperation of the taxpayers and to increase his voluntary compliance.”103 It was ordained that “Tax officials must be punctual in their appointments and should be courteous, fair and impartial in their dealings.”104 To top all, while the citizens’ liability in the equation was toned down by meekly stating that “Courtesy does not mean liberty to the taxpayer to violate tax laws,”105 a highly pronounced and threatening exhortation for the revenue function was “that the tax-payers should not be treated as criminals and tax official should desist from assuming the role of a policeman.”106 Thus, seeds of perverse exploitation of “taxpayers’ facilitation” in the sense of its being a tool to weaken the tax system were sown.

TEC Evaluation

While TEC report was appreciated for its “considerable attention to the incentive aspect of taxation,” it was castigated for it downplayed “other aspects, most notably productivity.”107 Finance Minister, Muhammad Shoaib, announcing the 3-month Budget (1st April, 1959 – 30th June, 1959), on March 31, 1959, in Rawalpindi, in a befitting riposte punctured TEC in overall terms by stating that “I have given careful consideration to the Committee’s views and have adopted such of their recommendations as fitted into the Government’s concept of a fair and rational tax structure for the country.”108 Such an impudent assumption of a carte blanche, gave Elites Ltd an opportunity to be selective

102 Ibid., 317.
103 Ibid., 138.
104 Ibid.
105 Ibid.
106 Ibid.
107 Rab, “Pakistan Taxation Enquiry Committee Report,” 290.
108 GOP, ”Budget Speech 1959-60,” 329.
and implement only those recommendations which suited it, and defer or even discard and consign others to oblivion. Outlining his vision of a new tax policy, he further stated that “In the present economic conditions in the country, it is desirable that while making savings possible and worthwhile, the burden of taxation for persons in the lower income brackets should be more in the field of indirect taxation, thereby restraining consumption.”

The policy options that polity exercised over the next couple of years indicated towards positive attestation of hypotheses with the notable exception of legislation of The Gift Tax Act, 1963, which was done despite TEC’s refusal to support and recommend it. This is evidently the only anomaly, which the scheme of present study cannot explain and is reflective of an aberration in behavior that a rigged and a captive state would adopt. Shock approach was set to be re-activated sooner than later.

Section VII
The Commission on Taxation and Tariff (CTT), 1964-66

The hiatus from harvesting abnormal gains proved too brief – just little over three years. Instead of implementing TEC report with commitment, gauging the outcome, evaluating impact on economy and stakeholders, and contriving some legitimate-looking innovative grounds to have another go at tax system, state caving into elitist manipulations took to establish another tax reform commission – just within four years of TEC report. Resultantly, Government of Pakistan vide Ministry of Finance Notification No.D.258-BIII/64, dated March 31st, 1964, announced to appoint CTT.

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109 Ibid.
CTT Personae

CTT was to be headed by Abdul Qadir,\textsuperscript{110} ex-Finance Minister, with its other members being (i) M. L. Qureshi,\textsuperscript{111} Chief Economist, PC; (ii) Dr. Meenai, Economic Adviser, SBP; (iii) Prof. A. F. A. Hussain,\textsuperscript{112} Department of Economics, University of Dacca; (iv) Malik Khuda Bakhsh Bucha, Secretary, Agriculture Department, Government of West Pakistan; (v) S. Azam Ali C. S. P., Member, CBR; (vi) M. A. Rangoonwala;\textsuperscript{113} (vii) Habibur Rahman Bhandari, Member National Assembly. Malik Khuda Bakhsh was a politician-turned-bureaucrat-politician. Bucha hailed from South Punjab with strong feudal background, and was known as “baba-e-Ziraat.”\textsuperscript{114} He had served as Secretary, Agriculture, West Pakistan, Minister for Agriculture, Punjab, and then finally Chief Minister of West Pakistan. He represented landed elite on the CTT. M. A. Rangoonwala was there to look after interests of industrial elite and business elite.

CTT TORs

TORs for CTT were set as follows: -

I. To study taxation measures which could be taken at the Central, Provincial, and Local Levels for mobilizing additional resources for the 3\textsuperscript{rd} Five Year Plan in view of the likely impact of these measures on the revenues, income distribution, savings, investments, and prices.

II. To study the working of the tax-collecting machinery at the Central and Provincial Levels and to suggest ways and means for improving its efficiency particularly with a view to stopping leakage of revenue; and

\textsuperscript{110} Also headed TEC after the demise of Zahid Hussain.
\textsuperscript{111} Also a member of TC, and a consultant to NTRC.
\textsuperscript{112} Also a member of TC.
\textsuperscript{113} Also a member of TEC.
\textsuperscript{114} Urdu expression meaning "Father of Agriculture."
III. To review and to make recommendations for the rationalization of the existing tariff structure so as to evolve it as an instrument of policy for achieving the country’s industrial, agricultural and social objectives.

CTT TORs – crisp, bland, straightforward – are apparently emanating from the heart of a polity desirous of strengthening its tax system at all three tiers of governance so as to be able to generate enough revenues by having concerns for “income distribution, savings, investment, and prices,” and “stopping leakage of revenue and “achieving country’s industrial, agricultural, and social objectives.”

*CTT Proceedings*

A questionnaire was issued in July 1965 to invite suggestions from the public and to elicit responses from various stakeholders on aspects of tax administration at the Central and Provincial levels. A panel of advisers was also appointed to advise CTT on technical aspects of the matter. In all 20 consultative sessions were held at Karachi, Dacca, and Chittagong in 1966. CTT submitted five reports in May 1965, May 1966, January 1967, April 1967, and May 1967, respectively. Data regarding total expenditure incurred on CTT’s working is not available.

*CTT Recommendations*

In overall terms, CTT reports carried 376 recommendations straddling on various aspects of Pakistan’s tax system; some most important of which falling within elitist framework are dissected and analyzed in succeeding paragraphs. In mid-1960s, CTT could rightfully boast that “… tax system in Pakistan appears to be quite adequate in coverage,” as “… with the exception of an expenditure tax, almost all types of taxes, which figure in the
fiscal systems of other countries are to be found in Pakistan,” but then it soon switched gears and started off with a tirade against tax administration. Out of three head-line problems that it upfront highlighted, second was lack of “the efficiency and integrity of the tax collecting machinery.”115 Further, observing that although it “is far from our intention to pass strictures on the tax collecting machinery … yet we cannot … help observing that the image of the tax collector in the public mind is that of a highly unreasonable and hostile entity, functioning arbitrarily and live far beyond his legitimate means who can always be purchased for a price,”116 CTT passed an unqualified judgment “that the tax collecting machinery stands in need of basic improvement both in terms of efficiency and integrity.”117 Even where the data presented by CTT itself credited CBR e.g. on account of disposal of pending cases, the former resorted to normatives to discredit the latter by stating that “the departmental performance in detecting cases of tax fraud has been very poor, which seems to suggest that the present high rate of disposal is being obtained at the cost of quality of assessment, … (and) “that evasion of direct taxes is widely prevalent and the department has failed to control it.”118 Such CBR-bashing had a purpose; a befitting choreography for an ensuing spectacular.

(i) Targeting Tax Evasion

CTT observed that “The widespread practice of tax evasion is one of the chief reasons why, despite the progressivity of income tax structure, inequalities of income and wealth

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116 Ibid.
117 Ibid.
118 Ibid., 2.
have continued to grow in the country.”¹¹⁹ The egalitarian objectives of the Government policy,” it further noted, “cannot therefore be achieved unless the problem of tax evasion is effectively tackled.”¹²⁰ Thus, CTT recommended that since “It holds out the promise of substantially adding to the revenues of the Government without the necessity of raising the tax rates further,”¹²¹ “tax evasion should be the main target of attack in our case.”¹²² Interestingly, a while later CTT itself backpedaled on its sensational position of launching an attack on tax evasion,¹²³ and diluted its stance by stating that “In so far as the scope for additional taxation is related to the checking of tax evasion, it will of necessity be a gradual process as the strengthening of the tax collecting machinery and other steps for checking tax evasion cannot be achieved overnight.”¹²⁴ Having correctly identified the malaise and prescribed the medicine, CTT neither dwelled upon finding ways and means to build the requisite wherewithal of the revenue function of the state whereby an attack could be launched on tax evasion, nor was in any manner, this particular recommendation considered for implementation by the ruling oligarchs then and later. No wonder, the sore of tax evasion continues to simmer on body polity of Pakistan like none other.

(ii) Reversing Pro-Industrial Policy Bias

It was pointed out by CTT “that in the anxiety to promote industrialization and to foster the growth of an entrepreneurial class almost all our economic policies including the tax

¹²⁰ Ibid.
¹²¹ Ibid.
¹²² Ibid., 27.
¹²³ M. L. Qureshi, in his "Minute of Dissent," found CTT’s both stances to be quite irreconcileable. ibid., 40.
¹²⁴ Ibid., 25.
policy, the credit policy and the exchange rate policy were subordinated to this objective, “Which perverse focus on part of the state had resulted in “concentration of economic power,” and increase in black money “accounted for by tax evasion.” CTT recommendation to revaluate and rationalize all tax exemptions and incentives with a view to synchronizing them within an overall scheme of achieving an economic good health was not considered worthy of implementation throughout 1960s. Despite the brief period under Zulfiqar Ali Bhutto in 1970s, when industrial elite got a severe jolt in terms of nationalization of some units and withdrawal of tax exemptions, they continue to rule the roost. Tax exemptions of all types are still being enjoyed by industrial elite despite prescription to the contrary by the country’s bilateral and multilateral donors.

(iii) Fool-proofing Wealth Taxation

The Wealth Tax Act, 1963, had come into force w.e.f. July 1, 1963, imposing a tax on the net wealth of a person on prescribed date i.e. June 30th of every year. At the time of its legislation, landed elite, had been able to keep agricultural assets excluded from the tax base. Landed elite and business elite, in a quid pro quo, had been compensated by enshrining in statute a ceiling on wealth tax payable up to 15 per cent of charge year’s income. CTT went overboard to recommend that: (a) “agricultural assets should also be included in the taxable wealth; and (b) the ceiling on tax in terms of 15% of the income of the charge year may be abolished.” Malik Khuda Bakhsh Bucha, landed elite mole on CTT, opposing “the proposal to include agricultural assets in taxable wealth for purposes of wealth tax,” argued that this will “lead to harassment and oppression.”

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125 Ibid., 11.
126 Ibid.
127 Ibid., 15.
128 Ibid., 16.
Muhammad Shoaib, Finance Minister, making Budget Speech 1965-66, to the “newly elected legislature,” praised the “unprecedented economic growth of the last few years and the stable political framework within which it has proceeded have reaffirmed our faith in the basic viability and vitality of our political institutions,” by way of “making the wealthier class contribute its due share to the developmental efforts of the country,” announced that “in conformity with the recommendations” of CTT, “15 per cent ceiling according to which the wealth tax liability cannot exceed this limit of the total income is being removed.” Landed elite had their way yet once again. Finance Minister did not even make mention of other CTT recommendation i.e. inclusion of agricultural assets in taxable wealth for purposes of taxation.

(iv) Fool-proofing Estate Duty

In spite of the fact that The Gift Tax Act, 1963 had come into force with effect from July 1, 1963, CTT stating that the “measures will be highly commendable from the egalitarian angle and are unlikely to have any significant effect on saving and investment in so far as estate are realized after the death of the estate holder,” ended up recommending “that the period during which inter vivos gifts become liable to Estate Duty may be extended from 1 to 3 years.” From the perspective of strengthening of tax administration, this was a good proposal. Understandably, it did not find favor of implementation by Government of the time.

130 Ibid.
131 Ibid., 140.
132 Ibid.
133 GOP, The Commission on Taxation and Tariff (First Report), 16.
134 Ibid.
(v) Rationalizing Export Duty

Strong presence of vociferous landed elite representatives on CTT, made it plaintively argue that since “we are subsidizing the exports of various goods so that the question of raising any additional revenue through export duties is out of the question,” and therefore we recommend “that the export duties which are at present applicable to certain agricultural raw materials should also be dispensed with so as to promote their exports.”\(^\text{135}\) The recommendation was not granted.

(vi) Imposing Import Duty on Capital Goods

With strong policy bias operating in favor of industrial sector in backdrop, CTT observed that as “the import sector constitutes a major field for raising additional revenues,”\(^\text{136}\) particularly in context of Third Plan, and since in its view a stage appeared to have reached when such a policy needed revision, and proposed “that import duties on capital goods may be raised,”\(^\text{137}\) as the same would not only cut into profits of importers but will also partly tackle problem of over-invoicing of capital goods which was assumed to be taking place on a large scale.\(^\text{138}\) Industrial elite had their way and this recommendation could not be implemented.

(vii) Launch of an Asymmetrical Self Assessment Design

If one were to trace the intellectual moorings of an extremely asymmetrical Self Assessment Scheme (SAS)\(^\text{139}\) in Pakistan, this is right here in CTT. By way of a build up

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\(^{135}\) Ibid., 18.
\(^{136}\) Ibid., 19.
\(^{137}\) Ibid.
\(^{138}\) Ibid., 32.
\(^{139}\) Asymmetrical SAS refers to a phenomenon whereby the taxpayer is given a carte blanche to assess his income and tax liability without there being corresponding requisite legal instrumentality and the departmental capacity to undertake audit of the self-assessed declarations.
to their case for SAS, CTT indicated that earlier it was feasible and “perhaps necessary to subject each and every return to close scrutiny,” and “make a formal assessment more or less in each and every case,” as “the number of tax payers was not large,” and also because “the tax laws were less intricate and the accounts kept by assessees were of a simpler nature.” It was argued that since the “economic development of the country has brought in its wake an increase in the number of tax payers,” and “the tax laws have also become more complicated and the business accounts far more intricate than in the past, in which “circumstances the department, with its limited resources, finds itself at a loss to cope adequately with the workload.” Now, one of the plausible solutions could have been to increase the administrative capacity of the revenue administration. Appreciating that the dearth of resources available with CBR to carry out its operations, CTT itself observed “that if the present resources are not sufficient what is needed is to further expand the tax collection machinery… (and) the Income-tax Department, no doubt, needs more staff at most levels.” But then stating “that mere increase in the numerical strength of assessing officers and other staff is not the whole answer,” put forth that “developments in recent years in the procedural aspects of income tax law all point in the direct of ‘self assessment.’” Earlier as an experiment a sort of ‘self assessment’ had been introduced in Pakistan in 1964, which applied only to income from salary, interest on securities, property and dividends. No sooner the report was made public, a wide-spread self assessment scheme was introduced, without corresponding increase in administrative capacity of the department at least by the same proportion.

141 Ibid.
142 Ibid., 5.
(viii) Developing the Direct Taxes Code

A judgment of the Chief Justice of the West Pakistan High Court was relied upon\textsuperscript{143} to indicate that the tax laws had grown quite complex, and to argue that the “law relating to all direct taxes (income-tax, estate duty, wealth tax, and gift tax) could be put into one compendium with common chapters on all procedural matters like assessments, appeals, collection, penalties etc,” and recommended “that a committee of experts should be appointed to revise the tax laws,” a Direct Taxes Code.\textsuperscript{144} Apparently quite a reasonable recommendation fell on deaf ears of Elites Ltd as it had altogether different designs about the whole issue. Instead of forming an expert committee to develop a Direct Taxes Code, Elites Ltd had The Income Tax Act, 1922, was replaced with (standalone) The Income Tax Ordinance, 1979. By then The Estate Duty, 1950 had already been repealed by the military-led ruling coalition in 1977. Likewise, The Gift Tax Act, 1963 and The Wealth Tax Act, 1963, were rescinded in 1985, and 2000, respectively.

(ix) Compulsory Audit of Accounts

CTT observed that audit of final accounts by chartered accountants was restricted to incorporated bodies i.e. companies only, and since audit of accounts by registered accountants was a good, if not an absolute, check on evasion of taxes, this had a wider scope and importance. “While it may not be practicable to enforce compulsory audit in respect of all classes of tax payers,” CTT emphasized and recommended “that it should be made obligatory for all companies and other persons whose income exceeds fifty thousand rupees from the exercise of business or profession to get their accounts audited

\textsuperscript{143} Barnal Commission Shop Vs. Income Tax Officer, PLD 2, (West Pakistan High Court: 1963).
\textsuperscript{144} GOP, \textit{The Commission on Taxation and Tariff (Second Report)}, 3.
by a chartered or a registered accountant authorized by law to carry out audit work.”\textsuperscript{145} Understandably the recommendation was never implemented. By way of an aside, it may be added that professional elite entered elitist amphitheater in 1980 and onwards and were not strong enough to protect themselves in 1980s.

(x) Collation of Information

Resonating TEC prescription on the issue, but in a diluted form i.e. instead of creating a specialized information aggregation agency, CTT suggested raising Collation branch in every region, and recommended that “the law should require (all) departments and other public bodies to send to the Collation branch of their area periodic returns of all types of payments over a certain amount made by them to private parties,” including “Information regarding dividends and interest payments.”\textsuperscript{146} It was also prescribed that “The officer in charge of the Collation Branch should possess adequate legal powers for the collection of information and inspection of relevant records,” and that he should also be able “to take penal action for non-compliance.”\textsuperscript{147} The recommendation was never implemented in a holistic manner as Elites Ltd systematically thwarted all efforts to allow information to get collated and aggregated at one point in time and place in an actionable format, which malaise continues to inflict Pakistan tax system like none else.

(xi) Insulating Jurisdictional Allocations

CTT rightly pointing out that “A great deal of litigation takes place on the question of jurisdiction, which should ordinarily be a purely administrative matter,”\textsuperscript{148} recommended

\textsuperscript{145} Ibid., 21.
\textsuperscript{146} Ibid.
\textsuperscript{147} Ibid.
\textsuperscript{148} Ibid., 9.
to revise the law to the effect that “Commissioner should have full administrative competence to assign a case in his territorial jurisdiction to any officer below him and appeals against these orders of the Commissioner should lie only to the Central Board of Revenue and not to any court of law,”\(^{149}\) and that “Such appeals may be filed within thirty days of the communication of a jurisdiction order.”\(^{150}\) It was similarly, stipulated that “If the Government desires a case to be handled in a Commissioner’s charge other than the one in whose territorial jurisdiction it falls, the jurisdiction on such a case should be transferred by the Board to another Commissioner, leaving it to him to assign it to any officer below him.”\(^{151}\) Not immediately, but some years later suitable amendments were introduced into the law to bar instituting cases challenging jurisdiction in various courts of law. However, vicious trend of challenging proceedings or assessments merely on grounds of jurisdiction by sub-components of sundry elite i.e. professional accountants and lawyers continues unabated, and higher judiciary – another sub-set thereof – continues to admit such challenges and deliver judgments putting proceedings on hold and quashing tax assessments framed with impunity. The trend is eating into the very vitals of governance apparatus of the state.

(xii) Seeds of Weakening of Revenue Function

Unlike TEC, CTT appears to have fallen into adopting elitist phraseology. Basing its new vision of Pakistan’s revenue function on the twin-pillar of SAS and a reorganized tax department on functional lines, stipulated that “As there will be minimum personal contact with the tax payer the scope of harassment to him and also of corruption due to

\(^{149}\) Ibid.

\(^{150}\) Ibid.

\(^{151}\) Ibid.
intimate and close association with the tax payers will be substantially reduced.”\textsuperscript{152} Coincidentally, “SAS,” “functionalization,” and “reduction of contact between taxpayer and tax collector” continue to be favorite fads of Elites Ltd to rig tax system and are at the bottom of a tax system that may now be weakest both in terms of availability of policy and enforcement handles at its command in comparison with rest of the world.

(xiii) Criminalization of Fabrication of Accounts and Returns

Rightly pointing out departmental infirmities in terms of enforcement handles at its command, CTT observed that even if it finds out that “accounts are manipulated and income is being suppressed, (it) cannot take any action,”\textsuperscript{153} and recommended that “law should be made stricter and fabrication of manipulation of accounts … should be made a penal offence.”\textsuperscript{154} Within the elitist framework such a recommendation was neither to be implemented, nor was implemented. Criminalization of tax evasion at social, legal and enforcement levels remains an important infirmity of the tax system.

(xiv) Powers of Entry, Seizure and Search

In 1966, CTT observed that the departmental powers “to enter a tax payer’s place of business for the purpose of inspection of accounts or documents,” and to “stamp the accounts or documents or retain them,”\textsuperscript{155} were not good enough in view of the practice of not keeping duplicate sets of accounts and other incriminating evidence at the business premises. It was, therefore, recommended that “scope of powers of entry, seizure, and search already available to the department should be extended to any place where it is

\begin{itemize}
  \item \textsuperscript{152} Ibid., 10.
  \item \textsuperscript{153} Ibid., 22.
  \item \textsuperscript{154} Ibid.
  \item \textsuperscript{155} Ibid., 22.
\end{itemize}
reasonably suspected that accounts or other incriminating evidence is being kept.”\textsuperscript{156} Not to speak of the additional powers of entry, seizure and search that CTT solicited for revenue function, which, of course, were not granted, even the powers that it acknowledged that the department had back then, have thoroughly diluted into extinction – almost becoming a relic of the past.

(xv) Mens-rea – Onus of Proof

CTT observed that “law relating to penalties and prosecutions for concealment of incomes takes note of the intent of the person perpetrating tax evasion.”\textsuperscript{157} However, as a result of a legal heresy it has now come on tax “department to establish that the act of fraud was performed deliberately.”\textsuperscript{158} CTT vehemently argued that as full facts behind the act of evasion are known only to the tax payer it is unfair to place the onus of establishing the intention of the tax payer on the administration,”\textsuperscript{159} and recommended that it “should be sufficient for the administration to show that tax has been evaded and the burden of proving that the fraud was not intentional should be on the tax payer.”\textsuperscript{160} Burden of proof, despite categorical recommendation in this behalf, still lies on the tax administration, and has not been shifted. If one were to identify a few most important policy handles that the revenue function lacks, that probably might be one of them.

(xvi) Instituting Criminal Proceedings

Taking note of the significantly low rate of instituting criminal proceedings against tax offenders, and even weaker track record of carrying through such criminal proceedings,

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{156} Ibid.
\item \textsuperscript{157} Ibid., 23.
\item \textsuperscript{158} Ibid.
\item \textsuperscript{159} Ibid.
\item \textsuperscript{160} Ibid.
\end{itemize}
\end{footnotesize}
CTT identified a twin-malaise for this grave systemic infirmity which was at the heart of as low a deterrence as Pakistan tax system enjoyed, namely; one, the administration has to file a complaint for tax fraud in the court of a local Magistrate – a Class II official of the Provincial Government; and two, that Magistrate “is so busy with the normal cases that he has little time to attend to tax cases.”\(^{161}\) CTT again, instead of recommending establishment of specialized Tax Courts like in so many other countries, just found it good enough to prescribe “that it would be in the interest of justice if the trial of tax offences is instituted before a Sessions Court.”\(^{162}\) The recommendation was not implemented. It is quite a time-tested elitist ploy to let revenue function operate on borrowed crutches so that it remains infirm and incapacitated.

(xvii) Publicity of Tax Offenders

CTT plaintively noted that “tax administration is barred by law to make public any information regarding tax payers which includes information relating to imposition of penalties etc.,”\(^{163}\) and with a view to raising departmental deterrence, recommended that while “full secrecy of tax payer’s affairs should be maintained, there should be no legal bar to making public particulars of cases in which penalties levied by the department for evasion are confirmed finally.”\(^{164}\) Similarly, it was recommended that tax administration should also publish full particulars of cases of criminal convictions.\(^{165}\) A meaningful recommendation went down begging into the oblivion of history as almost half a century

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\(^{161}\) Ibid., 23.  
\(^{162}\) Ibid.  
\(^{163}\) Ibid., 23.  
\(^{164}\) Ibid.  
\(^{165}\) Ibid.
down the road, tax administration is still looking to obtain such powers, and somehow break the shackles of secrecy that still shroud it.

(xviii) Administration of Sales Tax

Summing up a raging debate “that sales tax being an indirect tax should be administered by the Customs and Excise Department and not by the Income Tax Department,”166 and dwelling at the issue at length concluded “that the administration of sales tax should remain with the income tax department.”167 Separation of assessment of sales tax from that of income tax had been an ultimate desire of industrial elite and business elite ever since imposition of the former charge in 1948 as it helped the tax department arrive at correct figure of their incomes. Elites Ltd, despite a recommendation counter to their desire, kept itself engaged towards achieving this particular objective. It succeeded in getting a favorable recommendation by TC in 1974, which was implemented in 1981, whereby administration of sales tax was allocated to Customs & Excise Department thereby creating a thick information iron-curtain between a taxpayer’s affairs under two fiscal statutes promulgated by the same government.

(xix) Administration of Estate Duty

Implying that, like vertical fragmentation, horizontal fragmentation of fiscal base was also harmful to state’s revenue effort, CTT recommended that “administration of the estate duty should be handed over to the Income-tax department. The post of Controller of Estate Duty should be abolished and each zonal Commissioner should function as Controller of Estate Duty as well.” A change which in any manner would have added to

166 Ibid., 30.
167 Ibid., 31.
information aggregation with the revenue function about the flow and stock of resources of its economic agents, could not be expected to muster enough support for implementation, particularly when Elites Ltd was already hell-bent on getting transferred the administration of Sales Tax Act to the Customs and Excise Department. Thus, Estate Duty continued to be administered independent of tax administration in a silo till its eventual repeal in 1979, by military elite-led coalition.

(xx) Taxation of Agricultural Sector

Unlike TEC before and TC after, CTT stating that while “consensus of opinion in the Commission is in favour of removing the existing tax distinction between the agricultural and non-agricultural incomes it does not consider it judicious immediately to make drastic changes, barring a few modifications,”168 like (a) “water rates should be enhanced;”169 (b) “multiple rate of agricultural income tax in West Pakistan should be increased or the exemption limit lowered;”170 (c) “enforce Betterment Levies on unearned increment in the value of land benefiting from project;”171 (d) “Provincial Governments should take measures to stop the leakage in the payment of land revenue;”172 and (e) “question of surcharge on rents in the Provinces may also be considered.”173 Landed elite moles on CTT helped it advance justifications in favor of the existing system in that it “is so much imbedded in the past and the tax payers and the tax collectors have lived with it so long that it would not be judicious to seek to change it too radically and suddenly as

169 GOP, The Commission on Taxation and Tariff (First Report), 32.
170 Ibid.
171 Ibid.
172 Ibid.
173 Ibid., 33.
this might have an unsettling effect on the agricultural sector.”\footnote{GOP, \textit{The Commission on Taxation and Tariff (Third Report)}, 50.} This carefully worded narrative was further buttressed when it was exhorted that “agricultural tax policy must keep in view the larger interests of the economy which are increased agricultural productivity, food sufficiency and higher living standards for the former.”\footnote{Ibid.} Exploiting this argument surcharge was recommended to be merged with the main Agricultural income tax. Landed elite came off with resounding success from CTT – with others not performing that badly either.

\textit{CTT Evaluation}

Back then, in mid-1960s, CTT could rightly express its satisfaction that “country has developed a highly elaborate and sophisticated system of taxation,”\footnote{GOP, \textit{The Commission on Taxation and Tariff (Fifth Report)} (Islamabad: Ministry of Finance, 1967), 25.} as its revenue functions had all five direct taxes in place though with porous bases. But CTT was also cognizant of the counter-attack launched by Elites Ltd. “Criticism of tax policy has become all the more severe and vociferous after the budget of 1963 when taxes on wealth and gifts were for the first time introduced, tax on capital gains revived, definition of public company made more stringent and a distinction in terms of tax incidence created between a public and a private company.”\footnote{Ibid.} In all, CTT came up with 376 recommendations out of which most significant ones with systematic implications have been selected and explained duly followed by government’s response as regards their implementation. Most of them were not implemented. It appears that elite groups fiercely haggled on every single recommendation in order to optimize on group gains from this
particular episode of shock approach. Elites Ltd’s collective significant gain remains onset of SAS sans audit-propelled deterrence. In order to sustain such win-win scenario, Elites Ltd would undertake a series of measures to keep tax administration devoid of requisite policy and enforcement handles and keep it administratively too infirm to eliminate any chances of recoil or resurgence. Shock approach would be revived and resorted to again in a decade.

Section VIII
The Taxation Commission (TC), 1970-74

Inception of Fourth Five Year Plan in 1970-71, was attended by the usual dilemma of resources falling short of needs as extraction at international level was not yielding good results. Tremendously under pressure “to mobilize internal resources” the then Finance Minister in his Budget Speech for 1970-71 stated that “a review of the taxation system both for mobilization of additional resources and for ensuring a more equitable distribution of incomes was necessary and that a Taxation Commission (TC) would soon undertake the assignment.” TC was established “to bridge the gap between revenue and expenditure and thus contain the fiscal deficit.”

TC Personae

Accordingly, a 7-man TC was appointed to be headed by Mahbubur Raschid – Governor, SBP. Other TC members were (i) Prof A. F. A. Hussain, Member, PC; (ii) Dr. Nurul Islam, Director, PIDE; (iii) Hafiz Abdul Majid, formerly Finance Secretary; (iv) G. Mueenuddin, formerly Chief Election Commissioner; (v) Mr. Muhammad Zulfiqar,

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179 Ibid.
Member, CBR; (vi) Dr. Aziz Ali F. Muhammad, Economic Adviser, Ministry of Finance, who was also designated as TC Secretary. The fact that TC took almost five years to complete the assigned task as against initially prescribed of three months coupled with separation of East Pakistan in December, 1971, necessitated its re-composition a few times.\(^\text{180}\) At the time of submission of TC’s final Report, it comprised: (i) Mahbubur Raschid, PICIC, (Chairman); (ii) M. Zulfiqar, Chairman, CBR; (iii) H. U. Baig, Chairman, SLIC; (iv) M. L. Qureshi, Director, PIDE; (v) A. A. Akmut, Secretary, Pakistan Institute of International Affairs, Karachi; (vi) Jamil Nishtar, MD, NBP; (vii) Nazir Ahmad Chaudhry, DG, Central Statistical Office; (viii) Mazhar Ali, JS, Ministry of Finance; (ix) Rahim Jan, SECP; (x) P. K. Shahani, Valuation Surveyor, Karachi; & (xi) Dr. B. A. Azhar, Adviser, Ministry of Finance.\(^\text{181}\)

Ethnocentric analysis of TC divulges interesting results. Mahbubur Raschid, TC Chairman, had been Governor SBP from 1967-1971. Ethnically a Bengali, Raschid – a Commerce Graduate from UK, was a career banker since 1939. He held important responsible executive positions including DMD, NBP (East Pakistan), and founding MD, IDBP. After separation of East Pakistan, he reportedly chose to stay back in Pakistan. He became Deputy Chairman, PC in 1971.\(^\text{182}\) He had been awarded Tamgha-e-Pakistan in 1959 & Sitara-e-Quaid-e-Azam in 1964. Raschid was a consensus-builder who never took positions himself and allowed every member to express his viewpoint.\(^\text{183}\) Kamal Azfar was Barrister-at-Law and M.A. (Oxon). Azfar was nominated on TC because of the

\(^{180}\) Some other TC members who contributed only for a time included (i) Akber A. Bhimjee who passed away in October, 1972; (ii) Dr. Akhlaqur Rahman, Chief Economic Adviser, UBL, who left Pakistan in 1973; & (iii) Dr. Muhammad Yaqub, who joined IMF in mid-1972.


\(^{182}\) Mahbubur Raschid had been awarded Tamgha-e-Pakistan in 1959, and Sitara-e-Quaid-e-Azam in 1964, in recognition of his extended contribution to public service.

\(^{183}\) Barrister Kamal Azfar, “Personal Interview (December 30),” (Karachi: 2013), 2.
fact that he “had worked as a Research Assistant to the Nobel Laureate, Gunnar Myrdal, (and) President Zulfikar Ali Bhutto was aware of this.”

A.A. Akmut was from Turkey, an irritable person, a hard-liner, and “an eccentric.”

Akmut had remained Secretary, Pakistan Institute of International Relations, Karachi. He enjoyed association and patronage of PPP – the ruling party and was “J. A. Rahim’s acolyte.” He wrote a detailed note of dissent with most TC recommendations. Ideologically, Akmut looks confused and un-pegged. From such high-sounding revolutionary and communistic pedestal, Akmut exhorts, “interest is also prohibited under Islam, and we must thus strive to eliminate it.” He sermonized that “since the Constitution has included the word “Islamic” in the name of the country, it is incumbent upon the Commission to eliminate un-Islamic provisions, wherever they come before it,” and “hence, the concession that interest is deductible as business expenditure should be withdrawn and allowed for dividend disbursements instead,” only.

M. Zulfiqar, Chairman, CBR, hailed from the middle class, was by nature an aloof person, a hard-liner, a typical bureaucrat, and a trifle bored by the TC. He was the first professional to have headed state’s revenue function, who had been a member of almost all reform initiatives undertaken till mid-1970s. Zulfiqar, who was known as “an enforcement man” was instrumental in convincing TC into considering splitting CBR into two separate Boards, and when he failed in carrying through it as a recommendation,

184 Ibid.
185 Ibid., 3.
186 Ibid.
187 See, for instance, A.A. Akmut, Challenge to Poverty (Printed at Vision Publications, 1970), which is quite a polemical treatise couched in communistic jargon. Simultaneously, he is believed to have given a serious right-wing tilt to “Pakistan Horizon” - flag-ship journal of Pakistan Institute of International Affairs.
189 Azfar, 2.
he convinced TC into recommending that only a “professional with the status of Secretary” be appointed to head CBR. He was instrumental in getting income tax imposed on agricultural income in 1975. Similarly, M. L. Qureshi, Chief Economist at PC was a hard-liner technocrat with an aloof demeanor, who provided academic input and theoretical anchors to TC deliberations, alongwith, of course, Dr. B. A. Azher.

Dr. Aziz Ali F. Mohammad, a trained economist, was from IMF. Barrister Kamal Azfar rated him as irritable, and “an angry old man interested in the micro picture and equity rather than the macro picture, containing the overall fiscal deficit. He was a typical expert out of touch with the political economy of Pakistan. His main focus was on direct taxes, and was out of date. He did not understand the importance of TC nor did he make any professional contribution.” On the contrary, Azfar eulogized Dr. Muhammad Yaqoob, and his role towards TC. He “was an agreeable eloquent expert of fiscal balance as he continues to be. He was the most outstanding member of TC.” Dr. Yaqoob, came from Faisalabad, and belonged to and represented the middle class. Academically he was an economist with M.A. from Government College, Lahore, and Ph.D from Princeton University, U.S.A. “Dr. Yaqoob did understand the importance of TC for Pakistan. If TC were reconstituted he should be the Chairman.” Rahim Jan “was one of Pakistan’s earliest Chartered Accountants.” He was a genial, agreeable “elite of Lahore.”

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190 Ibid., 5.  
192 Azfar, 6.  
193 Ibid., 4.  
194 Ibid.  
195 Ibid., 5.
Baig – originally a professional tax-collector, then Chairman, SLIC, later on Finance Secretary, like Dr. Yaqoob was “an outstanding member of the Taxation Commission.”

He was a genial and agreeable person. “Mr. Baig understood the importance of TC and was professionally prepared for meetings, (and) a patriot.”

Jamil Nishtar – a Cambridge-educated banker, later President NBP, and ADB (now, ZTBL) – “was one of the most distinguished Members of the Commission…he brought wisdom and experience to the TC.” He was genial, agreeable, and a “consensus builder” and “represented people of Pakistan. He was committed to the War against Poverty especially Rural Poverty and Debt.”

Contrarily, P. K. Shahani “was an intellectual from Rural Sindh.”

He was an agriculturist and a Professional Valuer of Property. “He was a hard-liner, opponent of Income Tax on Agricultural Income. He represented the interests of Sindh Zamindars” (landlords). Akbar Ali Bhimjee, who passed away during the life of TC, was Chairman, Eastern Federal Insurance Company. He was easy-going, liberal, secular and artistic person. He “was practical in his views.”

In a way, “Taxation Commission was a “Motley Crowd” to borrow a phrase from Chaucer.”

IFIs also contributed to TC’s efforts the World Bank dispatched Stanley Please for the same objectives. Please was a strong proponent of the World Bank’s structural adjustment lending – lending focused on broad policy conditions rather than specific projects such as dams, roads and irrigation works. The underlying idea, according to Please, was that it was impossible to promote development via project lending if the

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196 Ibid., 6.
197 Ibid.
198 Ibid., 7.
199 Ibid., 8.
200 Ibid.
201 Ibid., 7.
202 Ibid.
overall policy environment was grossly distorted. He was of the view that emphasis on project lending meant that the bank was “seriously constrained in its ability to use its position to help remove the barriers to more rapid income growth and poverty alleviation in the developing world.”203 His distrust in developing country governments for their failure to generate and retain fiscal surpluses as against earlier contrary belief was later captioned as “Please effect.” “He made no contribution” to TC.204 Similarly, IMF first sent Sijbren Cnossen in 1971-72, and then A. A. Tait in 1973-74 to assist TC in firming up its report and recommendations. Cnossen was a VAT-man, and one of the pioneers to lead IMF into believing the panacea for the developing countries was a universal VAT with least number of exemptions. Cnossen even went to a bizarre extent of proposing imposition of VAT on immovable property.205 Kamal Azfar did “not recall any of these experts giving any valuable input.”206

**TC Proceedings**

TC developed a comprehensive questionnaire in November 1970 “to elicit public opinion on various issues.” It will not be out of place to mention that out of the total 67 responses that were received from individuals, companies, and trade bodies represented either industrial or business class of the society. TC did not make any efforts to stock-take, take cognizance of, or learn from earlier tax reform efforts sponsored by the Government.”207

204 Azfar, 10.
206 Azfar, 10.
207 Ibid., 2.
TC meetings were mostly held in Karachi, and were not very technical, and they only “scratched the surface of issues, (but) were tense.”\footnote{208}

**TC TORs**

Like its composition, TC’s TORs, in the framing of which TC had no role to play,\footnote{Ibid.} were also revised to reflect, geographical, constitutional and regime changes taking place in the country, and are as enumerated under:

I. Bearing in mind the following objectives of fiscal policy, -
   (i) Mobilization of additional resources to meet the growing need of resources as reflected in the Fourth Five Year Plan;
   (ii) Simplification of the tax system with a view to achieving greater clarity, simplicity and effectiveness of the tax law;
   (iii) Improvement of efficiency, in assessment and collection, of tax collecting machinery with a view to, -
      (a) Preventing leakage or evasion of revenue;
      (b) Achieving better coordination amongst various tax authorities;
      (c) Avoiding inconvenience to taxpayers;
   (iv) Ensuring more equitable distribution of the tax burden.

II. To review the entire field of taxation at the Central, Provincial and Local levels, bringing out, in particular: -
   (i) The role of taxation, especially the role of direct and indirect taxes and their impact on economic activity;
   (ii) Responsiveness of the existing tax system to changes in the nature and level of economic activity;
   (iii) The effectiveness of the exemptions, reliefs, allowances and other incentives provided in income tax, import duties, central excise, sales tax, property and other taxes in achieving the intended objectives;

\footnote{208} Ibid.  
\footnote{209} Ibid.
(iv) Provisions in existing laws which may have given rise to anomalies or inequities or which serve as loopholes and permit use of devices to avoid fair taxation; and

(v) The adequacy of the present tax administration and procedures.

III. To review the tax effort made at the Central, Provincial and Local levels.

IV. To recommend:

(i) Specific measures for additional taxation;

(ii) Changes, if any, in the existing incentives and concessions consistent with the need to raise additional resources and simultaneously achieve the objectives for which these concessions were initially extended;

(iii) Modification, if any, required in the present system of taxation and tax administration in order to make the system conform more effectively to the aforesaid objectives;

(iv) Any other measure, which TC considered pertinent.

A deconstruction of TORs reveals that towards onset of 1970s, polity had defeatistically started going into the “facilitation mode” at the expense of enforcement capacity of its revenue function. Use of expressions like “Simplification of the tax system…,” and “inconvenience to taxpayers;” within the overarching policy principles, not in a pronounced tone though, clearly heralded as to what was to follow in years to come. One important dimension of TC was that it was mandated to have a holistic look at the tax system at Central, Provincial, and Local tiers of governance apparatus, and also on “effectiveness of the exemptions, reliefs, allowances and other incentives provided in income tax, import duties, central excise, sales tax, property and other Provincial taxes in achieving the intended objectives.” It cannot be gainsaid that even in face of most egalitarian-looking of TORs, Elites Ltd has the capacity to rig deliberations and recommendations of reform commissions, and if still they cannot, it has an impregnable ability to defer or discard and dismiss any recommendations that do not suit it.
**TC Recommendations**

Some of major TC recommendations are analyzed in succeeding paragraphs.

(i) Establishment of National Valuation Organization

Recognizing the fact that valuation of assets on which much of essential national taxation process was based – particularly capital taxation i.e. wealth tax, gift tax, estate duty, and CGT – was in a shambles, and appreciating that any “country which desires to operate the capital tax system effectively must have a well-developed valuation system,” TC “strongly” recommended “the creation of a Valuation Organization responsible for the valuation of assets for all capital taxes, viz., the estate duty, the gifts tax, the capital gains tax, and the wealth tax.” TC further observed that such Valuation Organization “would cooperate with the provincial authorities to levy the urban immovable property tax,” and any “legal transfer of property rights whether in tangible or intangible assets should be made legally recognizable only on acceptance of the right of transfer reported to the Valuation Organization office.” This was an extremely important recommendation, but since it obviously did not suit Elites Ltd it was never implemented; not till date.

(ii) Tax Holidays vs. Infrastructure

Observing that “Tax Policy can be used to attract investment in a particular sector of the economy or to a region,” TC stated that “tax holiday was used in Pakistan for over a decade to encourage investment in industries, (and) to attract industrial investment to less-developed regions,” and added that it “was not realistic to expect that industry would

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211 Ibid.
212 Ibid.
213 Ibid.
214 Ibid., 15.
move there without the provision of basic infrastructural facilities such as roads, railways, airfields, telephones, banks, education and health facilities etc."

215 TC further reckoned it vital that the Government undertook public investment programmes to provide public utilities there, and recommended “that tax-holiday scheme should not be revived in any form,” and “Income tax concessions on export earnings should be abolished,” with other concessions to undergo “periodic review of their utility.”

216 While it might not be empirically tractable as to what extent TC recommendation of promoting public sector investment into far-flung areas with predominant purpose of promoting industrialization was implemented, what is evident is that the trend of holidays and exemptions in the name of promoting industrialization continues unabated to-date. IFIs, bilateral donors and international tax experts have cried hoarse prescribing elimination of tax exemptions – euphemistically dubbed as incentives for investment and industrialization – but Elites Ltd has always been able to effectively counteract those prescriptions by branding them as “IMF agenda” and keep lucrative tax exemptions intact.

(iii) Bifurcation of CBR

Like it has been argued earlier that Pakistan elites seek to dominate the state’s revenue function, inter alia, through a couple of inter-connected ploys i.e. (a) by appointing a non-professional chairman; and (b) by according a subservient status to CBR – house of state’s revenue function. Question of splitting CBR into two Boards to separately manage different types of taxes came under TC’s careful examination as far back as 1974. One view was that a bifurcation of the Board into two with distinct functions would result in

215 Ibid.
216 Ibid., 353.
217 Ibid., 364.
better tax administration and larger revenue collection because both work-streams were markedly different as while direct taxation required an audit and mercantile approach, indirect taxation was concerned with valuation, import status and classification of goods.\textsuperscript{218} The counter view was that bifurcation of Board would not solve any problem and that coordination would still be needed between two boards, and that key man in tax administration was Member in-charge of a department; and therefore, if Members were ineffective, tax administration would remain ineffective bifurcation or no bifurcation. Although, after weighing both the view points and considering all the allied questions, TC reached the conclusion “that the existing structure is satisfactory except that a Revenue Division should be established and the main responsibility of this Division should be to manage the taxes duties,”\textsuperscript{219} yet it made a categorical statement on the appointment of a non-professional Chairman to head CBR. “The idea to have a non-professional Chairman to coordinate the administration of direct and indirect taxes was opposed as it was thought that administrative coordination also required professional expertise as technical issues like creation of charges, division of revenue units and career planning required technical knowledge and professional outlook.”\textsuperscript{220} Elites Ltd in active collusion with generalist lackeys readily created a Revenue Division as it added another position to their already large tally of top positions in government hierarchy, but did not split CBR, and continues to-date to appoint gentile, non-professional Chairmen to head state’s revenue operations.

\textsuperscript{218} Ibid., 187.
\textsuperscript{219} Ibid.
\textsuperscript{220} Ibid.
(iv) Establishment of Tax Courts

TC argued that instead of having Appellate Assistant Commissioners for hearing appeals, “tax courts should be set up at district level.”\(^{221}\) “This, it was argued, would inspire greater confidence in the trade circles as tax courts would be placed directly under the Ministry of Law.”\(^{222}\) TC further crystallized the idea by stating that “Tax Courts could also provide one more tier between the assessing officer and the Income-tax Appellate Tribunal and the presiding officers for the Tax Courts could be recruited both from amongst the departmental officers as well as from outside, including Civil Judges.”\(^{223}\) But then TC unilaterally stopped just short of outrightly recommending establishment of District Tax Courts simply because “departmental officers might not feel attracted to work in Tax Courts as it might block their future chances of promotion in their own department, (and) new cadre would be too small to offer any chances for promotion, (and) lawyers or the Civil Judges without the background of Income-tax Law may also not prove efficacious.”\(^{224}\) Akmut, writing a note of dissent, vociferously suggested “that separate Courts of Fiscal Jurisdiction be set up, their levels corresponding to Civil Courts and to Sessions Courts, to deal with matters pertaining to assessment.”\(^{225}\) Mazhar Ali endorsed Akmut: “Viewed objectively, establishment of Tax Courts is an excellent idea.”\(^{226}\) The mere fact that TC entered into the debate of establishing Tax Courts to improve tax enforcement was good enough to indicate that it was fully cognizant of the need of District Tax Courts in 1974. The need still exists.

\(^{221}\) Ibid., 194.
\(^{222}\) Ibid.
\(^{223}\) Ibid.
\(^{224}\) Ibid.
\(^{225}\) Ibid., 424.
\(^{226}\) Ibid., 480.
(v) Wealth Tax Exemptions

After an extended analysis of wealth tax regime as implemented in Pakistan from various angles, TC recommended that: (a) exemptions in respect of residential house and agricultural land should be removed by raising general exemption limit from Rs. 4 to Rs. 5 lakhs; (b) the test of reasonableness of dower money at an amount not exceeding 10 per cent of net worth or one lakh rupees whichever was lower, be withdrawn;\textsuperscript{227} (c) PIUs may continue to be the basis of valuation, but the value per PIU be increased from Rs. 10 to Rs. 25;\textsuperscript{228} (d) the top rate of tax at 5 per cent of net wealth be reduced to 3 per cent; and (e) “all land-owners whether subject to income-tax or not should be brought within the fold of wealth tax.”\textsuperscript{229} Although, all of these recommendations had egalitarian overtures yet understandably only (b) and (d) recommendations were implemented.\textsuperscript{230} Thus, neither the general exemption limit was harmonized by eliminating separate exemptions on a residential house and agricultural land,\textsuperscript{231} nor PIU valuation rates were enhanced for quite some time, nor land-lords not liable to income tax were rendered liable to wealth tax.

(vi) Exemption to Charitable Institutions

The Finance Act, 1952, through insertion of Section 15D into The Income Tax Act, 1922, had allowed exemption to donations made to charitable institutions. The “charitable purpose” was “defined to include relief of the poor, education, medical relief and the

\textsuperscript{227} Earlier, TC itself had recommended this "test of reasonableness of dower money" in its Interim Report of May, 1971. TC backpedalled on its recommendation in the face of fierce resistance from religious elite duly supported by monied class in the background.

\textsuperscript{228} TC lamented that its recommendations with regard to an upward increase in the valuation of PIUs for Wealth Tax purposes although made in the Interim Report of May, 1972, "have not yet been implemented."

\textsuperscript{229} GOP, \textit{The Taxation Commission Report (Volume 1)} (Islamabad: Ministry of Finance, 1974), 366.


\textsuperscript{231} The exemption limit of net wealth subject to tax was, however, downward rationalized i.e. from Rs. 4 lakhs to 2 lakhs.
advancement of any other object of general public utility." In 1965, the scope of the provision was expanded to cover donations made to approved religious institutions, and in 1967 donations made to specially approved charitable institutions were allowed to qualify for straight-line deduction. The concession was available to taxpayers other than companies. In its Interim Report of May, 1972, TC had observed “that liberal tax treatment of charitable donations had led to a mushroom growth of charitable organizations, the majority of which were reported to be tax evading devices.” Resultantly, in 1972-73, “the scope of charitable donations was reduced by limiting the donations exempt from tax to 5 per cent of income subject to a ceiling of Rs. two lakhs for companies and 10 per cent subject to a maximum of Rs. one lakh in cases of others.” Religious elite protested, resisted, and exercised their muscle to have the policy choice reconsidered. Accordingly, TC observing that the tax concessions served a useful social objective, in a complete volte face “reconsidered its earlier recommendation and came to conclusion that existing facilities should continue.” There is no denying the fact that TC’s recommendation emanated from ground realities which indicated to the fact that a non-public sector was thriving at the public expense but without any public oversight. However, since religious elite had gained enough ground by then, they compelled the state to exercise a choice that was not only a sub-optimal one, but was also likely to have wider implications going forward. The chickens have come home to roost: Pakistan today has a most diluted, thinned, and lax regulatory regime for as thriving a sector as non-profit sector of the country.

233 Ibid.
234 Ibid.
235 Ibid.
(vii) Estate Duty Exemptions

Summing up ideological debate triggered by one member who argued “that estate duty was against Islamic Law,” and “contended that the estate ceased to exist the moment a person who owned it dies,” and that the “estate could not, therefore, be taxed as a whole,” and “proposed that estate-duty should be abolished and replaced by inheritance tax.”

Thus, TC reverberating TEC exhortations made in 1960, recommended “that exemptions in respect of life insurance, agricultural land, jewelry, residential house and Provident Fund should be removed, (and) that the special exemption allowed under Section 35 of The Estate Duty Act, 1950, to deceased’s investment in specified industries through Notification No. 2, dated 20th June, 1953, should be withdrawn.”

These exemptions were not to be removed as those would directly pinch Elites Ltd members. Eventually, when military elite took sinews of state power into their own hands in 1977, The Estate Duty Act, 1960, became their first casualty in 1979.

(viii) Gift Tax Exemptions

Gift Tax is a necessary adjunct of Estate Duty or Inheritance Tax, and is introduced to reduce temptation to evade such duties by transfers made between living persons. In Pakistan, although Estate Duty was imposed in 1950, Gift Tax was not imposed until 1963. A gift was defined as any voluntary transfer of existing property either gratuitous or for a consideration which is less than its market value. TC in its Interim Report of May, 1971 had observed “that liberal exemptions from gift tax had resulted in a drastic

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236 The basic difference between the two levies is that while the estate duty falls on the entire estate as a unit before its distribution to heirs, the inheritance tax is levied upon the lawful heirs individually.
238 M. L. Qureshi - a TC member - writing his note of dissent recommended that both Estate Duty and Gift Tax "should be abolished forthwith." Similarly, P. K. Shahani in his dissenting note had recommended imposition of Inheritance Tax in place of the then existing Estate Duty.
erosion of the tax base.” It had, in particular, been observed “that any dower money which was in excess of what was considered reasonable or any subsequent increase of the dower money should be treated as a taxable gift made by the husband.” By way of test of reasonableness, TC suggested ten per cent of net wealth of an individual subject to a maximum of one lakh rupees. When Elites Ltd resented the proposal spearheaded by religious elite, TC plaintively stating that “this recommendation has not been implemented by the Government,” reconsidered it and arrived at a fresh “conclusion that it should be withdrawn as the ‘test of reasonableness’ is rather arbitrary.” TC further arguing that “the more valuable the gift, the more likely it is that the owner will want to establish his legal claim to the property…recommend(ed) that the transfer of legal ownership of property be made the point at which gifts tax liability arose.” This was an important proposal, which if implemented would have contributed a lot towards documentation of the economy. Soon, however, religious elite were to bring up an ideological explanation against the prescription that under the Islamic Law “the transfer of legal ownership of property” was not required. Judiciary effectively controlled by the conservative right-wing accepted the explanation hitting in state’s mid-section for all times to come as far as its efforts to document the economy were concerned.

(ix) Central Excise Duty - Self-Clearance Procedure

In order to reduce contact between the tax-payer and the tax-collector and providing a greater degree of freedom to manufacturers, Government had devised special clearance procedure in 1960. The special procedure, on the one hand, allowed manufacturer to clear

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240 Ibid.
241 Ibid.
242 Ibid., 104.
his goods without departmental interference, and on the other, required of him to make payment of provisional duty at a specified rate monthly on goods cleared by him during the month. The entire system was designed in such a way as to have the least enforcement oversight. Theoretically, self-clearance procedure had many advantages over the supervised procedure, but “analysis of factories at Lahore, Lyallpur and Karachi working under self-clearance procedure showed that the excise duty paid by most of them had fallen substantially after the introduction of the new procedure.”243 In the wake of massive revenue hemorrhage taking place, TC, inter alia, recommended that “supervised clearance should replace self-clearance”244 which obviously did not find favor of implementation by the ruling coalition.

(x) Central Excise Duty – Capacity Taxation

A milestone in the history of simplification of excise procedure was introduction of capacity taxation in July, 1966. The levy of duty on the basis of production capacity constituted a novel experiment, perhaps unique of its kind in the developing world. In fact, the decision to introduce capacity tax was first announced in Budget Speech of 1961-62. Under this system resident excise staff was to be withdrawn. Instead, high level and technically competent groups were to make assessment of production capacity which could be altered only on an appeal by the industry. The new levy was expected not only to eliminate corruption by removing contact between minor excise officials and taxpayers but also to prevent leakage of revenue through under-reporting of clearance. Initially, Cement, Soda Ash, Sugar, Art Silk Fabrics, Vegetable Ghee, and Cotton Textiles were

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243 Ibid., 160.
244 Ibid., 161.
included in Capacity Taxation regime. Understandably, state was thoroughly milked by industrial elite with impunity. After weighing the pros and cons of flirtation this industrialist-sponsored innovation, TC came to conclusion that “disadvantages of capacity taxation far outweigh its advantages, (and) that capacity tax is an unfortunate tax and must be replaced.” Akmut, wrote a note of dissent stating that “while the abolition of capacity tax is a wise step, it does not go far enough,” and called for “nationalization of all textile mills above a certain capacity,” which “step will put an end to the evasion of excise duty,” and conclusively held that “there is no choice but to resort to wide-going expropriation.” Not only that the recommendation was not accepted and implemented for quite some time, but also that there was no talk of the massive amounts of revenue that was going down the drain. When ruling coalition underpinned by industrial elite came to power in 2013, Capacity Taxation was re-introduced initially for beverages sector with likelihood of expansion to other sectors as well.

(xi) Criminalization of Tax Offenses

Pointing out that “prosecution of persons indulging in suppression of income and other tax frauds has been infrequent,” TC observed that even in cases in which “investigations were launched … conviction did not take place in more than a couple of cases.” TC further observed that “in a society which is emphasizing greater social justice, the Income-tax Department should not be content with the mere levying of penalties where concealment of income or fraud has been proved,” and that “such persons should be

\[245\] Ibid., 168.
\[246\] Ibid., 422.
\[247\] Capacity Tax was reintroduced vide FBR SRO No. 649 dated July, 9, 2013.
punished.” TC unequivocally exhorting that “default of tax laws should be considered as much a criminal offence as an ordinary offence of theft or robbery.” TC proposed that a clear-cut policy of enforcement and prosecution be framed that “would increase the confidence of the public in the Income-tax Department on the one hand and raise the morale of the honest taxpayers on the other.” It was further suggested that to implement the policy successfully, law officers, apart from Departmental Legal Advisors, should be provided so that this work is put into full gear and prosecutions are successfully pursued. Four decades down the line neither any policy in this regard has been framed nor any Law Officers have been placed at the command of IRS field formations with the result that not even a single case of prosecution has since been carried through successfully.

(vix) Taxation of Agricultural Income

TC picking on TEC recommendations made in 1960 that had till date remained unimplemented, and mentioning that “subsidies on fertilizers, pesticides, private tube-wells, agricultural machinery, improved seeds, electric power need(ing) to be eliminated in due course since an appropriate level and structure of output prices essential for agricultural development can only be evolved if input prices are realistic and market-determined,” reiterated (with one member dissenting) that “income from agriculture should be aggregated with other income to decide whether an assessee has taxable income (above the exemption limit).” Akmut, writing a note of dissent stated that while “application of income tax to agricultural incomes is a necessity,” proposed more extreme measures in that “land above economic level, and gradually even below it should

249 Ibid.
250 Ibid., 392.
be expropriated and converted into collectives.”

P. K. Shahani, drawing inspiration from G.S. Kehar’s note of dissent to TEC report, opposed imposition of agricultural income tax, and argued that “upward revision of PIU is bound to result in great disincentive, and no country much less Pakistan can ill afford at the present stage.” This recommendation was not implemented for another couple of years. Income Tax was imposed on the agricultural income of a citizen in 1976, but only to be withdrawn by the military-led government of Gen. Zia-ul-Haq soon after.

(vx) Fragmentation of Fiscal Base

Fragmentation of fiscal base in Pakistan is strumous diathesis with a British hereditary taint. The Constitution of 1973 reserved for the Federal Government taxes on capital value of assets (e.g. Wealth Tax, Estate Duty, & Gift Tax) but excluded from its jurisdiction taxes on increments in capital values of property, which were placed in provincial jurisdiction. TC blew hot and cold in the same breath, as on the one hand, it opposed fragmentation of state’s fiscal base on vertical lines, it proposed its fragmentation on horizontal lines. TC, echoing TEC prescription of 1960, in no ambiguous terms suggested that “one agency should handle tax on all capital gains and that agency should be the Federal Government. Accordingly, capital gains tax which has up to the present been assessed and levied by the provincial governments should be integrated with the Federal Capital Gains Tax.”

Similarly, within the context of Sales Tax, TC recommended “that the best course under the circumstances would be that the

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251 Ibid., 426.
252 Ibid., 461.
253 Ibid., 405.
Central Government should continue to collect sales tax in its present form, and continue to distribute it among the Provinces as at present. The recommendation continues to remain unimplemented to-date. However, on the other hand, introducing a new catalytic trigger, as if vertical fragmentation of fiscal base was not good enough to play havoc with polity, horizontal fragmentation was proposed. TC thus accentuated fragmentation of the fiscal base by recommending that “administration of sales tax should be entrusted to the Customs and Excise Department as bulk of the sales tax revenue is already being collected by them.” The other grounds which were cited for such a bizarre move were “the administration of sales tax by different departments results in different treatment to manufacturers of excisable and non-excisable goods.” Howsoever, faulty line of argument TC may have adopted, since this particular recommendation suited Elites Ltd, it was implemented in 1981.

(xvi) Taxation on Liquor & Betting

Recognizing the influence of religious elite on the polity, TC stated “future role of potable liquor as a source of revenue should be of subordinate, limited and diminishing type in the context of tax policy,” and that “promotion of prohibition should not be used as a ground for abandonment of revenue since its abandonment cannot promote it.” Even in 2013, massive amounts of revenue continues to go down the drain annually simply because of the misplaced state priorities under massive influence of Elites Ltd members. One-Man Commission appointed by the Government to enquire into

254 Ibid., 226.
255 This distribution was based on the size of population in the various provinces and as such broadly reflected the relative consumption of taxable goods in each province.
257 Ibid.
258 Ibid., 406.
“Smuggling of Arms and Ammunition,” found out that smuggling of liquor was one of the single largest contributor to “total volume/value of smuggled items estimated over U.S. $5 billion,” and that “most of the smuggled items are either banned for import or subject to higher rates of taxes with cumulative effect of over 50 percent,” with revenue loss “estimated to be over two hundred billion rupees.”\footnote{Recorder Reporter, "Commission’s Findings: Over $5 Billion Goods Being Smuggled into Pakistan," Business Recorder, October 22, 2013.} This revenue if added up to annual revenue collection could increase Tax/GDP ratio by 1 per cent approximately.

Similarly, by then religious elite had got criminalized all gambling “with the exception of betting on horse races.”\footnote{GOP, The Taxation Commission Report (Volume 1), 330.} TC acknowledging that “Persons and societies opposed to betting on religious, moral, or social grounds express the fear that after being taxed in one form all betting might be recognized by the State as lawful,”\footnote{Ibid.} found itself “not concerned with the discussion whether or not gambling on horse races is justified on religious grounds or principles of State Policy,” and ended up recommending that “all race tracks should be obliged to operate as totalizator, … and the betting tax collected from the totalizator.”\footnote{Ibid.} The underlying principle was that advancement of prohibition was not a valid ground for abandonment of state revenues since its abandonment could not promote it. Next year betting on horse-racing was also prohibited taking omnipresent and ever-thriving business of gambling and betting underground. There possibly has not been a study undertaken to quantify annual loss to national exchequer, yet it could be presumed that it would be substantial particularly in the wake of modern means and tools of gambling and betting.

(xvii) Shift of Sales Tax to VAT Mode

TC although categorically stating that “most important advantage of Value Added Tax is checking evasion,” chose to just recommend that “existing sales-tax should not be substituted by the VAT” “due to administrative complexity.” However, TC took pains to recommend that the “existing sales-tax could be gradually adapted towards two or three stage VAT model to ensure greater check on evasion.” Akmut, writing a note of dissent proposed that “multiple stage sales tax should be abolished; sales tax should be levied only at retail stage as a fixed percentage of the retail price, say 3% or 4%,” and that “Sales tax collected in this manner can be considered to be Zakat.”\(^\text{263}\) TC recommendation that steps needed to be taken towards adaptation of two or three stage VAT was not implemented under influence of industrial elite and business elite. Resultantly, even after almost four decades state is still looking for a foothold to implement VAT and tap its real potential.\(^\text{264}\)

(xviii) Non-Professional Chairman

The issue of appointment of non-professional Chairman, CBR, did come up under discussion with TC with reference to splitting up CBR into two separate Boards. “The idea to have a non-professional Chairman to coordinate the administration of direct and indirect taxes was opposed as it was thought that administrative coordination also required professional expertise as technical issues like creation of charges, division of revenue units and career planning required technical knowledge and profession

\(^{263}\) Ibid., 423.

\(^{264}\) For an informed and in-depth analysis of the issue see Ahmad.
outlook.” Akmut, in his note of dissent, argued that “development and exploitation of revenue resources are matters of planning, not of ad hoc solutions, (which) can only be rationalized and indeed achieved with a revenue collecting agency, which is independent: a Revenue Division headed, not as the majority report proposes, by a “professional with the status of Secretary” but by a non-professional.” TC recommended a revenue agency to be headed by a “professional with the status of Secretary” has neither been accepted nor has been implemented by the elitist state.

**TC Evaluation**

One member of TC itself, dissenting and screaming that the “crisis is in the bones of our rotten system,” and that the “principal aims are unattainable by petty adjustments, and therefore the “report of the Taxation Commission does not measure up to this call of the times,” discounted its report almost in totality. He also indicated to shackles of interest groups that TC members represented “Thus, the Members of the Commission, eminent and knowledgeable as they are, could not have acted other than they did.” Out of a potpourri of 445 recommendations of differing nature and significance, most of those favoring Elites Ltd members were implemented with zeal and zest through Finance Act, 1974-75, and left-over were implemented in second major installment in Finance Act, 1975-76. However, the ones not considered worthy of implementation were those aforementioned having structural design implications for the system. Azfar succinctly recapitulates that “trouble with (TC) was that Members got embroiled in the Feudal, Anti-Feudal Mindset, and lost sight of the macro picture containing the overall fiscal

266 Ibid., 423.
267 Ibid., 416.
268 Ibid.
deficit.”\textsuperscript{269} TC, “ought … to have recommended VAT, an across the board expenditure tax on all sales of agricultural or non-agricultural products prepared by the renowned Cambridge Economist Nicholas Kaldor. This would have brought Agriculture into the Tax Net.”\textsuperscript{270} TC members were “opinionated” and “academic(ally) and professionally were not rigorous.”\textsuperscript{271} Unfortunately, in TC “vested interests dominated, in particular about Income Tax on Agricultural Income.”\textsuperscript{272} Shock approach were to stay in hiatus for a decade now.

Section IX

The National Taxation Reforms Commission (NTRC), 1985-87

Finance Minister, Dr. Mahbub-ul-Haq, while delivering Budget Speech for F/Y 1985-86, in National Assembly, on May 23, 1985, at length dealt with government’s vision of revenue system and steps contemplated to realize it. He announced to put in place “a system of taxation which would be easy to understand and fully acceptable to people.”\textsuperscript{273} He claimed that “no system can succeed unless it is accepted by the people,” and exhorted on Parliamentarians that “we must face the reality, not hide from it. It is in that spirit that we are moving towards a new system,” and declared that although in “this budget, we have taken only a few measures,” yet many “more reforms have to be carried out,” and therefore, the Government has “decided to set up a National Taxation Reforms Commission, which would include elected representatives as its members,” and which “will review the entire taxation system in detail and formulate recommendations for

\textsuperscript{269} Azfar.
\textsuperscript{270} Ibid.
\textsuperscript{271} Ibid.
\textsuperscript{272} Ibid.
making it simple, just and durable.” NTRC “was set up to investigate the reasons for decline in net tax base (in terms of value-Rs.) and hindrances in its collection. It was also tasked to recommend measures to enhance size of national tax base and effectiveness and efficiency of the tax system, while curtailing the misconduct of tax evasion, as observed in the past”

Accordingly, the Government vide Notification No.F.S(2)-Amin-/85, dated July 1, 1985, established National Taxation Reforms Commission (NTRC). NTRC was to be headed by Qamar ul Islam, formerly Deputy Chairman, PC. Other NTRC members were (i) Akram Sultan, Senator; (ii) Ahmed Nawaz Khan Bugti, MNA; (iii) Gohar Ayub Khan, MNA; (iv) Sardar Aseff Ali, MNA; (v) Hamid D. Habib, Chairman, Export Promotion Bureau; (vi) H. U. Baig; (vii) I. A. Imtiazi, Chairman, CBR; (viii) Hanif Adamjee, Industrialist; (ix) Syed Babar Ali, Industrialist; and (x) Dr. Moinuddin Baqai, Secretary Planning. It was rather bragged that it “was for the first time that members of the Parliament and non-official members from the private sector were appointed to a taxation commission.”

**NTRC Personae**

Qamar-ul-Islam was a CSP from pre-partition vintage – ICS 1943 batch. Earlier he had been removed from Service by Zulfikar Ali Bhutto on August 19, 1973, on

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274 Ibid., 44.
277 This statement is factually incorrect as both Members of Parliament and representatives of the private sector had been on TEC, CTT, and TC, before NTRC. For instance, Habibur Rahman Bhandari, MNA, was a CTT member. Similarly, M. A. Rangoonwala was member TEC, CTT, and TC, and Malik Khuda Bakhash Bucha had been member TC, just to quote a few.
indeterminable charges. His main qualification to head TC was his personal association with Dr. Mahbub-ul-Haq, Finance Minister under Gen. Zia-ul-Haq. Hamid D. Habib belonged to famous Habib family which established and owned Habib Bank Ltd., and was a business elite mole who had ingratiated himself well with the ruling coalition lead by military elite. Syed Babar Ali and Hanif Adamjee, leading industrialists, were placed on NTRC to safeguard the industrial elite’s interests. Dr. Moinuddin Baqai, I. A. Imtiazi (despite being Chairman, CBR) and H.U. Baig were generalists. Thus, NTRC, by and large, was an intra-elites affair or, at best, an inter elites-generalist affair. Intriguingly, NTRC had its secretariat established at Habib Bank Ltd. premises and also graciously thanked it for placing “its communications and other facilities at the disposal of the Commission.” Syed Babar Ali has tried to modify this position by stating that NTRC meetings were held at Ministry of Finance.

NTRC Methodology

For purposes of supplying input to NTRC, “35 research topics were outlined and distributed to individuals, academic institutes and companies present all over Pakistan. The ensuring debates, during meetings, were based on input from these in-depth researches and personal experiences of the Commission members.” NTRC held, at least, seven meetings during its 18-month life in Ministry of Finance, Islamabad. Syed Babar Ali recalled that all members participated in the meetings unless they were absent due to unavoidable reasons; on an average 7-8 members were present during an

281 Ali, 2.
282 Ibid., 1.
283 Ibid., 2.
official meeting. The environment of the meetings was professional yet pleasant, and members came prepared for thorough analysis of the items on agenda. The members took notice of every point in every paper presented and made recommendations focusing on its appropriateness for Pakistan’s development, and effectiveness and efficiency for the Government agencies and public. After rigorous discussions during the meetings, the recommendations were fine-tuned so that they met the objectives of the Commission better and yet were realistic and pragmatic. In short, the members were committed to the national cause and were mutually cooperative.  

**NTRC TORs**

NTRC was set the following TORs: -

1. “To review and evaluate the existing tax structure to identify the needed areas of reforms from the point of view of resource mobilization, economic and social equity and simplicity of law, administration and procedure.
2. To recommend a plan of action for expanding the domestic base of taxation and for ensuring that tax revenues grow faster than the growth in nominal GDP.
3. To recommend restructuring of the existing taxes with the objective of distributing the burden of tax according to capacity to pay, providing appropriate protection to domestic industry and encouraging investment in the economy.
4. To propose a new integrated tax system in the light of the above stated principles, with a judicious balance between direct and indirect taxes and with particular attention to comprehensive tariff reforms, taxation on luxury consumption, agriculture taxation and user charges for public services.
5. To suggest ways of improving the tax administration with the specific objectives of eliminating leakage in tax revenues and providing dignity to the taxpayer.
6. To make feasible suggestions for improving provincial and local taxes.

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284 Ibid.
7. To review any other issues which may be referred to the Commission by the Federal Finance and Planning Minister.”

The very first TOR’s focus on “simplicity of law, administration and procedure,” and fifth one’s on “providing dignity to the genuine taxpayers,” read with Finance Minister’s harangue that “There is no point in imposing further taxes when the recovery of the existing taxes is also highly defective and full collections do not reach public treasury because of leakages with the collusion of tax collectors,” set the tone and may be a good gauge to measure as to what would be the outcome of NTRC efforts. “All Commission members, including me, were selected to bring on-board people from a combination of social and economic backgrounds for an equitable national representation.”

NTRC’s Strategic Prolepsis

Upfront, NTRC, in a deft use of prolepsis, attempted to absolve itself on a few counts which coincidentally are this study’s basic hypotheses. Firstly, preempting this study’s fundamental position that elitist juggernaut from among an assortment of recommendations made by a tax reform commission chose only the ones that suited them and discarded the ones that might, in any manner, could have benefitted tax administration. NTRC, pointing out that most of its recommended “measures are inter-related,” asserted “that whenever an integrated proposal has been made, it should be adopted as a whole, as experience shows that our taxpayers are inclined to pick up and support only those portions of a new system, which they feel would give them personal

287 Ali, 1.
benefit and oppose those parts, which seem to put some restriction on their activities.”

NTRC further accentuated the point by stating that “a particular proposal of the Commission must be accepted as a whole; otherwise it will become one-sided and meaningless.”

Sardar Assef Ahmed Ali, an NTRC member, delivered identical harangues at the floor of the National Assembly, “that this Commission’s report cannot be implemented piecemeal. Economic policy can only be given in packages. It cannot be given in bits and pieces. If this report is not treated as an economic package then I am afraid its impact will not be felt over the years.”

Secondly, once NTRC had been established, it exhibited avowed bias in favor of industrial elite and business elite in terms of inputs that it sought from various segments of the society. “Instead of issuing a general questionnaire, the Commission invited the opinions, suggestions and recommendations of Chambers of Commerce & Industry and other trade organizations.”

Oral hearings that NTRC granted at Karachi, Lahore, Quetta, and Lahore, were exclusively to “trade bodies,” except Malik Khuda Bakhsh Bucha, who articulated group interests “on behalf of landed elite.”

Thirdly, NTRC forestalling lateral critique on itself on this count stated that at “present there is considerable discrimination in law so that certain classes of the society receive more favorable treatment than others in matters of exemptions and reliefs. This creates a sense of deprivation and resentment among the affected classes.”

The point has been accentuated over and over again in the Report perhaps with a view to attaining suspension of disbelief on the part of citizenry. Fourthly,

289 Ibid., 13.
292 Bucha had also represented landed elite on CTT.
294 Ibid., 13.
although boasting that it “did not associate any foreign experts with its work,” in the same breath, it was admitted that “Warwick University who were already a tax research programme on their own on Mexico and Pakistan sent us some suggestions and also met the Secretariat of the Commission.”

Likewise, in search of ex-post facto approbation of what it had written, NTRC proposed that “Report should also be sent to international financial institutions (WB, ID, ADB, IMF, agencies of the UN) who have not been associated with the work of the Commission.”

Fifthly, although as per its TORs, NTRC was supposed “To make feasible suggestions for improving provincial and local taxes,” it dithered away from the challenge, stating that it was “a provincial subject.” Thus, if country’s revenue system is fractured and its fiscal base fragmented, its roots may be traced back to NTRC’s refusal to deliberate upon two lower tiers of governance.

NTRC Recommendations

NTRC started with a broadside on the enforcement handles of tax machinery. “There are complaints of widespread corruption. The extensive powers available to the Tax Departments enable the officials to put pressure on the taxpayers who find it convenient and profitable to “please” them in order to escape the mischief.” Likewise, it went on to take on policy handles as well. “The laws are very complicated with provisos, stipulations and exemptions marked by ambiguities.” Sufficient strategic space was thus created to have a go at tax system and effectively push through the elitist agenda.

295 Ibid., 8.
296 Ibid., 7.
297 Ibid., 2.
298 Ibid., 11.
299 Ibid.
(i) Undoing Open-ended Exemptions

Picking up where CTT had left in terms of evolving or developing criteria for allowing exemptions and reliefs, NTRC recommended that “an exemption should be given only for a specified period and there should be an institutionalized arrangement to examine the cost and benefits of each exemption.”\(^{300}\) It further recommended that in “case the exemption has failed to achieve its objectives, it should be withdrawn,” and “where an objective has been achieved, the exemption should not be allowed to continue indefinitely.” It goes without saying that the recommendation was never implemented over quarter of a century down the road. Even today the most important challenges facing the polity is plugging holes in its fiscal bases. These holes continue to get drilled on one count or the other, but most popular being economic growth and its trickledown effect on the people of Pakistan. “Thus,” Akhtar succinctly contextualizing tax incentives states that “the so often propagated motive of “growth” (which seems to be the officially accepted cause of these concessions) reduces the whole phenomenon (Equity vs. Growth) into a ridiculous scene of a hapless lover chasing his fugitive friend through a constantly revolving door. Let it be prayed that this “odd couple,” at some point of time during this process, does end up with, at least, a handshake.”\(^{301}\)

(ii) Removal of Anomalies from Wealth Tax Base

NTRC, taking note of total collection during 1983-84, at meager Rs. 160 million, stated that since only “a negligible proportion of the total federal tax revenues or even of total revenues was generated at the federal as well as provincial levels,” Wealth Tax could

\(^{300}\) Ibid., 13.

hardly have “any significant impact on the overall pattern of distribution of tax burden among the population notwithstanding the progressivity of the rate structure of the levy.”

The Government was taken to task “on account of an over-emphasis on use of (Wealth Tax) only as a means for generating revenues,” as a result of which it failed to exploit significant latent properties of wealth taxation, which, inter alia, was driving the national economic resources from non-productive to productive sectors. “Most owners of wealth in our society continue to have preference for idle assets and instead of putting their inherited or newly acquired affluence to any productive use, they display a marked preference for a lavish western style of living and luxury housing.”

NTRC got into unraveling underlying elitist tactics employed to neutralize wealth tax’s real bite and purpose. “Wealth Tax did hold a promise for influencing the use of available resources in line with demands of our economic growth but in its present statutory form, it has, in fact, encouraged flow of activities in exactly the opposite direction in some areas. The main policy flaw in this regard lies in the pattern of exclusions allowed from the tax base.”

Despite being seriously germane to equity considerations, the distortions in the tax policy were neither removed, nor was an attempt made in that regard.

(iii) Elimination of Exemptions for Trusts and Charitable Institutions

NTRC observed that exemptions being enjoyed by trusts and charitable institutions on account of donations, voluntary contributions, and business income etc. actually ran counter to the Government policy that “has throughout been to restrict business activities

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303 Ibid., 33.
304 Ibid.
of charitable or religious trusts and funds etc.”

It was averred that “a perusal of different provisions dealing with exemptions to welfare and charitable trusts, however, indicates that it could never have been the intention of the Government to grant blanket exemption to all the income earning activities of these foundations regardless of the nature of the activities.” The widespread and indiscriminate exploitation of aforementioned exemptions by entities of various types, it was argued, cause a serious dent to national exchequer, as “resource gap created by such exemptions is ultimately filled in by shifting the tax burden to other taxpayers, which results in an adverse psychological environment for revenue collecting efforts of the government.” Since this particular recommendation was made at a juncture when religious elite were digging their heels in the polity under solid support and cover of military elite, and professional elite, it had no chance of making it to implementation stage.

(iv) Elimination of Interest Group-Specific Exemptions

Highlighting an extremely important aspect of low compliance tendencies with regard to payment of taxes in Pakistan, NTRC recommended that “exemptions that favour specific tax entities should be discontinued as such discrimination erodes not only the tax base but also the public confidence in the fairness of the tax system.” Since this recommendation was to prove a death-knell to Elites Ltd, it was never implemented.

(v) Elimination of Immunity

The overarching goals that NTRC had set for itself with regard to reformation of Pakistan tax system were: one, to ensure “maximum convenience for the taxpayers thereby

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305 Ibid., 54.
306 Ibid.
307 Ibid., 56.
308 Ibid.
creating a favorable attitude towards voluntary compliance,” and two, to reduce “chances of leakage of legitimate revenue to the minimum.” NTRC defeatistically admitted though that in the past the self-assessment schemes in the country instead of encouraging documentation had, instead, “encouraged a shift in the opposite direction,” whereby a heresy of claiming self-assessment on the basis of an “estimated receipt and expenditure statement” got into vogue with vengeance massively encouraging and inducing “account cases” to go “no account cases” to cut on additional compliance costs and also to provide least possible information to tax administration – just in case. NTRC observed that “payment of tax according to one’s whim was not the original intention but various amendments incorporated in the scheme from time to time have virtually eliminated the principal concept.” This is one of the hypotheses of the study that Elites Ltd immediately gulps policy bits that suit it, and modifies, dilutes or defers indefinitely which do not suit it. NTRC held that “IMMUNITY from detailed scrutiny granted to taxpayers declaring an income of 20% or more higher than last year,” was a perverse policy choice which was undermining very concept of self-assessment. Immunity (from audit), on the one hand, adversely impacted taxpayers’ psyche to offer for taxation only that much raise which was good enough to shield them against audit, and on the other, sapped capacity of the departmental officers rendering them “out of practice” by extricating them from the thick of things to fringes of fiscal function. Thus, NTRC unequivocally recommended that “the present system of “Immunity from Detailed Scrutiny” be discontinued.” Elites Ltd never let this particular recommendation

309 Ibid., 76.
310 Ibid., 77.
311 Ibid., 78.
implemented as immunity has been order of the day year after year – a sine qua non of SAS, and tax management in Pakistan.

(vi) Taxpayer type-specific Segregated Self-Assessment System

NTRC looking to plug loopholes and misuse of self-assessment system suggested a taxpayer type-specific segregated self-assessment system whereby three different types of taxpayers were to have varying conditions to qualify for and benefit under the proposed scheme of self-assessment. The common denominator amongst all sub-schemes of the proposed self-assessment system was mandatory filing of “a statement of assets and liabilities,” and this was the foremost casualty in respect of all three types when the scheme was rolled out. The derogation of accepting employer’s certificate in lieu of a return was to have serious consequences for the system over the next few decades. Elite Ltd leveraged its gains when Finance Minister, by way of a bonus, announced “Now the taxpayers will receive formal written acknowledgement when they file their returns. This formal written acknowledgment will constitute the assessment order-cum-demand notice in cases where the returns, on examination, are found complete and otherwise eligible for acceptance under the Self-Assessment Scheme.”312 However, “immunity” continued to be the order of the day, and self-assessment continued to be extended year after year indiscriminately – with or without any account-books, wealth statements and other supporting documents, which had been made the very basis of claiming SAS by NTRC.

(vii) Conduct of Audit

Outrightly discarding “immunity,” NTRC had recommended that (a) all returns filed under self-assessment scheme be accepted unless selected later for detailed scrutiny by

computer; and (b) existing system of assigning detailed scrutiny cases to the same officers individually be replaced by a system under which cases would not remain in their assessment circle but shall be assigned to a panel consisting of experienced officers enjoying joint jurisdiction over a case.\textsuperscript{313} While, on one hand, not a word was uttered as to how the computer would perform selection (i.e. random or parametric), and how data-feeding by the same “corrupt” departmental staff could be avoided, and on the other, at great length the point that two officers were better than one was hammered home. The prescription had full potential to get into a rough patch. It was implemented with disastrous outcomes when TRC castigated and mandated government to undo, the so-called “panel system of assessment.”

(viii) Social Audit of Tax Evaders

Trying to address the fundamental problem of Pakistan society i.e. pronounced propensity to cheat government funds, NTRC recommended that “a conscious effort should be made to isolate the tax evader on the social level and the act of tax evasion should be hammered home as an act aimed at cheating each one of his countrymen of their money.”\textsuperscript{314} Predictably, such recommendations are not to be implemented in a state and society which is in shackles of Elites Ltd, and were not implemented.

(ix) Detecting Accretion in Taxpayer’s Net Wealth

NTRC overcoming their internal disagreement and fissures on issue of curbing concentration of wealth in society, made six solid recommendations, which if implemented would have made a difference. Firstly, it was proposed that wealth statements should form an integral part of income tax returns in all cases. Secondly, it

\textsuperscript{313} GOP, \textit{The National Taxation Reform Commission Report (Part 1)}, 83.

\textsuperscript{314} Ibid., 106.
was suggested that although the existing privilege of confidentiality in business matters was an eligible candidate for continuity, there appeared “no justification for bestowing secrecy on disclosures made by a person regarding his ‘personal’ assets and liabilities.”

Thirdly, with a view to discouraging benami holding of assets, it was recommended “that holding of a property in the name of another person without showing it in the wealth statement filed... would be a penal offence and that such undisclosed transactions would be unenforceable in any court by the real owner.”

Fourthly, in cases “where any assets were found to have been held in the names of non-existent/bogus persons, assets involved may be forfeited by the government.”

Fifthly, with a view to enforcing correct declarations in terms of values of assets, where a particular property was to have been under-valued by more than 15%, it was recommended, government should acquire such a property at 15% above declared price. Sixthly, it was ordained that “to check under-disclosure of personal expenses, ... statement of personal expenses be made a part of the wealth statement.” Howsoever good these recommendations might be for overall improvement of the system, Elites Ltd would not have them implemented.

(x) Strengthening Information Network

NTRC, underscoring importance of availability and inflow of actionable information on a regular and sustained basis, recommended that all information collection efforts eventually be “coordinated in the form of a National Tax Register in which all transactions meriting the attention of tax authorities may get recorded by name and national tax number,” for which purpose some concrete measures were proposed. Firstly,

\[\text{315 Ibid., 113.} \]
\[\text{316 Ibid.} \]
\[\text{317 Ibid.} \]
\[\text{318 Ibid.} \]
it was suggested that accounting procedures of relevant government agencies as well as those of the tax department be so designed that the information desired by the department is automatically generated and utilized with ease. Secondly, adequate financial provision be made separate for the purpose of preparation of information reports required by the department for tax purposes. Thirdly, “preparation of information reports be facilitated by designing inter-linked programmes for computers used in various organizations.”

Fourthly, a penalty was prescribed “for non-reporting of national tax numbers of persons involved in various transactions in information reports for the Income Tax Department.”

Fifthly, an administrative set up for utilization of information collected from various sources was proposed to be established at CBR. Sixthly, the operational capacity of the existing in-house computing facilities of Department were egged to be extended to entities and set-ups where actionable information was being generated. It goes without saying that these recommendations did not find favor of implementation on the part of Elites Ltd. Resultantly, FBR continues to grope for some kind of foot-hold vis-à-vis information generation and aggregation mechanisms for purposes of optimizing on state’s tax effort even after lapse of almost three decades.

(xi) Nation-wide Census of Business Premises

Stipulating that “a scientifically organized and systematically co-ordinated effort” was a must to towards reforming tax system, NTRC recommended “this kind of effort can be envisaged in the form of a nation-wide Census of Business Premises and Commercial Industrial Property.” Such Census, upon completion, was pitched to leave with tax authorities: (i) Location plan of each and every street within their respective jurisdiction;

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319 Ibid., 340.
320 Ibid.
(ii) Location plan of each and every building in a street; and (iii) Site plan of each and every building showing purpose for which space was being utilized by the occupants.\textsuperscript{321} The Census was envisaged as an effort on national scale by departments at all three tiers of governance i.e. local, provincial and federal, concerned with registration of assets of any kind or other bodies dealing with national statistics.\textsuperscript{322} NTRC expected the exercise to complete within 18 to 24 months, the data collected as a result of which could then “be updated frequently.” The recommendation was, of course, never implemented.

(xii) Taxation of Income from Agriculture

Resonating Sen. Akram Sultan, Mir Ahmad Nawaz Bugti and Sardar Assef Ali’s viewpoint “that further tax on agricultural sector is not feasible on constitutional, administrative, economic and social grounds,”\textsuperscript{323} NTRC failed to take a clear-cut position on the important issue of taxation of income from agriculture. Insinuating conspiracy into wide-ranging calls for imposition of income tax on agricultural income, Sardar Assef Ahmad Ali – representing landed elite on NTRC, in National Assembly roared: “If you study the pattern of controversy in the media of Pakistan you will see that one or two months before the budget certain Chambers of Commerce start making noises and these noises and these noises then reach their crescendo in Karachi. The Great Chamber of Karachi suddenly makes the biggest noise and then the media picks it up and the whole thing starts again. Every year it is the same pattern.”\textsuperscript{324} Giving out various viewpoints put forth by different sides, NTRC chose to stay neutral and landed elite even did not appreciate it wanting rather an outright refusal to recommend it.

\textsuperscript{321} Ibid., 126.
\textsuperscript{322} Ibid.
\textsuperscript{323} Ibid., 342.
\textsuperscript{324} GOP, "Official Report - N.A. 1st Session of 1988 (Wednesday, the 9th March,1988)."
Although, “issues which were examined (by NTRC) encompassed the whole breadth of the tax system,” yet the Finance Minister, Yasin Khan Wattoo, delivering Budget Speech 1987-86, on June 4, 1987, in the National Assembly at Islamabad, re-accentuated Government’s emphasis “on the establishment of an Islamic democratic system, elimination of unemployment, eradication of illiteracy, redemption from bribery, corruption and injustice, a strong defense and a non-aligned foreign policy,” and deflated NTRC balloon by plainly stating that it “is neither feasible nor advisable to implement each and every proposal and recommendation of the Commission straightaway. Wherever we have considered it necessary, we have accepted the NTRC recommendations in an amended form. Responsibility for such amendments is ours and not that of the NTRC.”

Although, the Government itself had appointed NTRC and financed it from public exchequer, it quickly dissociated itself from the latter’s recommendations stating “it is extremely important that before long-range reforms are undertaken, these are subjected to close and in-depth scrutiny and consideration.” But then who would subject NTRC recommendations “to close and in-depth scrutiny?” Finance Minister himself provided the perfect answer by stating that “the Standing Committee on Finance in its meeting held on 18th May has set up a Sub-Committee to study the National Taxation Reform Commission Report.”

Quite interestingly though, all of the recommendations that favored various interest groups were implemented, but all those that may have strengthened the tax system in any way were conveniently

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326 Ibid., 159.
327 Ibid.
328 Ibid.
consigned to the Standing Committee on Finance, which further outsourced the assignment to Sub-committee of Senate Standing Committee on Finance (SSSCF), and Sub-committee of National Assembly Standing Committee on Finance (SNASCF). SSSCF was headed by Prof. Khurshid Ahmed, and included General (Rtd.) Saeed Qadir, Fazal Agha, Aman-e-Rome, and Qazi Abdul Majeed as members. SNASCF was headed by Haji Younas Elahi, and included Begum Salma Ahmad, Begum Dreshahwar Mazari, Sh. Mansoor Ahmad as members.  

It was during National Assembly’s 1st Session of 1988, that Finance Minister introduced NTRC report on March 7, 1988, for discussion, and rightfully claimed that this was the first occasion that a report by a tax reform commission was being presented in the parliament for debate as on three earlier occasions i.e. TEC, CTT, and TC’s reports were not presented in the parliament, which very act was reflective of democratic proclivities of the government and its desire to include public representatives into all vital economic decision making. In his opening remarks, M. P. Bhandara, on a Point of Order, challenging composition of SNASCF observed that it “consisted of four honorable members of this House belonging to the Government Group in this House. … I just wonder as to why members belonging to other groups in this House were not associated in this particular Sub-Committee.” He went on to insinuate “that the Government has made up its mind on how it is going to process the recommendations of … (NTRC) and now wishes to press the report of the Sub-Committee on us so that it may carry out its

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329 Reports submitted by both SNASCF and SSSCF could not be found in the Senate Libenary, National Assembly Libenary, Cabinet Division (National Documentation Cell), and Pakistan National Archieves etc., despite best efforts.


331 Ibid., 2176.
design during the next budget exercise.” Bhandara proposed constitution of a Select Committee so that the matter could be looked into in still deeper detail.

Sardar Assef Ahmad Ali – a NTRC member, dilating upon its report stated “this is a very important document because it will lay down a new financial structure; it will restructure fiscal laws of Pakistan, which are outdated and which did not meet the needs and dictates of a modern state.” He then went on to count “many and diverse” functions of a modern state, which included “Public welfare, certain social and economic goals, justice, fair income distribution, development and defense.” Not only that he chose not to mention the revenue function, after immediately getting over with this scholarly account of state functions, in an expression of vigilantism, he took revenue function to task. “We have basically concentrated on the aspect of fiscal restructuring of the taxation system of Pakistan, which has enormous amounts of defects, which has shortcomings, where the procedures are complicated, where the rules and laws are meant for harassment, where the rules and laws give discretionary powers to the tax collector to the detriment of the tax-payer. So much so that a Tax Officer has the power to make or un-make anyone. He can destroy any business house he wants by reopening his previous assessment in any of the last 10 years given though he may have bought himself immunity at 20%.”

Resorting to favorite elitist ploy of exploiting corruption and weaknesses in tax administration to weaken tax policy, Sardar lambasted the tax system, and appeased

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332 Ibid.
333 In all 24 MNAs applied to speak on NTRC report; each was accorded a 10-minute slot. However, keeping in view the fact that Sardar Aseff Ahmed Ali had been an NTRC member, he was given an extended run. GOP, "Official Report - N.A. 1st Session of 1988 (Wednesday, the 9th March,1988)," 2331.
335 Ibid.
336 Ibid., 2180.
industrial elite and business elite on quite a few counts. Putting pillars beneath NTRC recommendation to shelve supervised clearance regime and revert to self-clearance regime for excise duty purposes, observed “that supervised controlled clearance has become a means of corruption by the excise authorities and excise assessee are subject to a great deal of oppression which results in corruption. So we have … suggested that instead of supervised clearance system, self-clearance system be adopted. This will remove the contact between the tax payer and the tax collector.”

Sardar eulogizing NTRC-sponsored scheme for small traders “who are uneducated, who cannot keep books, who cannot keep their record of sales of accounts,” heralded a new dawn. “Simple six hundred rupees a year and the matter is over,” whereafter a small trader “will not be hounded by the Tax Inspector. No notice will be sent to him and no audit will be done.” Sardar brought in “immunity” to overly coax business elite and industrial elite, and stated “This is where our business community, our traders and industrialists have faced the largest problems. … Pakistan is perhaps the only country in the world where immunity from audit can be purchased by increasing declaration of income by 20 per cent a year.” While a deconstructionist would need some effort to dissect the doublespeak, the fact remains that through elite-sponsored stratagem of immunity, industrialists and businessmen made fortunes. After battering the tax system and appeasing industrial elite and business elite on many other counts in his long speech that went on and on for hours, Sardar deftly turned to wheedle them into a worthy quid pro quo.

Taking up the controversial issue of taxation of agricultural income, Sardar first regretted that “NTRC could not maintain unanimity,” and failed to come up with a clear-cut

338 Ibid., 2333.
“operative recommendation” despite “majority of the members … say…that there cannot be a tax on agriculture.”\footnote{Ibid., 2343.} He then took on media. “It is often said in the media that the National Assembly is full of feudals. So, therefore, they will not pass on themselves, and the Government is being run by the feudals, the finance minister is a feudal, the leader of the opposition is a feudal, the Prime Minister is a feudal so therefore they will not levy a tax on the agriculture.”\footnote{Ibid.} He vehemently insinuated that this was all that was a conspiracy at work. “A very organized campaign every year is orchestrated; is trumpeted in the media to impose agriculture income tax. If you pick up any recent paper; if you pick up any report of a commission, committee or sub-committee etc. Eventually they will come and say that the salvation of Pakistan, the salvation of the economy of Pakistan lies in imposing agriculture income tax.”\footnote{Ibid.} He indicated that “advisors from the world bank, the IMF, from the consortium countries, the aid givers,” were behind such a conspiracy and its part and parcel.\footnote{Ibid.} Sardar argued that in spite of the fact that SSSCF comprised economists, engineers, and professionals, it “unanimously opposed the imposition of agricultural income tax.”\footnote{Ibid., 2345.} Likewise, he hammered home the point with some force that though SNASCF was composed of businessmen and businesswomen except “Begum Dureshahwar Mazari, who comes from the farming background,” has also “opposed agricultural income tax.”\footnote{Ibid., 2346.}

Sardar then makes mention of “a telegram on 18-12-1988.” Then he makes mention of Hamid D. Habib, Hanif Adamjee, and Sen. Akram Sultan – business elite and industrial

339 Ibid., 2343.
340 Ibid.
341 Ibid.
342 Ibid.
343 Ibid., 2345.
344 Ibid., 2346.
elite moles on NTRC – agreeing to non-imposition of tax on agricultural incomes in Pakistan. Sardar resented Chairman, NTRC’s conduct of not reckoning his and his colleagues efforts to convince industrial elite and business elite to oppose agricultural income tax, and not making a clear-cut recommendation regarding non-imposition of agricultural income tax, and called it a bureaucratic conspiracy. Such class-quarrel oriented ambience got an added flavor when “News Line” – a weekly journal from Karachi – carried a story that in NTRC meeting it had decided to recommend agricultural income tax, but then Sardar Aseff Ahmad Ali, went out to receive a phone call. He came back and announced to oppose it and to write a dissenting note opposing tax on agricultural income. It was a call from Prime Minister Muhammad Khan Junejo. “I thought it might have been the doing of the bureaucrats, but I never contradicted the story.”

Begum Salma Ahmad, MNA, speaking on NTRC on behalf of SNASCF innovatively propounded that “Reliance on indirect taxes falls heavily on the rich and less on the poor,” and informed that SNASCF had recommended that not only that CBR be “manned totally by specialists,” but also that “CBR be bifurcated into two Boards.” Begum Dureshawar Mazari – a landed elite representative in SNASCF, ferociously opposing agricultural income tax, insinuated “it seems that there is a deliberate attempt by a certain sector which is reciprocally clamoring for agricultural tax as the answer to all the problems,” and proposed that “Select Committee or House Appropriation Committee should be formed for the monitoring and implementation of the NTRC, and Appraisal

346 Ibid.
347 Ibid.
No further committees were formed, as soon the National Assembly was dissolved under Article 58(2)(b) of the Constitution on May 29, 1988.

**NTRC Evaluation**

NTRC’s use of constructs like “distinguished taxpayers of our country” and “tax hounds” for respective players of state’s fiscal arena speaks volumes of its bent of mind with which it tried to approach the entire issue of re-writing of the fiscal contract between the state and its citizens. It appeared predisposed and biased against the tax system from the word go. Thus, the most dominant thread in NTRC report is geared at weakening the enforcement arm of the revenue function which was already crippled pretty much due to prolonged year-after-year hammering and shock therapy supplied to it in the aftermath of TEC, CTT, TC reports. It rightly argued that the defects identified in the revenue system had not developed over time. “They are the result of years of ill-conceived and sometimes contradictory policies. The solutions suggested by us will not give immediate results. That will take time. However, it will be to the credit of the present administration if it starts forthwith the process of correcting these accumulated ills and establishes a firm framework of consistent future policies.”

NTRC eulogized the tax system for being as cheap as keeping its collection cost under 1 per cent, which conversely meant that state preferences reflecting through expenditure function, which, in turn, also explained, to a large extent, the low tax effort in terms of low tax/GDP ratio. In order to fix those long-drawn ills, all the NTRC recommendations were not chosen to be implemented. This particularly happened in the area of direct taxes, and the entire focus of the elitist state

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349 Ibid., 2475.
351 Ibid., 4.
shifted to the implementation of VAT. No wonder, while the direct taxes became a bête noir in the public policy debate of the country, VAT became a new buzzword. NTRC appeared too much enamored of the then burgeoning computer machine as a panacea for all ills that the system was suffering from without putting equal emphasis on streamlining the rules, regulations, laws, which would bind various departments, entities and organs of the state to automate the flow of important data to the revenue function.

Syed Babar Ali, commenting on the selective implementation of NTRC recommendations observed, “However, not all good initiatives are successful. With regards to NTRC, the fault lay in the non-seriousness of Government to implement the recommendations. Some of the suggestions presented in the final report are still valid and valuable today, and (one) might want to benefit from them.”352 Sardar Assef Ahmad Ali, after well over two and a half decades succinctly summarized NTRC. “In hindsight, I believe that most of the critical ideas and recommendations were delivered prematurely. I feel they were early and before time. To be fair, the system did not have the requisite capacity to implement NTRC, and even if it had the capacity, Prime Minister Junejo’s government was struggling which further fed into and sapped the system’s ability from inside. Both Finance Minister and Foreign Minister were Gen. Zia-ul-Haq’s hand-picked, who was now calling shots. Under such a weak and fissured political dispensation NTRC recommendations had no chance of seeing the light of the day.”353 Some of the recommendations, if implemented, could have had a halcyon influence on the tax system, but those were conveniently ignored, put on the back-burner, and then forgotten, until of course, a new reform initiative would be undertaken, and that would not be too far away.

352 Ali. 2.
353 Ali.
Towards late 1980s and onset of 1990s, in the aftermath of Soviet withdrawal from Afghanistan and resultant waning of U.S. interest in the region lead to minimization of extraction at international level. With this unemployment rate increased and inflation, current account deficit and fiscal deficit touched unprecedented levels. Debt-servicing had shot up around 47 percent by middle of decade of 1990s and comprised 8.3 percent of GDP, up from less than 1 percent in mid-1960s. Similarly, Pakistan’s external debt at over U.S. $ 32 billion in 1998 was 41 percent of its GNP, which was amongst highest in South Asian region with India’s at 20 percent of GNP and Sri Lanka’s at 41 percent of its GNP in the same year.\(^{354}\) Politically, the period coincided with induction of newly elected Government of Islami Jamhoori Ittehad (IJI) led by Mian Nawaz Sharif in November 1990, which exhibited an overwhelming presence of industrial elite and business elite. “The IJI had a strong industrialist hold and enjoyed thriving urban support.”\(^{355}\) This proved a catalyst for reform process as Nawaz Sharif was himself a capitalist, a moderate and a member of a leading industrialist family. Moreover, IJI had been elected with avowed goal of strengthening economy that included cross-cutting reforms in broader areas of privatization, deregulation, denationalization, foreign exchange and payment, taxation, administration and law.

The government soon followed up on its election pledges by appointing six committees for formulating policies aimed at transforming Pakistan into a rapidly industrializing and self-reliant economy through comprehensive liberalization, decontrol, privatization, and

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investment promotion. These reform committees were set up in six areas, namely: (i) Exchange and payment; (ii) Industrial policy and investment; (iii) De-regulation and disinvestment; (iv) Tax System; (v) Increasing exports; and (vi) Self-reliance.”

In fact, it was in direct consequence “of Prime Minister (Nawaz Sharif)’s meeting with the representatives of trade & industry on 13.11.1990, (that) a Committee on Tax Reforms (TRC) was constituted.” TRC was given only a couple of months to come up with desperate measures to salvage Pakistan’s economy by generating some additional domestic revenues in order to rein in country’s debt burden in general and external debt in particular. “The main focus of this reform process was to impose direct taxes as well as replace trade revenues with GST/VAT revenues.”

*TRC Personae*

While Senator Syed Mazhar Ali was nominated to head TRC, its other members included (i) Sardar Assef Ahmad Ali, MNA; (ii) Haji Yunus Elahi Sethi, President, Sarhad Chamber of Commerce and Industry; (iii) Syed Said Muhammad, President, Balochistan Chamber of Commerce and Industry; (iv) Naseem Zafar, Tax Consultant; (v) Ebrahim Sidat, Chartered Accountant; (vi) Rehan Hasan Naqvi, Lawyer; (vii) Muhammad Ishaq Dar, Chartered Accountant; (viii) Muhammad Akbar, Member (Central Excise & GST), CBR; (ix) Sajjad Hassan, Member (Income Tax), CBR; (x) Kamal Shah, Singer Pakistan Ltd., Karachi; (xi) M. Sarwat Ali, Managing Director, Pakistan Tobacco Company Ltd. Karachi; (xii) Zahid Bashir, Karachi Chamber of Commerce & Industry, Karachi; (xiii)

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358 Refaat, 9.
Ehsanullah, Managing Director, Wahid Industries Ltd. Gujrat; (xiv) M. Mubeen Ahsan, Member Customs, CBR; (xv) Dr. Hafiz A. Pasha, Director, Institute of Applied Economics, University of Karachi; (xvi) Qasier Ahmed Sheikh, Ex-President, Karachi Chamber of Commerce & Industry; (xvii) Iqbal Naeem Pasha, Advocate; (xviii) Ejaz A. Shafi, Ex-President, SITE Association, Karachi. Additionally, Hoshang R. Kokalia, was invited to attend the TRC deliberations at Islamabad, as an expert on Customs, Excise, and Sales Tax matters. In a nutshell, TRC was appointed as a galaxy of “who-is-who” from within business elite, industrial elite, and sundry (professional) elite cadres of society, with one odd exception of a landed elite representative i.e. Sardar Assef Ahmad Ali. This was first time that professional elite – namely, Naseem Zafar, Ebrhim Sidat, Rehan Hasan Naqvi, M. Ishaq Dar, Dr. Hafeez A Pasha – were given a lion’s share on a tax reform commission. Intriguingly, TRC’s composition broadly reflected pattern of ruling coalition of the time. All three Line Members, CBR, were also taken on TRC primarily “to take down notes.”

**TRC TORs**

TRC was set as its TORs the following: -

(i) “To review existing structure and recommend a system that will substantially increase government revenues and minimize difficulties faced by taxpayers.

(ii) To examine feasibility of inflation indexed capacity taxation on production and periodically determine fixed tax on small business.

(iii) To make recommendations for enhancing the confidence of the tax payers.

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359 Members at number (xv) to (xviii) were coopted by CTR itself at the very start of proceedings.
360 Sardar Assef Ahmad Ali, in a Personal Interview with author on January 3, 2014, declined that he had been a TRC member.
(iv) To review the existing tax exemptions and make recommendations for eliminating unproductive exemptions, and consolidating other exemptions.\textsuperscript{361}

Recognizing the fact that this was an assignment of far reaching national import, TRC broke down its TORs into essentials, namely; (a) revenue generation aspect; (b) economic growth potential; (c) removal of anomalies; and (d) providing adequate protection to indigenous industry, etc. Intriguingly, “equitable distribution of tax burden” theoretically so very important an issue that was also invariably set as a TOR for TEC, CTT, TC, and NTRC, was left out and TRC was absolved of its responsibility to look into this otherwise matter of socio-economic significance – particularly so in Pakistan’s context. Similarly, Provincial Taxes were formally left out of TRC’s ambit, although it ended up recommending “a package of proposals for consideration by the Provincial Governments” by way of a bonus.\textsuperscript{362}

TRC Proceedings

TRC did not get into any long-drawn exercise of issuance of formal questionnaires to academia, civil society, trade bodies, and other interested members of public. In all fairness, in view of time TRC had at its command to accomplish assigned task such an exercise was not even feasible. But in view of the fact that since political constituency whose demands were to be heard, and then reflected into tax policy, were all there on TRC itself. First of all, revenue mandarins Member (Income Tax), Member (Customs), Member (ST&FE) made TRC presentations as to working of their departments. Then, with a view to giving a broad-based legitimacy, 27 Chambers of Trade & Industry, including FPCCI, 102 registered Associations of Trade & Industry, eight professional

\textsuperscript{361} GOP, The Committee on Tax Reforms Report, A1.
\textsuperscript{362} Ibid., H8.
bodies/institutions and a number of other persons were “asked to furnish their comments/recommendations.” In all, over 130 proposals were received by TRC to work with and firm up its recommendations. TRC report was submitted to Government in February, 1991.

TRC’s Tactical Prolepsis

TRC by way of a frank confession, with reference to direct taxes, upfront acknowledged “because bulk of the burden of such taxes falls on the elite, collection of those taxes has been accompanied in Pakistan by a large number of exemptions and loopholes that substantially reduce its distributive impact and revenue yield. Consequently, the ratio of direct taxes to total revenues in Pakistan is one of the lowest in the world.”\textsuperscript{363} In same vein, TRC, for a tactical ploy tried to displace elitist subterfuge of selectively picking up only those proposals for implementation that suited them, and leaving out ones that did not. It defeatistically “hoped that the recommendations, (if implemented fully as a total package) will substantially increase the revenues of the Federal Government, appreciably minimize the difficulties and problems being faced by the tax payers, promote a positive tax culture and make the tax administration more effective and efficient.”\textsuperscript{364} One would not take it long to find out that TRC prescription would not be implemented “as a total package;” neither perhaps it was meant to be, nor was it TRC’s wish that this be implemented in totality. Did the upfront mention of these surreptitious and dicey aspects of Pakistan tax system originate from a sincere and genuine effort aimed at reversing the historically and deeply embedded trend in the polity’s structures? Or it was merely aimed at attaining a suspension of disbelief that TRC too was an elitist ploy and that nothing

\textsuperscript{363} Ibid., B2.
\textsuperscript{364} Ibid., A6.
good would be coming out of it for the citizenry or state like all such previous initiatives. Whatever, IJI government’s obsession with holistic reforms effectively sandwiched “Tax reform” within an all-encompassing reform program including normative and quasi-economic policy areas and abstract concepts like ‘self-reliance’ helped dupe media and general public, and rendered it possible for elites – majorly industrial elite, business elite, and sundry (professional) elite – to have another go at the tax system.

**TRC Recommendations**

TRC drew out that “basic directions of tax reform are “first, to broaden the tax base by withdrawal of exemptions, credits and allowances, second, simplification of the tax laws and procedures, third, greater accountability of tax officers and, fourth, strengthening of the department by training, computerization, recruitment of specialized personnel, and, specially, adequate funding of the department,”365 and proceeded to present its recommendations – the most important of which are gleaned in succeeding paragraphs.

(i) **Onset of Presumptive Tax Regime**

TRC by way of an overarching principle affirmed the need “to restructure the entire taxation system taking into account the revenue generating aspects, economic growth potential, removal of anomalies, complexity of law and procedures, and the inadequacy of tax administration….”366 Then pointing out that the matter of issuance of refunds i.e. difference between tax withheld at source and final tax liability worked out was a major cause of antagonistic relationship between taxpayer and tax-collector, TRC optimistically concluded that it could not possibly have been because of under-declarations but because

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365 Ibid., B1.
of over-deductions. It was observed that “excessive rates of deduction also have the tendency to infiltrate marginally into pricing structures which is also in conflict with the inherent characteristics of direct taxation.” Thus, Elites Ltd got off with a jackpot. TRC, “after careful consideration,” proposed to reduce rates of tax collection on imports from 1.5 and 2 per cent to 1 and 1.5 per cent. Similarly, the WHT rates of deduction from contractors and suppliers etc. were recommended for reduction from 3 per cent to 2.5 per cent. Finance Minister announced “that for persons whose only source of income is contracts, supplies and commercial imports, the withholding tax itself be treated as the final tax liability and they will not have to file and obtain refunds.” When PTR was finally rolled out through Finance Act, 1991, operating revenue imperatives compelled Government to upward rationalize corresponding WHT rates.

Khan interpreting TRC recommendations stated that “changes in the design of the taxation system have been introduced in the form of presumptive basis of income taxation (on) scheduler basis … The new tax regime essentially provides that the value of imports and exports and payments for contracts execution and supply of goods constitute the ‘presumed income’ of the taxpayer and is taxed at the prescribed rates (through the withholding tax at rates lower than the normal progressive rates).” He went on to add that “tax so deducted/paid is treated as final discharge of tax liability. The ‘presumptive’ income, however, is taxed on a global basis where the recipient also derives income from activities not covered under the ‘presumptive’ or ‘scheduler’ taxation.” In one interpretation, PTR was not meant to be a panacea for all times to come. It was rather

370 Ibid.
meant to be an interim measure during which the departmental capacity was to be built and strengthened before reverting to normal tax regime whereby net incomes would be computed by taxpayers after deducting allowable expenses, get them audited, and filed in a properly prescribed tax return form, with department having not only legal instrumentalities in place but also administrative capacity to undertake effective audits so as to raise state recoil and deterrence. This, of course, was not done. While on the one hand, coverage of PTR continued to expand bringing more and more economic transactions unto its fold, in a simultaneous rot, departmental capacity also continued to erode to the effect that now even if audit is allowed to be conducted, revenue function has no capacity to undertake it.

(ii) Introduction of Fixed Tax Scheme

First of all, TRC concerned itself with easing small traders and enterprises out of tax system. It was contended “that many small traders elect to stay off the tax rolls simply from fear of interrogation by tax officials and frequent visits to tax offices.”\(^\text{371}\) It was argued that “such small traders should not be expected to maintain books of accounts and the tax department should give up the attempt to tax actual incomes, levying instead either a fixed amount of tax or a tax on notional incomes.”\(^\text{372}\) Although, in the wake of a looming SAS where simple receipt of filing of tax return issued by tax department constituted an assessment order, fear of interrogation and frequency of visits by tax officials sounded completely out of place and divorced from ground realities, yet even if there were isolated complaints of such highhandedness, solution was not to evict an entire set of taxpayers from the tax system and hand them over to the Postal Service; it was


\(^{372}\) Ibid.
rather to fix isolated instances of misuse of powers at administration’s level. Extrapolating small instances to strip tax system in multiple ways was a ploy not resorted to for first time though. Thus, heralding introduction of far-reaching changes into the tax system, Finance Minister on May 30, 1991, in National Assembly, announced that for “convenience of persons falling in the low income group having fixed business establishment, the Government is contemplating to introduce a scheme of Fixed Tax where under such persons shall not be required to file their returns of income subject to voluntary payment of Fixed Tax.”

(iii) Powers to Grant Exemptions

“It is indeed a legislative absurdity,” TRC stated “that taxes imposed by the legislature are gradually nibbled away incrementally through bureaucratic notifications of exemption and over a period of time incrementalism can aggregate into a colossal change.” Accordingly, it was recommended that powers of the executive to grant exemption should be withdrawn so that the same “should remain the exclusive privilege of the legislature and every exemption sought or allowed should have the legislature’s prior approval.” The powers to grant exemption was not withdrawn from the executive for some time, and even when it was withdrawn it was only for a couple of years before the critical powers reverted back to the executive - FBR to be precise – where generalists were already well-perched on state’s extractive function to carry out biddings of ruling coalition rigged and under-grid by Elites Ltd.

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375 Ibid., B67.
(iv) Taxation of Agricultural Income

TRC “devoted considerable attention to the controversial issue of taxing the agricultural incomes and critically examined the arguments for and against it.” In addition to hearing views of experts, TRC took elaborate presentations from Punjab & Balochistan Chambers of Agriculture. After dealing with the issue at length first from historical and then from economico-political perspectives, TRC recommended “that against the background of the constitutional provisions,” term “agricultural income” should be amended to exclude (a) any rent received from agricultural land; and (b) income derived from activities like horticulture, silviculture, sericulture, and production of fruits, flowers or livestock. Thereafter, advancing a typical elitist argument that “since agriculturists are not yet acquainted with taxation laws and rules, they should not be subjected to full rigors of the tax assessment process,” landed elite were handed down special treatment in relation to all other taxpaying citizens on three counts that (a) they were extended “immunity from audit;” (b) “whatever income is returned by them should be accepted;” and (c) they were absolved of the responsibility to file “a statement of assets and liabilities (wealth statement).” Income from core agriculture i.e. raising of crops was allowed to continue to enjoy exemption from income tax, but was to be clubbed for rate purposes with income from other sources.

(v) Public Disclosure of Tax Information

In yet another elitist beguile, TRC, despite stating that “cloak of secrecy is often worn by vested parties to protect themselves against public displeasure,” made a clear departure

376 Ibid., A4.
377 Ibid., B15.
378 Ibid.
379 Ibid., B16.
with an unequivocal NTRC prescription on the issue that assets and liabilities of each and every taxpayer should be thrown wide open into the public access domain, ended up merely recommending “that information regarding tax paid by various types of tax payers should be made public.” This meant nothing within the peculiar Pakistani context.

(vi) Innovations on Self Assessment Scheme

Reverberating NTRC’s abhorrence for “immunity,” TRC broke new grounds in favor of business elite when it recommended that “system of assured protection should be substituted by one of induced incentive in that the system of random selection of cases for audit should be so designed that tax payers declaring higher income upto prescribed limits encounter a lower probability of being set apart for detailed scrutiny.” Industrial elite were compensated with a deferred but sure promise that corporate cases will also be covered under SAS once “parameters of eligibility, such as income level assessed in the preceding year in relation to turnover, rate of profitability in various sectors of commerce and industry etc.,” were set and rolled out. Latter recommendation would be implemented soon.

(vii) Whitening of Black Money

TRC came down hard on ever-burgeoning quantum of black economy, and its placating management in Pakistan, and argued that “while previous tax amnesty schemes allowed by the various governments did not achieve anything significant to alleviate the problem of chronic tax evasion, it certainly aggravated feelings of anguish and dismay in honest

380 Ibid., B17.
381 Ibid., B19.
382 Ibid.
Thus, TRC categorically recommended that “there should be no further amnesty schemes for whitening of black money. All official patronage and incentives for concessional treatment for whitening of black money should discontinue and a more principled posture should be adopted. This is consistent with the Government’s repeated declarations of intent in favour of the rule of law.”

TRC’s recommendation on this count was never implemented, as could be expected. Resultantly, black money continues to thrive in Pakistan, and amnesty schemes one after the other continue to be given.

(viii) Incentives for Documentation and Maintenance of Accounts

TRC pointed out that “volume of unrecorded transactions in the overall economy has reached a level that immediate measures for documentation should be adopted. In the alternative the entire package of reform measures proposed will fail to achieve the desired degree of success.” Thus, during the transition period, by way of an incentive it was “proposed to introduce a rebate of 5 per cent of the tax payable in favor of those, who maintain prescribed accounting records and documents.” Not only that the incentive did not find favor of implementation by the powers that be, but also that documentation continues to be a bane of revenue system in overall terms – to-date.

(ix) Structure of Central Board of Revenue

TRC observing that although a proposal had been received from several quarters to the effect that CBR should be bifurcated into two separate Boards like in India and UK etc., and in spite of the fact that an identical recommendation had been made by Sub-Committee on NTRC and by M/s Coopers & Lybrands, TRC stated that it was not

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383 Ibid., B20.
384 Ibid., B21.
385 Ibid., B22.
386 Ibid., B23.
convinced enough to recommend splitting up CBR. The reasons advanced for not making such a recommendation had hardly any substance or meaning about them.

(xv) Cost of Collection

TRC observed that “cost of collection went down from 0.71 per cent in 1986-87 to 0.62 per cent during 1988-89,”\(^387\) which being on lower side was adversely affecting revenue effort.\(^388\) It was, therefore, recommended that expenditure of CBR should be treated as development expenditure, and that it be allowed to spend a fixed percentage of revenues collected.\(^389\) Likewise, it was recommended that present level of its expenditure should be raised by 0.5% of revenue collected and also that CBR should be given complete financial autonomy.\(^390\) Over two decades down the road, all of these recommendations continue to be unimplemented.

(x) Elimination of Exemptions

NTRC’s recommendations regarding exemptions from Sales Tax had remained unimplemented by and large. TRC reiterated that “excepting agriculture produce, food items, (excluding vegetable products), agricultural inputs and machinery, medicines and pharmaceutical products, newspapers, books and magazines and some other consumer sensitive goods, rest of the locally produced items, which were currently exempt from payment of tax should be brought into tax net,” for expanding “scope of exemptions and for broadening the tax base.”\(^391\) Despite a clear-cut recommendation having been made also by NTRC, and “withdrawal of sales tax exemption from (only) 17 locally produced

\(^{387}\) Ibid., D2.
\(^{388}\) This was primarily stated with reference to Sales Tax, but was applicable across the board to all taxes.
\(^{389}\) GOP, The Committee on Tax Reforms Report, B46.
\(^{390}\) Ibid.
\(^{391}\) Ibid., D4.
items,” problem of wide-ranging exemptions from sales tax continues to simmer on country’s revenue system.

(xi) Production Capacity-based Excising

Timidly ignoring elaborate account of capacity-based excising by TC, and an outright recommendation to undo it, trying to derive some legitimacy to its argument from the Central Excises and Salt Act, 1044, which also provided “for the levy of duty on the basis of the production capacity of unit,” TRC, despite observing that “demerits of the production capacity system vastly outnumbered its merits” initially failed to muster courage to recommend elimination of capacity-based taxation. Later on, however, it reverted to address the matter afresh under heading “Inflation-Indexed Capacity Taxation on Production,” TRC ended up opposing “levy of capacity taxation.” In a bizarre move, however, Government moved in an entirely opposite direction. Finance Minister, in Budget Speech for F/Y 1991-92 declared that “most far-reaching improvement of the system relates to central excise…. In central excise we are moving from the production based system to capacity taxation.” Capacity taxation, in one form or the other, has been in vogue since and is all set to continue – as long as state continues to be captive.

(xii) Evasion of Duty

TRC in an effort to dissect problem of evasion of Excise duty in Pakistan, firstly, identified modes of evasion, and then listed critical factors which could “play an important role” towards combating evasion, and finally made itemized

393 GOP, The Committee on Tax Reforms Report, E2.
394 Ibid., E12.
recommendations.\textsuperscript{396} One would certainly need a logician to detect co-relation between malaise diagnosed and treatment prescribed. One simplest solution i.e. beefing up administrative capacity of tax system and raising deterrence by punishing evaders stays simply off the TRC radar. However, coming down hard on Excise Duty evaders (sic), TRC recommended that court/appeal fee from Rs. 50/- and Rs. 250/- be raised to Rs. 100/- and Rs. 500/- for filing 1\textsuperscript{st} appeal (before Collector), and 2\textsuperscript{nd} appeal (before Appellate Tribunal), respectively.\textsuperscript{397}

(xiii) Shift from Supervised Clearance to Self-Clearance Procedure

Although, recognizing the fact that “if an attempt is made to bring all the excise dutiable items, in one go, on the self-clearance procedure, the revenue is likely to suffer a major decline,” yet, TRC, in tremendous display of audacity, recommended that all items subject to Excise Duty and Sales Tax, except six revenue spinners, may be brought gradually under self-clearance scheme. Right away, three items i.e. Paper & Paper Board, Wires and Cables, and Metal Containers, were even recommended to push the self-clearance procedure.\textsuperscript{398} Finance Minister in Budget Speech for F/Y 1991-92 announced that it had been “decided to withdraw excise staff posted in factories manufacturing excise dutiable goods except factories manufacturing arms and ammunitions. This is a big step. The confidence and trust, the government is reposing in the taxpayers, it is expected that this confidence will be repaid through payment of full amount of duties and taxes.”\textsuperscript{399} This was a major take-home for industrial elite from TRC.

\textsuperscript{396} GOP, \textit{The Committee on Tax Reforms Report}, E9.
\textsuperscript{397} Ibid., E11.
\textsuperscript{398} Ibid., E13.
Revenue Services

TRC in rare show of compassion for revenue services i.e. IRS and PCS observed that “openings to cadre officers of revenue services are limited, which causes frustration and resentment,” and recommended “that revenue services should given representation in APUG in proportion to their cadre strength.” The recommendation remains unimplemented to-date as it did not suit generalist lackeys.

Coordination between Intra-CBR Departments

Accentuating importance of mutual inflow, cross-match and utilization of information between intra-organizational departments, TRC recommended that there was a dire need of constant and vibrant linkages between CBR departments through computer operations. “This would enable the Income Tax Department to make use of the computer based data provided by the Customs … Department for determining the potential income of the importers, exporters or manufacturers of excisable or sales taxable commodities.” Part of the problem was solved through jurisdictional re-alignment of administration of Sales Tax and Federal Excise, yet lack of information exchange between IRS and PCS continues to harm the revenue.

TRC Evaluation

Sartaj Aziz, making the Budget Speech of 1991-92, on May 30, 1991, in the National Assembly, Islamabad, acknowledged that “the most valuable contribution made by the Chairman and Members of the Tax Reforms Committee” was towards Government

400 GOP, The Committee on Tax Reforms Report, F8.
401 Ibid., F14.
efforts to reform the tax system. Soon reforms took an elitist coloring mainly for two reasons: Firstly, introduction of PTR ran counter to the principle of equity, justice and fair play as though a theoretical derogation, yet these measures did carry requisite potential to expand size of tax base, raise total revenues, improve both horizontal and vertical equity with a tinge of simplicity, and produce gains in economic neutrality. However, “in Pakistan’s case, the efforts at introducing presumptive taxation have taken the form of special tax regimes which have just the opposite effect…”403

Secondly, Final Tax Scheme rendered entire economy a free-for-all affair as under presumptive tax regime, requirement of maintaining proper books of accounts, getting them audited by a properly qualified Chartered Accountant’s firm, arriving at proper profits and filing the tax returns was effectively done away with and replaced with one-page statement declaring total receipts and tax deducted satisfied law for all those falling in the open-ended FTS. One would certainly require Orwellian acumen to peel off TRC’s particular line delimiting bourns of the Scheme, namely, FTS would “encompass all small business and service establishments with fixed premises” located inside “all Municipal Committees/Corporations and Cantonment Board jurisdictions; and Town Committee jurisdictions.” Thus, enterprises that were left out were only those lying in hamlets, road-side small tea and tyre-shops. Since departmental outreach to go and physically verify the declaration was scuttled almost in absolute terms, business entrepreneurs with established tax history of significant size, stonewalled themselves by paying a meager amount of Rs. 600/-, and that too to a post office. The semblance of departmental oversight created over four decades was done away with one stroke of pen

for long years. Khan observed as far back as 1993, that “… introduction of presumptive taxes in all forms – fixed, minimum tax or withholding tax as discharge of final tax liabilities have done away with the requirement of filing of tax return, even the need to get registered with the Tax Administration.” He added that such a simplistic approach in background, the Government’s efforts to build a comprehensive data base with the National Tax Number serving as the focal reference point may not materialize.” He went on to pessimistically prophesy: “Government efforts in mopping up the revenue potential may in the long run, fail as once accustomed to a simple and generous tax regime, the process will be difficult to reverse for determining true income for tax purposes. Thus, the short-run gains in revenue, if any, will be more than offset by the huge revenue losses in the future.” With hindsight advantage at our command, Khan proved right.

Section XI

While submitting its final report in February, 1991, TRC had deftly implanted seeds of yet another Commission by arguing that “there is need to take up and attempt the task of restructuring the entire taxation system which, in fact, will be an assignment of far reaching national importance.” It was further opined that creation of an appropriate Commission shall provide a much-needed forum at the national level for a continuous dialogue, airing of grievances, presentation of new and fresh ideas to Government by public representatives e.g. professionals, consultants, academicians, bureaucrats, businessmen, etc., at micro and macro levels for solutions of problems relating to entire tax structure of Pakistan. Such a Commission could open up to government, independent

405 Ibid.
and impartial channels for constant identification of problems and solutions thereof, through constant and ongoing “discussions and hearings,” with stakeholders.”

Finance Minister, while making his Budget Speech for F/Y 1991-92, announced “that Tax Reforms Commission has been asked to work out a plan for restructuring the Tax System.” Accordingly, RMTRC was constituted vide GOP Notification No. 5(4)Admin/1/1991, dated February 11, 1991 – within ten days of submission of TRC’s report.

**RMTRC TORs**

RMTRC was set following TORs: -

I. “To assist in the implementation of the Recommendations of the TRC;

II. To bring about, inter alia, structural reforms in tax system, through:-

(a) A workable capacity taxation system in the field of Central Excise;

(b) Institution of a fixed or Presumptive Tax Regime in Direct Taxes;

(c) Restructuring of the Customs collection system;

(d) Broadening the tax-base and increasing the proportion of direct taxes.

III. Improve the tax administrative system, with a view to minimizing the use of discretion, simplifying forms and procedures, and developing a data base and restoring the dignity of the taxpayer.

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407 Ibid.
IV. Recommending any other measures that would improve the resources of the Federal and Provincial Government.”

Such had always been the pattern, but this time around dice was rather heavily loaded against state’s administrative machinery entrusted with unpleasant and unavoidable function of collection of revenues for its operations. Like its very TORs, RMTRC was unanimous in its approach from the word go to simplify tax system, reduce discretion of tax officials, and decrease harassment and compliance costs fuelled by business elite and industrial elite infiltrated government. While with TRC report already at the Government’s table, international extraction was drying up to serious levels, and revenue considerations weighing heavily on the polity the “lobbying activities to bring about the desired changes in the tax system were intensive in character.” Quite in accordance with overall working of elitist model, shock approach was inevitably attended by a wholesale battering of tax system in order to create a strategic space. “The common argument put forward by businessmen was that rather than pay bribes which went into the pockets of corrupt tax officials they would prefer that these payments were converted into revenues for the government.” Like always, one could not actually enquire from RMTRC as to how “corrupt tax officials” could enter into rent-seeking if the upright businessmen were willing to pay their liability full well.

Although it was stated that RMTRC “had a dual function – to find ways and means of readily mobilizing resources for the budgetary requirements of the government as well as

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410 Ibid.
411 Emphasis added.
413 Ibid.
to suggest short-term and long-term measures for improvement in tax laws and procedures,” and claimed that “it … sought to provide a long-term vision of an efficient and just taxation system.”414 However, as the subsequent script rolled out and events unfolded, it revealed that RMTRC’s focus almost in entirety had shifted to abrupt resource-mobilization measures, which not only contravened equity considerations but were also to have adverse impact on the state writ in the years to come. What actually RMTRC ended up achieving was a tax system in which taxpayers and tax collectors were completely disengaged and disassociated from each other.

**RMTRC Personae**

Like TRC, RMTRC was to be headed by Syed Mazhar Ali, Senator. Other members of RMTRC included: (i) H. U. Baig; (ii) Dr. Syed Nawab Haider Naqvi; (iii) Dr. Hafiz A. Pasha; (iv) Ibrahim Sidat; (v) Nasim Zafar; (vi) Aftab Ahmad, who was also the Member/Secretary to RMTRC. Although, it has been argued that RMTRC was “adequately represented by large business interests along with political representatives, professionals, and tax experts,”415 yet the fact remains that landed elite and to a certain degree industrial elite were left out until it is taken that Syed Mazhar Ali, a Senator and a business tycoon from Karachi, could also proxy for industrial elite. Out of seven RMTRC members three were professionals i.e. Ibrahim Sidat, Nasim Zafar, and Dr. Hafiz A. Pasha. Two were professional tax collectors by background i.e. H. U. Baig, and Aftab Ahmad. Pasha was Director, Institute of Applied Economics, University of Karachi, and a Consultant who would continue to be on Pakistan’s tax reforms horizon for some years to come. A hard-core economist, Pasha looked to give theoretical moorings to

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treacherous rites which RMTRC was looking to perform on tax machinery in name of revenue mobilization. Pasha got six consultancy studies for the Applied Economics Research Centre (AERC) out of the 19 that RMTRC awarded on various issues.416

**RMTRC Proceedings**

Leveraging on its first TOR, which nebulously mandated it “To assist in the implementation of the Recommendations of the Committee on Tax Reforms,” RMTRC scrambled to get an immediate foothold inside very arena of tax policy formulation and implementation which had hitherto been exclusive domain of civil servants – professional or generalists. Soon RMTRC was in the driving seat to the exclusion of the rest i.e. the tax services who had eventually to man and manage tax system. RMTRC’s role “has been very different from that played by earlier tax reform commissions. Rather than focusing only on long term issues as embodied in its terms of reference, (it) has been involved during its tenure in the process of policy formulation relating to taxation. … The Commission has participated in pre-budget meetings held at the highest levels in which taxation proposals were presented for information in the forthcoming budgets.”417 It was also claimed that RMTRC “unlike its predecessors from TEC to TRC, also worked as an advisory group in close liaison with government, especially Ministry of Finance and CBR including its subordinate tax collecting departments.”418

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416 The consulting studies which AERC got were (i) Resource Mobilization by Federal Government in Pakistan; (ii) Resource Mobilization by Provinical & Local Governments in Pakistan; (iii) Collaborative Research and Training Program between the Central Board of Revenue & the Applied Economics Research Centre; (iv) Structure of Protection, Efficiency and Profitability; (v) Quantification of Tax Expenditure in Pakistan; and (vi) Quantification of Black Economy in Pakistan.  
418 Ibid. - RMTRC’s letter to the Prime Minister dated August 28, 1994.
RMTRC Recommendations

Since RMTRC had been constituted in continuation of TRC, the line that it would take, was pretty much predictable from very beginning. TRC had proposed, among other things, to expand withholding tax regime, introduce an extended fixed tax scheme, and introduce and extend PTR to as many economic transactions as possible; which recipe was eventually to deform and deshape entire tax system. However, RMTRC started with pronouncement of high ideals by way of “three preliminary disclaimers.” Firstly, “among the deficit-correcting measures, taxation should hold centre-stage, because other alternatives, like seigniorage and domestic and foreign borrowing, impose additional financial liabilities (inflation, inter-generational inequity), that must be settled eventually with ever higher levels of taxation.” Secondly, “tax reforms should address the primary policy objectives (efficiency, equity, and improving the well-being of the poor) rather than meeting the ancillary objectives (stimulating saving, investment, achieving greater self-sufficiency) which are better achieved by broader economic reform.” Thirdly, while conceiving a set of tax reforms, “constraints of administrative feasibility should not be over-rated for the simple reason that as taxation becomes more efficient and equitable, it also becomes administratively simpler.”

Some high-sounding and theory-laden principles were also laid down before unraveling main stratagem; main plot. One, that tax reforms must be implemented as an integrated whole. Two, “extremely costly tax expenditures on account of direct and indirect taxes

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419 Ibid., 40.
420 Ibid.
421 Ibid.
must be cut down to the barest minimum."\(^{422}\) Three, principle of neutrality of tax system – of not interfering with producer’s decisions about investment and with the consumer’s choices regarding consumption … must be kept in view in the design of tax reforms."\(^{423}\) Four, “in redesigning the tax base the simpler and well-defined bases must be given priority over complex and fuzzy one."\(^{424}\) Four, tax reforms “should enhance, not reduce the equity content of the existing (pre-reform) tax structure, both in the horizontal and the vertical directions.”\(^{425}\) Five, “In the area of indirect taxation, the emphasis should be relatively much more on domestic taxes than on trade-related taxes.”\(^{426}\) Six, “that meaningful tax reforms must contribute to raising the built-in stability of the tax system.”\(^{427}\) These principles, to a large extent, drew upon Ahmed and Stern’s Theory of Tax Reforms, discussed earlier.\(^{428}\)

(i) Presumptive Tax Regime (PTR)

In its eagerness to achieve quick success in terms of revenue numbers, RMTRC was so hopelessly enamored of PTR and a corresponding extended WHT regime that the requirements of having a functional and stable revenue collection system were conveniently sacrificed. RMTRC “devoted a great deal of its time to designing ways of improving the newly introduced presumptive tax regime.”\(^{429}\) PTR was repeatedly eulogized as, on one hand, it was claimed to have been “welcomed by the taxpayers as it saved them a great deal of the inconvenience associated with having to deal with the

\(^{422}\) Ibid., 41.  
\(^{423}\) Ibid.  
\(^{424}\) Ibid., 42.  
\(^{425}\) Ibid.  
\(^{426}\) Ibid.  
\(^{427}\) Ibid., 42.  
\(^{428}\) Ahmad and Stern.  
Income Tax Department,” and on other, it had given a sudden boost to the revenue collection – though quite perversely for a purist. PTR had its downsides, too; it got trapped into a legal conundrum, yet the system was gladly rammed unto rot in a sustained manner over a period of RMTRC’s life – 1991-94. PTR’s demerits as reckoned by all including RMTRC itself were: (a) that incidence of WHT varied sharply from taxpayer to taxpayer; (b) that it encouraged cash dealings, which ran contrary to the avowed objective of encouraging documentation of economy; (c) that it did not eliminate the requirement of assessment, as earlier thought and predicted, since in large number of cases total sales of a taxpayer might not be liable to WHT, and income there from would have to be determined under normal law; (d) that a blanket waiver from the requirement of filing of income tax return under PTR could actually aggravate the problem of tax evasion; and (e) that WHT taxes covered under PTR were attended by a strong propensity to be passed on to end-consumer, which factor had the potential to transform a direct tax to an indirect tax. By the time, RMTRC submitted its report on April 28, 1994, the Tax law carried 16 WHT provisions with most covered under PTR. Thus, by 1994, Pakistan’s direct taxes system was no more a direct taxes system.

One of the arguments advanced to expand WHT/PTR was supposedly to reduce contact between taxpayer and tax collector as a “responsibility to collect withholding taxes is essentially decentralized… (and) the role of the tax collector is generally restricted to

430 Ibid.
431 Scope of WHT/PTR, by 1994, had extended to cover 16 economic transactions, namely (i) Section 50(1) Salary; (ii) Section 50(2) Interest on Securities; (iii) Section 50(2A) Interest; (iv) Section 50(3) Income of Non-Residents; (v) Section 50(3A) Technical Fees; (vi) 50(4) Income from Contracts; (vii) Section 50(4A) Brokerage Fees; (viii) Section 50(5) Importers; (ix) Section 50(5A) Exporters; (x) Section 50(6) Transporters; (xi) Section 50(6A) Dividends; (xii) Section 50(7A) Auctions; (xiii) Section 50(7B) Rental Income; (xiv) Section 50(7C) Winnings from Lotteries; (xv) Section 50(7D) Interest on Bonds; (xvi) Section 50(7E) Electricity Bills.
government agencies, public corporations and large companies." It was also posited that “use of withholding/fixed taxes has not remained restricted to deductions at source. Increasingly, these taxes have been levied at points where it is possible to get the proxy of income of the tax payers. This innovation in the tax system is largely attributable to the desire to reduce tax evasion.” With international extraction having hit almost a complete squeeze, while Elites Ltd-managed state looked to harvest revenue from ever-extending indirect taxation, through convenient and feasible tool of PTR, essentially bulk of the burden of direct taxes was also effectively shifted to poor and lower middle class segments of society.

(ii) Reduction in Tax Rates

Corresponding to launch of PTR which effectively took away even documented economy almost in totality out of oversight of tax administration as whatever amount was withheld at source was to constitute full and final settlement of tax liability, entrepreneurs stopped finalizing their books of accounts, getting them audited, and, of course, declaring their annual affairs of incomes and expenditures in ITR to a government machinery exclusively entrusted with the job like elsewhere in the world, RMTRC ventured to further reduce the tax rates although reduction in personal income tax rates had already been made in 1991. Thus, stating that “there was a strong feeling that high tax rates were having a negative effect on profitability and encouraging evasion,” a nexus between higher tax rates and tax evasion was created in spite of fact that there was little evidence to suggest that since a tax-evader enjoyed an effective tax rate of zero per cent how could

433 Ibid., 56.
434 Ibid., 51.
a marginal decrease in tax rates say of five or ten per cent would rope him into tax net. Accordingly, government, however, decided in 1991 to effect a general reduction in corporate tax rates spread over a period of five years beginning in 1993-94 and to be completed by 1997-98.\textsuperscript{435} RMTRC itself, at one point responded to call of conscience and confessed that “much of the benefit from the decline in personal income tax rates has accrued to upper income taxpayers (since) there has been a 28 percent decline fall in the tax liability of a taxpayer with total annual income of Rs. 300,000.”\textsuperscript{436} Moreover, once bulk of incidence of taxation was front-loaded, and started to be classified and associated with WHT/PTR rather than under the category “Demand Created/Collected,” Elites Ltd got another point to batter tax administration for being inefficient, irrelevant, redundant, and a candidate for elimination. Prime Minister Nawaz Shairf, at one point in time, even went overboard to announce that CBR was being “put on auction” and privatized.

(iii) Removal of Exemptions

In the wake of so many significant pro-elite recommendations being put to implementation immediately, RMTRC “carried out a review” and suggested that tax exemptions extant on fiscal statutes that “caused needless problems to the taxpayers or are misused by them to evade taxes, or which tend to create anomalies,” be eliminated after evaluating them on basis of a set criteria, yet it had stayed put and showed little qualms about a large number of exemptions interspersed all over tax system not being eliminated by Elites Ltd for obvious reasons. However, stating that “Some attempt has been made to reduce the number of exemptions allowed” and making a mention of

\textsuperscript{435} Ibid.
\textsuperscript{436} Ibid., 56.
withdrawal of tax credit on BMR and exemptions to Chambers of Commerce and Industry, Stock Exchanges, Modarbas, Welfare Trusts, and Finance & Cooperative Societies,” RMTRC had to compulsively admit that “… major tax expenditures in income tax … still continue, (and) revenue gains from the measures taken so far are relatively small.”\textsuperscript{437} On account of tax holidays, recommended that “… time has come to fundamentally evaluate the costs and benefits of region-specific tax holidays."\textsuperscript{438} It further suggested that instead, the approach adopted may be to withdraw this fiscal incentive and use the savings in tax expenditure for establishment of mechanisms for direct infrastructure provision like a Backward Area Infrastructure Fund, which can finance the development of roads, industrial estates, power generation etc."\textsuperscript{439} Since the way forward suggested by RMTRC did not suit industrial elites and business elites, polity failed to implement this particular recommendation.

(iv) Sales Tax System

Observing that while 460 locally produced goods were subjected to sales tax, as many as 122 commodities were still exempted, RMTRC suggested that “if the sales tax is extended to the other products, which enjoy exemptions at present, and if it is effectively collected, the revenues from the sales tax on domestic production would” increase around four times of the then collection.\textsuperscript{440} It was also recommended to “gradually shift the collection mechanism of the sales tax from the production and import stages to the sales-point,” which would be beneficial to the system on three counts. Firstly, such a mechanism would allow collection of sales tax from even smuggled goods thereby

\textsuperscript{437} Ibid., 61.
\textsuperscript{438} Ibid.
\textsuperscript{439} Ibid.
\textsuperscript{440} Ibid., 127.
generating additional revenues but also protecting domestic industry hit by smuggling. Secondly, since value-add at wholesale and retail trade was around 20 per cent, value-added in trading activity will also fall taxable, which would increase tax-take almost by same proportion even if base and rate of tax continues to stay same. Thirdly, mechanism of lowering collection of sales tax to retail stage will force traders to keep a record of sales and purchases, which would eventually come in handy towards collection of all inland taxes.\textsuperscript{441} The recommendation, of course, did not suit business elite, and continues to look and search for its implementers in Pakistan even today.

RMTRC failed to observe and comment on the fragmentation of Pakistan’s fiscal base, which continues to be the fundamental bane of the tax system, nor it made efforts to prescribe any corrective action measures. After toeing the elitist line almost fully, RMTRC chalked out a normative “road ahead” by prescribing some high-sounding overarching principles. One, stating that the overall tax system should be made more progressive – by strengthening vertical equity, it was proposed that plethora of fixed taxes introduced by the government, going forward, needed to be replaced “by taxation based on the ability-to-pay principle, largely on self-assessment.”\textsuperscript{442} Two, the objective should be “to treat similarly all types of incomes e.g. the income from capital gains, bequests, interest, etc.”\textsuperscript{443} Three, the process of expanding tax base and lowering tax rates should be seen as integral parts of the tax reforms, which would inevitably increase the flexibility of the overall tax system.\textsuperscript{444} Four, in respect of indirect taxation, all specific taxes should be converted into ad-valorem taxes. Five, the existing tax system should be

\textsuperscript{441} Ibid.
\textsuperscript{442} Ibid., (vi).
\textsuperscript{443} Ibid.
\textsuperscript{444} Ibid.
supported and supplemented by a system of negative taxes (subsidies) in order to enhance the access of the poorer sections of society to social security benefits and basic public goods. Six, as efforts are made to mobilize greater resources, “the tax machinery should also be improved.” These remained principles; never reduced to recommendations.

**RMTRC Evaluation**

TRC-prescription in entirety was an intra-elite affair with tax administration, polity and people being its worst casualties. Elites Ltd’s thumping success in controlling tax system and effectively rigging tax policy at will also emanated from their ability to sell their spurious arguments to all sections of society – including media. Intellectual depravity had, in fact, hit the lowest ebb. Analyzing RMTRC, Pasha took government something external to and different from its own revenue arm – tax system. One of “key elements of governance capacity which contributed to successful reform” according to him was “a government which was able to adequately articulate the need for the particular reforms as part of its overall vision of social and economic change and to successfully project to the general population the losers from the reform (tax evaders and income tax officials) as the ‘devils’ of the system who had exploited the laws and led to a breakdown of the tax machinery, implying a slackening of the overall fiscal efforts.” One wonders if Pasha’s state is sans an extractive function; or at best one run by voluntary contribution of taxpayers. He further eulogizes Elites Ltd’s success as “… tax department was effectively bypassed by the handing over the responsibility of development and implementation … of proposals to the RMTRC and with actual responsibilities of collection shifting to large

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445 Ibid.
public sector and corporate entities."\textsuperscript{447} This must go down as a most unique reform in annals of history – a reform process which was undertaken by excluding tax administration, whose recipe was also handed down to recommending body itself thoroughly bypassing tax department itself, and in which “actual responsibilities of collection” being outsourced to private persons.

In the same vein, Refaqat championing the elitist cause exhorted: “Taking a serious note of NTRC (1986) report findings, the government bypassed the income tax department by setting up the RMTRC as the main body of reform, which was empowered to set up the strategy for revenue mobilization and was also given powers to implement this strategy.”\textsuperscript{448} She then bifurcates reform process in to two phases. Phase One (1990-95), during which focus was on (a) Development of Withholding Taxes…or presumptive tax regime; and (b) Reduction in tax rates. Phase Two (1995-99) was to focus on (a) Expanding tax net by including other activities, in particular agriculture, capital gains, services, and informal sector; (b) Eliminating all or most of the tax expenditure and tax holidays; and (c) Moving away from presumptive taxes to more adequate and systematic taxation of personal and corporate incomes. Now, within the overall context of the elitist analytical context one could easily predict that the reforms set out for implementation during the first phase suited elites and therefore would be implemented; and those planned for second phase did not suit Elites Ltd and therefore, would not be implemented. This is precisely what happened. The first set of proposals was put to legislation immediately i.e. through Finance Act, 1991. Second one, however remained unimplemented, and appears to have been listed just to muffle and euphemize first set of

\textsuperscript{447} Ibid., 8. 
\textsuperscript{448} Refaqat, 25.
reforms. Refaqat then explicates that “first stage facilitated the reform agenda by immediately incorporating steps that were revenue enhancing (i.e. WHT) and also effectively bypassed the income tax department as the collecting agent.”\textsuperscript{449} She emphatically hammers home the point that RMTRC “was aware that increasing the direct tax revenue in this manner was \textit{not} the best way possible. But given the serious administrative bottlenecks, this was perhaps the \textit{only} way to move forward at this time.”\textsuperscript{450} Indirectly, Refaqat is validating that elitist strategy of exploiting administrative bottleneck to rig tax policy. She then turns to “… second phase of income tax reform (which) was much more complicated as it tried to address issues of reform in order to have a long-term impact on revenues rather than the short-term… But reform during the second phase at best remained partial. For instance, although the commission did highlight the imperative to extend and broaden the income tax base by bringing in agricultural income and corporate gains within the tax net, the government found it very hard to carry this through due to political reasons.”\textsuperscript{451}

Another important objection on RMTRC is that it tactfully avoided taking on any of the issues, howsoever controversial, but which otherwise were of critical import for integrity of state’s fiscal base, and its revenue arm’s capacity to generate enough revenues like “excise duties on alcoholic liquors, opium and other narcotics, the taxes on agricultural income, and the taxes on capital gains on immovable property,” by merely stating that “they fall within the purview of provincial governments.”\textsuperscript{452} It was also stated “effort should be made to treat similarly all types of incomes – e.g. the income from capital

\textsuperscript{449} Ibid.
\textsuperscript{450} Ibid., 26.
\textsuperscript{451} Ibid., 28.
gains, bequests, interest etc..”⁴⁵³ After all, there have been commissions before RMTRC which took categorical positions on such controversial issues, whether accepted by government or not. RMTRC defeatistically exhorted that “after the first phase of development of withholding and presumptive tax regime, the focus in the second phase will have to shift to improvements in management and information system, assessment practices, speedy and fair disposal and more effective enforcement generally.”⁴⁵⁴ Understandably, this was never to be as Elites Ltd as per the basic hypotheses picks up and readily implements what suits it and first defers and then forgets whatever, in any way, could strengthen the revenue system, because a strengthened revenue could take on them. To top all, RMTRC-unleashed monster of PTR contravening and contradicting all set and established principles and theories of taxation soon so beguilingly entire revenue function of the state into its fold. RMTRC itself observed that “overemphasis on the deduction of the tax collected at the source can take away the very pressures that are necessary to improve the administrative machinery by generating information about the tax-payer’s taxable capacity, by spreading greater tax awareness among the public, and above all, by inculcating a “tax culture” among the people to pay.”⁴⁵⁵ RMTRC soon had to admit that the “that the introduction of presumptive taxation has added somewhat to the arbitrariness of taxation.”⁴⁵⁶ Use of “somewhat” amounted to an understatement.

Section XII
The Commission on Tax Reforms (CTR), 1997-98

In spite of all praise that RMTRC showered on expansion of WHT regime in conjunction with PTR, it could very much have been predictable that, ceteris paribus, initially revenue

⁴⁵³ Ibid., vi.
⁴⁵⁴ Ibid., 51.
⁴⁵⁵ Ibid., 49.
⁴⁵⁶ Ibid., 46.
would rise in short term and then nose-dive in medium and long terms. Some “improvements in the resource mobilization were observed until the year 1991-92,” but afterwards it was a story of continual decline i.e. total revenues as percentage of GDP continued to decline.”457 Even in international comparison, level of tax revenue in Pakistan was quite lower as compared with similarly-circumstanced developing countries. “Against the average of tax-to-GDP ratio of around 18.5% in case of several developing countries, Pakistan’s tax-to-GDP is less than 13%.”458 Leveraging on such a dismal resource mobilization scenario, Elites Ltd ventured to optimize on their gains by having yet another tax reform commission constituted. Accordingly, Government ended up establishing the Commission on Tax Reforms vide Notification No. 2(19)-CF(M)/96, dated January 5, 1997.

**CTR Personae**

Saeed A. Qureshi was appointed to head CTR. Its other members included (i) Ahadullah Akmal; (ii) Dr. Muhammad Aslam; (iii) Dr. Sarfraz Ahmad Qureshi; (iv) Dr. B. A. Azhar; (v) Ebrahim Sidat; (vi) Masood Daher; (vii) Dr. Aisha A. Ghaus-Pasha; (viii) Dr. Raof Azhar; and (ix) Ahmad Khan. Additionally, for the first time in country’s history, quite a few CTR members were nominated by designation, namely; (x) Chairman, CBR; (xi) Members, CBR; (xii) Additional Finance Secretary (Budget); (xiii) Finance Secretary, Government of NWFP; (xiv) Finance Secretary, Government of the Punjab; (xv) Finance Secretary, Government of Sindh; (xvi) Finance Secretary, Government of Baluchistan; & (xvii) President, Federation of Chambers of Commerce & Industry.

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458 Ibid.
**CTR TORs**

TORs that were set for CTR were as follows:

I. To review and evaluate the recommendations of the Task Forces on Fiscal Reforms and suggest a detailed strategy for their operationalization.
II. To recommend a plan for broadening the base of domestic taxation to ensure that tax revenues grow faster than the growth in nominal GDP.
III. To suggest a detailed strategy for GST implementation up to the retail level.
IV. To suggest measures for smooth implementation of rationalization of custom duty structure, consistent with Government policy of tariff rationalization.
V. To suggest comprehensive strategy for phasing out all tax exemptions.
VI. To suggest means of improving the tax administration to eliminating leakage in tax revenues and improving voluntary tax compliance.
VII. To suggest specific measures for broadening the Provincial and Local Government bodies tax base and improving Tax/GDP ratios, focusing particularly on the augmentation of the agricultural income tax.
VIII. To suggest measures to improve the use of information technology for strengthening tax administration.
IX. To review any other issue assigned to the Commission by the Government.

Both Chairman and Secretary had an important and active role to play in framing of CTR’s TORs. “Those were drafted, and then refined a few times.”

Main thrust of TORs was on operationalization, implementation of recommendations, tax policy items, plans and strategy to increase the level of domestic extraction.

**CTR Recommendations**

Taking a shot at earlier efforts targeted at reforming the tax system, CTR observed that “One of the major imperative behind tax reforms in Pakistan has been resource

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459 Ahmad Khan, "Personal Interview (February 5)," (Islamabad: 2014).
mobilization to contain the size of the budget deficit.”460 It was further rightly pointed out “that although the taxation system has gone through a number of reforms since 1986, there is little improvement in the tax-DGP ratio.”461 “The extra-ordinary performance in direct taxes,” it was argued was “largely due to the extension of the withholding tax regime recommended by the last Commission.”462 This increased the share of direct taxes in federal tax receipts from 18 per cent in 1991-92 to over 35 per cent in 1997-98, resulting in greater progressivity of the tax system. “Notwithstanding the prima facie extent of progressivity observed, the fact remains that over 70% of the direct tax revenues were generated through withholding taxes 56% of which were presumptive in character and were passed on to the consumer as cost.”463 CTR did try to learn from earlier reform initiatives, but it “believed that a lot had happened but a lot had also not happened.”464

(i) New Direction of Tax Reforms

CTR, on the basis of review of a large number of reports and studies undertaken on restructuring and reform of Pakistan’s tax system reached465 a “consensus that the main problems facing the tax administration” were: (a) Inadequate capacity to deal with a modern economy; (b) Lack of accountability; (c) Geographic division of work divorced from functional specialization; and (d) Lack of motivation resulting from an inability to

461 Ibid.
462 Ibid.
463 Ibid., 19.
464 Khan, "Personal Interview (February 5)."
465 These studies included reports by (i) Shahid Hussain, Ex-Vice President, World Bank; (ii) Committee on Restructuring of CBR comprising Dr. Hafeez A. Pasha, Deputy Chairman, Planning Commission, Finance Secretary, Establishment Secretary, and Chairman, CBR; (iii) J. P. Bodin, IMF Consultant; (iv) Cabinet Committee for Broadening Tax Base & Improving Efficiency of Tax Administration; and (v) CBR’s Action Plan for Improvement in Assessment & Collection of Direct Taxes.
take initiative or to innovate. To address these problems, CTR was “of the view that a
direction of tax reform should be towards (a) Strengthening the policy making role of
CBR; (b) Making CBR more taxpayers’ friendly; and (c) Modernizing the tax system.
Now interestingly “key objectives of tax management” reckoned by CTR by way of
fixing the malaise diagnosed, were: (a) Taxpayers convenience without harassment; (b)
Increased reliance on voluntary compliance; (c) Simplified procedures for filing and
processing of tax documents; (d) Reducing the discretionary powers of tax officials; (e)
Consensus in tax matters through consultative process with representative trade bodies;
(f) Replacing manual processing of tax documents returns with computer processing; (g)
Establishing a comprehensive information system; (g) Upgrading training facilities for
officers and staff; (h) Broadening the tax base; (i) Improving quality of tax audits; and (j)
Enhancing revenue collection. While first five of CTR tool-kit items outrightly favored
Elites Ltd were expectedly to be operationalized, the next six, not only that, those were
normative in essence, but also inoperable, and were never operationalized.

(ii) Outsourcing

CTRs’ favorite fad was “out-sourcing,” as it recommended outsourcing every other
activity in revenue administration chain. It suggested CBR, for a first step, to differentiate
between the functions “that CBR should continue to handle directly and those that can be
reasonably out-sourced to professional agencies manned by financial and management
experts.” In this context, four key areas were identified and recommended for out-
sourcing. Firstly, in respect of Information Technology (a) data base of urban properties,
telephone connections, motor vehicles and other assets used to determine tax-paying capacity; (b) trends in property values and area-based differences in these values; (c) survey of rental levels in different urban areas; (d) data on importers, exporters, traders, contractors, lawyers, doctors, consultants, and auditors etc.; and (e) pooling of fragmented data on incomes, assets, expenditures, available with different taxation departments or authorities, were recommended for outsourcing.\textsuperscript{470} Secondly, in broader area of tax operations, activities such as (a) tax audit i.e. assessment of tax liability of randomly selected taxpayers; and (b) special audit of refunds and rebates, which had been subject of malpractices in past, were identified for outsourcing.\textsuperscript{471} Thirdly, “evaluation of current system and facilities e.g. (a) evaluation of the working dry ports, warehouses, custom bonds; (b) review of the monitoring systems in tax collection; (c) evaluation of procedures relating to tax assessment and recovery; and assessment of facilities provided to tax payers, were listed for outsourcing.\textsuperscript{472} Lastly, activities like “preparation of tax guides and tax manuals, which could consolidate the fragmented material and add explanatory notes for the guidance of the taxpayers,” and preparation and delivery of “orientation courses could also be entrusted to eternal agencies.”\textsuperscript{473} It was also recommended that, in first stage, tax-audit of non-corporate returns, and at second stage, “a select number of corporate tax returns may be considered for outsourcing.”\textsuperscript{474} Despite the fact that CTR identified revenue systems’ malaise spot on, instead of taking a position on building its internal strength and capacity as a functional corps, it opted to exercise its option in favor of out-sourcing. Essentially it was an elitist position to take. Sooner than

\textsuperscript{470} Ibid.
\textsuperscript{471} Ibid.
\textsuperscript{472} Ibid.
\textsuperscript{473} Ibid., 37.
\textsuperscript{474} Ibid., 61.
later, the system was all over the place – fragmented, compartmentalized, unable to operate as a complete automatic machine.

(iii) Induction of Private Sector Members

Stating that “CBR’s instructional capacity may be part of the overall institutional decline in the country,” argued “that a major restructuring of the tax administration is overdue, as mere changes of procedures would not address the roots of the problem,” and recommended that three new positions of Members, CBR may be created to deal with Tax Policy, Information Technology, and Tax Audit and Investigation of both income tax and sales tax, and “be filled up by professionals from the private sector.”

Soon when revenue authority’s members from private sector were inducted on hefty sums neither situation on ground changed nor tax-take increased. The recommendation, per se, was evidence that sundry (professional) elites would now claim a larger share of the pie.

(iv) Establishment of Tax Ombudsman

CTR took notice of complaints of harassment of taxpayers by tax officials, and “proposed that the appointment of a separate Tax Ombudsman to look into the tax related grievances would go a long way in addressing such grievances.” It was, however, believed that Tax Ombudsman would not impinge upon pre-existing appellate system, and would only look into the conduct of an officer in handling tax matters, and expected that creation of such an institution “would also improve image of CBR and its subordinate departments.”

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475 Ibid., 23.
476 Ibid., 40.
477 Ibid.
analysis, not only that recommendation was immediately implemented, but also that soon FTO started playing havoc with set system of revenue administration trying to justify its existence. According to a general perception prevalent across FBR field formations, approximately 35 per cent of the total man-hours of the organization get consumed in filing responses to complaints lodged to FTO, doing explaining, filing appeals against its orders etc. Accordingly, “FTO was established as a result of the Budget Speech of 2000, on the askance of the World Bank, IMF, and on the demands of the local Chambers of Commerce and Industry, tax bars, and others civil society groups.”

It has been averred that in about 85% of cases FTO’s decision went against FBR. Out of this 85 per cent, FBR chose to file appeal before President of Pakistan in about 10 per cent of the cases. Again out of these 10 per cent, 90 per cent were decided against FBR by President of Pakistan. Of late, however, FTO has operated as an important pull back factor on the revenue effort over past one decade.

(v) Tax Payers’ Facilitation Mode

Pronounced trend of transforming tax administration – intrinsically an enforcement arm of the leviathan – which was set in by TRC, propped by RMTRC, reached its crescendo under CTR. “While the Government has already simplified the tax documents forms, there is a need to provide service to taxpayers in congenial environment, in which they could file their tax documents and have minimum personal interaction with the tax

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479 Ibid., 46.

480 In response to a structured survey research question (cited in ibid), 62.62 per cent of FBR officers felt that FTO's decisions were not in conformity with the operating governing laws.
Thus, “Establishment of tax service centres is recommended to achieve this purpose.”

Thereafter, it has been all facilitation at the expense of enforcement.

(vi) Status of Pakistan Revenue Automation (Pvt.) Ltd. (PRAL)

PRAL was incorporated in June, 1994, to deal with automation of tax administration and its operations. The Company was 100 per cent owned by CBR, Government of Pakistan. Its Board of Directors comprised six directors which included Chairman and five CBR Members. Observing that “compared with the overall organization, the time consumed, and expenditure incurred, PRAL’s performance is far from satisfactory,” CTR recommended that “CBR may consider merger of PRAL with CBR.”

Since autonomous and loose structure of PRAL offered easy rent-seeking opportunities to the elite-generalist duo, the recommendation was neither implemented.

(vii) Documentation of Economy

CTR mindful of fact that Pakistan was going through a period of serious governance deficit, stated that “documentation of the economy… must be declared as a long-term national goal of our fiscal policy,” and outlined elaborate measures to achieve the objective. Significant among those measures were (a) mandatory furnishing of “complete details of personal expenses” by every person whose annual income exceeded Rs. 100,000; and (b) withdrawal of “existing immunity from probe available to bearer certificates,” and non-introduction of any such immunity in the future. None of these recommendations were taken seriously by Elites Ltd. Seeking details of personal

481 GOP, The Commission on Tax Reforms Report, 42.
482 Ibid.
483 Ibid., 44.
484 Ibid., 50.
expenses of fat-purse taxpayers is still a challenge for tax administration, and all kinds of immunities and amnesties continue to be made available to business elite and industrial elite in particular, and other elite groups in general.

(viii) Functional Reorganization of Tax Administration

Although, it was argued by CTR that traditional administrative paradigm of tax administration had worked well and “successfully performed the revenue collection functions over the years,” yet factors like (a) shift of focus to WHT taxes, (b) quarterly advance taxes, and (c) specialized character of trade and industry, had rendered it quite irrelevant.485 Thus, it was recommended that tax administration “may be restructured keeping in view changing composition and sources of taxes, inadequate systems of tax audit, broadening of taxpayers base, monitoring of withholding taxes, taxpayers assistance program and training of tax officials.”486 This particular recommendation appears to have been made basis for functional re-organization of tax administration undertaken in early 2000s.

(ix) Survey of Businesses and Properties

CTR had categorically recommended that comprehensive market surveys of residential and commercial properties, shops, professionals such as doctors, engineers and architects, advocates and lawyers, and such like be undertaken – “through out-sourcing to private institutions.”487 No survey to document businesses and properties could be undertaken. An attempt, however, was made in this regard in early 2000s, but was effectively frustrated by Elites Ltd through systematic machinations.

485 Ibid., 53.
486 Ibid., 61.
487 Ibid., 62.
CTR Evaluation

CTR’s crisp reform narrative that “primary objective of tax reform should be to maximize revenues, modernize and restructure the tax administration and minimize harassment to taxpayers” was all-set to keep polity’s focus to easy revenue pickings. Sundry (professional) elite created strategic space for themselves by exploiting fancy jargons e.g. “modernize and restructure the tax administration and minimize harassment to taxpayers,” to create more rent-seeking opportunities for themselves while at the same time adequately satisfying all other elite segments through tinkering with tax policy, and having a go at the tax administration and pushing it ever further into an endless hole of “facilitation.” Similarly, while exhortations were egalitarian in tone and tenor suggesting that there “should be conscious shift towards enhanced direct tax revenues rather than indirect taxes,” but in reality, neither CTR made any concrete recommendations to operationalize them nor government followed up on the report in this particular respect, and polity’s consistent drift away from having an effective and functional direct taxes system in place continued.

Section XIII
The Task Force on Tax Administration (TFTA), 2000-01

Just within three years of CTR, Elites Ltd ran out of patience with incremental approach, remobilized itself to reactivate shock approach and to have another go at state’s revenue function. Accordingly, Government appointed a Task Force on Tax Administration (TFTA), in June, 2000.

488 Ibid., 44.
489 Ibid.
490 Ibid.
TFTA Personae

TFTA was to be headed by Syed Shahid Hussain, and its other members included (i) Dr. Wasim Azhar; (ii) Dr. Altamash Kamal; (iii) Khawar Anwar Khawaja; (iv) Ahsan M. Saleem; (v) Naeem Akhtar Sheikh; (vi) Badar F. Vellani; and (vii) Syed Shabbar Zaidi; and (viii) Syed Riaz Hussain Naqvi. Ahmad Khan was nominated to be TFTA’s member/secretary. Syed Shahid Hussain was ex-vice President of World Bank who having lived in the West for long had lost complete touch with on-ground governance imperatives of Pakistan. He had notions to replicate elite-sponsored Western fad of “taxpayers’ facilitation” and entire TFTA reform narrative was built around it. The selective amnesia that he resorted to as regards strength of tax administrations and their massive ability to take on delinquent non-filers or even under-filers, rendered entire effort squishy from the very beginning. Except for Riaz Hussain Naqvi and Ahmad Khan, characters that comprised TFTA, quite clearly represented their vested interest groups, all of whom had a convergence of stakes on one single point – keep tax system weak, infirm and unable to pose taxing questions. World Bank chipped in with a hefty grant sum of U.S. $ 500,000 only for TFTA preparation stage. Other institutional support that TFTA relied upon came from World Bank, ICAP, Pakistan Tax Bar Association, Karachi Chamber of Commerce, Lahore Chamber of Commerce, LUMs, and sundry traders and industrialist representative umbrella organizations.

492 An important omission from TFTA was Dr. Hafeez A. Pasha, who after playing a key role in both TRC and RMTRC, had claimed credit for success of PTR that had been conceived by former and implemented by latter, and that too by bypassing tax administration itself, which, in Pasha's words, was the "loser" of reforms.
493 Khan, "Personal Interview (February 5)."
TFTA TORs

TFTA was mandated to investigate and recommend, in detail, measures to significantly improve ability of Pakistan tax machinery to collect taxes efficiently, with integrity and without undue coercion, and to achieve that end:

(i) Review the existing management and policies of the CBR and its subordinate organizations to evaluate their effectiveness;
(ii) Review the management of human resources, i.e. recruitment, training, promotion, evaluation of performance and discipline;
(iii) Review the compensation system for its effectiveness in attracting and motivating qualified persons and ensuring integrity;
(iv) Review the causes of corruption among staff and management of the tax administration and recommend measures to eliminate corruption;
(v) Review systems and processes, for the management of information as a key ingredient in improving the effectiveness of the tax machinery;
(vi) Review the organization and structure of the tax administration in relation to the needs of cost minimization, speedy processing and decision making, engendering a sense of service and accountability;
(vii) The legal and administrative status of the Central Board of Revenue and its subordinate organizations.\(^494\)

Not only the very nomenclature that TFTA carried, but also TORs, which were set for it, were indicative of the fact that it was time for a massive exclusive go at tax administration.\(^495\) May be all of the “reviews” that TFTA was tasked to carry out were required one way or the other, but the direction that they took soon appeared hinging on further weakening the tax machinery in terms of its being a vital enforcement arm of the

\(^{494}\) GOP, *The Task Force on Reform of Tax Administration Report*, (i).

\(^{495}\) Tax policy, of course, already had received a massive blow through an ever-expanding PTR - an utter derroationg to tax system.
state. TFTA itself claimed that it “focused on human resources, business process and organization, corruption and information technology.”

*TFTA Proceedings*

TFTA presented its report in May, 2001. Government conceptually approved TFTA report with the directions that an implementation strategy be framed in respect of viable recommendations after due consultation with stakeholders. The report, apart from trade bodies, accounting institutes, tax bar associations, was also discussed with donor agencies. On the request from Government for input on FBR’s tax reform effort, an IMF Mission also visited Pakistan in August, 2001.

*TFTA Recommendations*

By way of a background, TFTA observed that “despite many changes in the tax regime and introduction of withholding and presumptive taxes, … tax to GDP ratio has varied narrowly around eleven percent,” which meant that “tax base has grown but still remains narrow and skewed.” It was further noticed that total number of income tax filers at around one million, was less than one percent of the population which when compared with similarly-circumstanced developing countries was at the lower side. TFTA then moved to reckon key features of Pakistan tax system. Firstly, legal and administrative changes had been frequent and ad hoc resulting in taxpayers having insufficient knowledge of their obligations and tax collectors having “substantial discretion.” Secondly, major policy changes were “not accompanied by adequate changes in

499 Ibid., (ii).
administrative framework.” Thirdly, relationship between taxpayer and tax collector had been “largely adversarial.” Fourthly, “organization, business processes, systems, facilities and budget had not kept pace with the growing demands on tax administration.” Fifthly, management of human resource was “severely deficient.”

TFTA further observed that “Pakistan’s fiscal crisis is deep and cannot be easily resolved. Tax are insufficient for debt service and defense,” concluded “If the tax to GDP ratio does not increase significantly, Pakistan cannot be governed effectively, essential public services cannot be delivered and high inflation is inevitable,” and declared that “Reform of tax administration is the single most important economic task for the government.”

TFTA recommendations can be clustered and critiqued under the succeeding headings.

(i) Reorganization on Functional Lines

Income Tax

Observing that “essential aspects and administration of income taxes have remained unchanged for nearly three-quarters of a century,” although TFTA appreciated initiatives taken by FBR to modernize traditional “circle management system,” yet pronounced that there was “a consensus among a broad spectrum of taxpayers, tax practitioners and policy makers that without a fundamental redesign of the system, the department will not be able to meet its future demand for revenue.”

TFTA explained contours of Circle Management System in following words:

The DCIT is the junior most officer in the officer cadre of the department but is responsible for the most critical functions related to the tax process, namely that of tax assessment and tax collection. This is in addition to a number of other functions that he performs. He is the administrative head of a circle staff of about

500 Ibid.
501 Ibid.
502 Ibid., (iv).
seven members. Together with the circle staff he is responsible for the maintenance of various registers, tax returns, and other tax related records and files. The entire tax assessment process, beginning with issuing of notices to writing of assessment orders, goes through the DCIT. Although senior officers supervise his work and are expected to ensure that he follows the due process of law, the DCIT has a lot of discretion in the exercise of his powers.\textsuperscript{503}

Based on above analysis, TFTA posited that it was “physically not possible for a single tax official to conduct hundred percent audit of all tax returns and have a several one-to-one interactions with taxpayers on each year’s tax return,”\textsuperscript{504} and identified a number of problems with the prevalent system, namely that: (a) Tax collector has little assistance for management of information; files are lost and can be tempered with; (b) Professionally, many DCITs are ill equipped for the job, particularly to deal with complex tax returns of business as no system of profiling and risk assessment of taxpayers exists; (c) Tax collector has too much discretion and can arbitrarily fix taxpayers’ income and expenses; (d) System lends itself to coercion and collusion; and (e) Too often taxes are negotiated, with substantial loss to treasury.

TFTA announced that existing “system cannot be patched up and fixed on the margins,” and proceeded to contrive a new one under which “fundamental responsibility for declaring income and assessing taxes should lie with the tax taxpayer;” backstopped by “selective and professionally conducted audit supported by survey and research capability and databases” and supported by IT both in terms of lending a helping hand towards selection of cases and conducting of audit; enshrining “stiff penalties for …willful tax evasion;” which would result in “minimum direct contact between tax officials and taxpayers.” Such a system the cornerstone of which was “separation of functions” leading

\textsuperscript{503} Ibid.
\textsuperscript{504} Ibid.
to “specialization,” was pitched “to ensure effective and efficient service delivery.” At the administrative level, TFTA proposed reorganization of all field detachments along (a) Information Management System; (b) Operations and Audit; (c) legal and Prosecution; (d) Survey and Research; (e) Customer Service, Enforcement and Collection; (f) Inspection and Audit. Rest was all repackaging of “taxpayers’ facilitation” in new narrative except proposal regarding Survey and Research Division, which was outlined as under:

- The Survey and Research Division addresses the need for survey and research which is motivated by the consideration that if taxpayers evade paying their full taxes then tax department should be able to apprehend them from their expenditures and transactions. The Division would also bring together in one place, information on sales tax, excise, withholding and income taxes, customs duties, and exports and imports.

Within the theoretical framework of the study, compartmentalization of information is a key to blocking aggregation of information at one point in time and place by Elites Ltd. Another key element of proposed “paradigm shift” was to extend “golden handshake” to human resource that had gone irrelevant and failed to keep pace with technological development of systems. However, no voluntary retirement plan accompanied rehashing of administrative set up of revenue administration, whereby no new blood could be inducted into its middle-tiers resulting in complete depletion of its enforcement capacity. Soon, audit, which was to operate as a rudder in tax system woven around “taxpayers’ facilitation,” and SAS became a relic of the past with successive ruling coalitions under-grid by Elites Ltd pushing it further and further into oblivion.

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505 Ibid., (v).
506 Ibid.
507 Ibid., (vi).
Sales Tax

From within Pakistan’s revenue system, TFTA singled out sales tax as having “been erected on modern principles of tax administration,” and reckoned that it “embraced the principle of universal self-assessment in all major processes except refund, which has reduced contact between the taxpayers and tax officials.”\(^{508}\) It was, however, pointed out that “principle of functional specialization had not been extended to those supervising the work of the functional staff. Generalist administrators man each of the supervisor posts starting with the Assistant Collector.”\(^{509}\) TFTA recommended that unlike income tax, sales tax reforms needed to be built on architecture of current system in terms of “process simplification, capacity building in key areas of control, and better use of automation in data retrieved and work process monitoring.”\(^{510}\)

(ii) Information Management

Like NTRC, TRC, RMTRC, and CTR, TFTA also chose to essentialize technologically-based information management for tax system. “If widening the tax base, self assessment, selective audit, and reduction of the collector’s discretion are to succeed information management and automation has to expand substantially, its quality improved, constant innovation stimulated and a large number of people trained.”\(^{511}\) Parting its ways with CTR on issue of PRAL, TFTA recommended that in order to “avoid conflict of interest, chairman CBR and CBR board members should cease to be the members of PRAL board. PRAL should exist as a service provider with an independent board and should ultimately

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\(^{508}\) Ibid., (vii).
\(^{509}\) Ibid., (viii).
\(^{510}\) Ibid., (ix).
\(^{511}\) Ibid., (xx).
be privatized.” Administrative base was recommended to be kept splintered as same always favored elite-generalist duo.

(iii) Appointment of Chairman

Recognizing the fact that “post of Chairman CBR is one of the more difficult and challenging position in the public sector,” and observing that “during the last ten years the average tenure of Chairman has been less than a year and some persons of questionable integrity and capacity were appointed to this important position,” TFTA reverberated generalistic narrative and stated that the “position must be filled by a person of known leadership and management capacity and integrity,” and recommended its recipe that Chairman CBR should be competitively appointed by considering “candidates from public and private sectors.” It was also prescribed that “Chairman must have a fixed term of five years,” and that he “should be removed only … for a significant failure in meeting agreed performance criteria.” TFTA’s intriguing omission of “professionalism” from the list of qualities that a Chairman CBR should have speaks volumes about the way tax system was being conceived to be taken forward. TFTA’s desire to have a term fixed for Chairman was never implemented as average tenure of appointment has further come down to about nine months since 2000 onwards.

**TFTA Evaluation**

TFTA provided a perfect road-map for exorbitant gains if its recommendations somehow could be realized and implemented. World Bank was approached, and soon Tax Administration Reform Project (TARP) with a projected outlay of U.S. $ 149 million was

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512 Ibid., (xxi).
513 Ibid., (xxii).
got sanctioned. The entire tax administration was catapulted on functional basis. Some CBR members were inducted from private sector on fat salaries, and with some pecuniary benefits also going to workforce, but in over-all terms enforcement capacity of tax service was sapped. Audit was pushed into extinction through sustained and systematic machinations sponsored by Elites Ltd. In physical terms, department was rolled back to mere 15 cities of the country, and the state went into throes of a brute “facilitation” regime. “FBR under TARP replaced 757 income tax circles, working under 139 ranges, 32 zones, and five regions, into functional divisions without proper homework and the result is before our eyes.” Similar clippers-work was done with Sales Tax collectorates.

Quite in line with TFTA script, Elites Ltd continued appointing generalists to head FBR. Resultantly, no focus could be given to building departmental capacity to give quantum jump to revenue collection; rent-seeking remained rife, morale of Service dropped down to abysmal levels, and tax delinquents had a hay-day. Interestingly, while both FBR and the World Bank agreed that TARP had failed to achieve its avowed objectives, at least, up to a desired level, both put blame on each other for its failure. FBR rating “World Bank’s performance as highly unsatisfactory” took position that TARP “failed to produce desired results due to weak supervision of the World Bank,” which was “strong at the beginning of the project but overtime became weaker,” and because of the fact that “requests for clearances took longer, leading to many procurement delays.” On the other hand, the World Bank rating FBR’s performance as “unsatisfactory,” argued that “quality at entry was affected by major shortcomings, such as insufficient identification

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514 Haq.
of critical risk factors and mitigation measures, inadequate technical support on key reform areas, and misclassification of environmental category,” and “criticized the government of Pakistan for inconsistent commitment to tax administration reform agenda, which affected project’s implementation.” The World Bank further observed that during initial years of TARP, government took several steps to show its strong commitment to project, including: establishment of LTUs/MTUs; confirming chairman FBR for three years and renewing terms of members responsible for functional areas; granting FBR greater autonomy under oversight of Cabinet Committee on Finance and Revenue (CCFR); preparation of a rationalization plan for FBR staff, provision of counterpart funds, and passage of The Federal Board of Revenue Act, 2007, but that commitment waned with passage of time. This is quite consistent with the underlying argument of the study that in Pakistan only those reforms are implemented that suit elites-generalist duo and those that do not suit them are not implemented. “Tax reforms … by FBR, under TARP, lacked the perspective of using the tax legislation as a tool of attaining economic policy objectives of making Pakistan a self-reliant country, free of domestic and foreign debt shackles.”

Section XIV
Capsule History of U.S. Tax Reforms

While in sections I – XI of this chapter an extensive, elaborate and detailed analysis of consistent tax reforms in Pakistan was undertaken, this section cursorily surveys tax reforms attempts made in U.S. since 1861, that is, when the modern tax system was established in U.S. In a way, like all vibrant tax systems, U.S. tax system has been

516 Ibid.
517 Ibid.
518 Haq.
undergoing consistent change ever since its establishment and inception. Under normal circumstances, every year at the time of change of fiscal year, and under abnormal circumstances like wars and other emergencies, in the middle of fiscal years, too, changes have been introduced in fiscal laws as well as tax administration. Thus, in order to have any meaningful discussion of U.S. extractive system’s reforms, an account of past experiences would be an imperative. For this purpose, U.S. tax history could be split into five distinct periods, namely, (i) 1861-1913; (ii) 1913-39; (iii) 1939-64; (iv) 1964-81; and (v) 1981-todate. We now look at these periods in due order.

Period One - 1861-1913

In the preceding chapter it has been argued that since U.S. Constitution did not permit imposition of direct taxation by federal government, requisite resources continued to be generated through import tariffs and excise duties by state governments till onset of the Civil War. The question of direct taxation by federal government which had so far been deferred for various reasons but most importantly because of slavery, again confronted U.S. polity for a decision, as the same had started to impact growth of both U.S. society and state. “The delayed institutionalization of federal taxes in the United States was therefore closely linked to the existence of slavery.” 519 Thus, the very fact that the Civil War was chiefly fought because of slavery, the same could be construed to have fought for taxation. The lingering question was if slaves should be taken as property or humans.

The outbreak of American Civil War in 1861, injected certain amount of urgency into finding alternative sources of revenue, too. The Revenue Act, 1861, was rather hurriedly

pushed through legislative process to revive old and abolished excise duties, and impose certain new ones, and levy an income tax on individual incomes. Moreover, a “new bureaucracy was established to collect these charges,” which was called Internal Revenue Bureau. In order to have firm and quick inflows of revenue in place, salary incomes were ordained to undergo withholding axe. Interestingly, as soon as the Civil War came to a close, direct tax was abolished in 1872, and revenue needs of both federal and state governments continued to be met through tariff and indirect levies.

However, when Congress tried to impose a federal profits tax in 1894, Supreme Court ruled it unconstitutional in 1895 as it was “not apportioned according to the population of each state.” The Congress reacted by passing Sixteenth Amendment to the Constitution, which in effect lifted pre-condition of population-based apportionment for any tax on income imposed by federal government. After ratification of Sixteenth Amendment, in 1913, Congress imposed tax on income at graduated rates, which is regarded as a major step in development of U.S. fiscal state.

Period Two – 1913-1939

It was during this period that Congress took “to reenact the tax laws by a series of separate revenue acts,” in which regard, the Revenue Act, 1928, can be quoted as an excellent example, and “a model of simplicity in content and structure.” Moreover, gaps in tax laws “were filled by regulations, rulings, and the decided cases where

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521 Pollock V. Farmers' Loan and Trust, (US Suprme Court 1895).
523 Ibid.
necessary.” It has also been argued that “the evolution from simplicity to complexity in the law almost directly correlates with the evolution to a broader tax base and higher tax rates, and during most of this period exemptions were generous and rates were low.” Simplicity of the tax system did not evoke any “general popular interest to generate research and critical writing about the tax system.” There were, however, economists and other writers who composed sparse treatises and papers on the subject but no solid work was done from purely legal or tax policy perspectives.

Period Three – 1939-64

Enactment of Internal Revenue Code, 1939, marked beginning of third period in history of U.S. tax reforms. It was posited that since “hearings preceding its enactment involved little probing analysis of the effects of the revenue laws on the economy and of the equity and fairness of the system as it applied to the taxpaying community,” and nor “was any long range tax policy objectives developed,” therefore, new Code “merely reflected the extant law in a more orderly statutory arrangement than had previously existed.” The prompts for new tax legislation and additional revenues included application of Keynesian economics, World War II, and looming Korean conflict. Thus, while tax laws grew complex and complicated, “terms ‘tax shelter’ and ‘estate planning’ entered the vocabulary, and special interest groups began to press the Congress to legislate a variety of special provisions,” as a result of which Internal Revenue Code, 1939, “became riddled with amendments.” This brought about another codification in the form of

524 Ibid.
525 Ibid.
526 Ibid.
527 Ibid., 132.
528 Ibid., 133.
Internal Revenue Code, 1954. In early 1950s, reappraisal of U.S tax system started. In 1955, Joint Committee on Economic Report of the Congress, called academicians and experts for policy inputs; the outcome was three-volume Tax Revision Compendium. “A cursory reading of those volumes even today reflects an impressive vitality and perception about tax reform for the United States.” Simultaneously, tax grabbed central place in the public policy debate and professional entities started to sponsor seminars, conferences on its various aspects. American Bar Association undertook significant reviews of tax system in 1963 and 1964, which provided for solid reform agenda for piecemeal implementation throughout 1960s.

Period Four – 1964-81

It was during this period that taxation in U.S. started to become more and more research-based and academically oriented. Non-profit organizations and think-tanks like Brookings Institution, National Tax Association, American Law Institute, National Tax Foundation, American Bar Association, American Institute of Certified Public Accountants and many others, began to churn out studies, reports and papers, which more often were non-partisan but at times happened to have been sponsored by factions and economic interest groups, too. Such profligate research both non-partisan and surreptitiously loaded with group interests appears to have exerted good amount of pressure on the polity compelling it to go in for “a series of revenue acts” that “over-articulated the applicable rules, proliferated complications, and thereby led to further legislative action.” Interestingly, IRS reacted to the situation effectively by launching

529 Ibid.
530 Ibid., 136.
its own a number of studies to off-set the angularly-produced studies, by way of input into the tax policy formulation.

Period Five – 1981-todate

When President Ronald Reagan approved the Economic Recovery Act, 1981, into law, it included “a 25 percent reduction in tax rates on individual incomes with such reductions spread over three years, a reduction in the tax on corporate incomes in the lowest two brackets, a new accelerated cost recovery system which will permit new investments in tangible real and personal property to be recovered over shorter life periods.”\(^{531}\) In fact, the Economic Recovery Act, 1981, heralded relegation of Keynesian economics of demand side on the backseat and opted to focus supply side economics. This was done by “encouraging capital formation through investment incentives, reduced taxes, and liberalized capital cost recoveries,” with the ultimate result of “growing economy with emphasis on the function of the free market system.”\(^{532}\) It has been stated that the “1986 Tax Reform Act created the most comprehensive overhaul of the federal tax code in 30 years,” while keeping net impact of reforms revenue-neutral.\(^{533}\)

Like already observed that President Obama’s latest efforts to rectify distortions in tax system revolve around five pillars. One, lowering tax rates with lesser number of brackets. Two, cutting tax breaks and exemptions. Three, cutting the deficit by over $700 billion by asking rich Americans to pay their fair share of running the state through American Taxpayer Relief Act, 2012. Four, increasing job creation by incentivizing Americans that have hid money abroad, to invest in U.S. thereby creating job for jobless

\(^{531}\) Ibid.
\(^{532}\) Ibid.
Americans. Five, observing the Buffet rule thereby ensuring that any family earning over $1 million per annum must be made to pay more than an average American family or taxpayer. Additionally, President Obama has repeatedly taken the public position to opt for tax cuts for middle and low income families. In overall terms, Obama administration aspires to enhance tax rates for rich citizens, undertake investments into “public services such as scientific research, infrastructure, health care reform, and education that is meant to boost the American economy and future prospects.”534 Moreover, President Obama is a staunch proponent of using government regulation to stem crony capitalism, and leverage tax policy to stabilize and promote economic growth.”535

**Section XV**
**Conclusion**

Unlike, U.S. where tax reforms have relatively been a dull and bland phenomenon, in Pakistan, Tax reform commissions, in chronological sequencing, provide a most fascinating diegesis – an amphitheater, in which some of the fiercest battles of Pakistan’s politico-economic history were fought out for a fiscal superiority and economic upperhand in the polity; won and lost. At one level, some of the best brains of the time were identified, mobilized and put together under one roof with sole objective to redefine relationship between the state and the society by rewriting fiscal contract extant between them. It is this very perspective that makes tax reform initiatives major moments in nations’ histories. At another level, however, it is an action-packed ferocious gladiation at its best in which sponsoring interest groups pitch their best gladiators, train and tutor them, field them into the ring, stand on them monitoring the spectacle, shuffle their maneuvers, recognize their achievement and contribution, honor them, with one single-
point agenda – optimization of group gains measured in terms of control on economic resources of the country. The latter scenario appears more pronounced in Pakistan starting with NTRC and gaining intensity through TRC, RMTRC, CTR and TFTA – both qualitatively and quantitatively.

If tax reforms commissions and what they delivered in terms of outputs i.e. reports and recommendations, could in any manner be taken as a barometer of a society’s progression – an indicator of its collective consciousness not only to deliver but also to constantly improve delivery of public goods to its populace through mustering and placing enough resources at the disposal of its governance apparatus – in Pakistan one reads an incremental but clearly visible bathos along TEC to TFTA line – from the exalted to the commonplace, that is, respectively. Qualitatively, tax reform efforts appear moving in cadence with the fate of the nation. TEC being first of its kind looks substantially free of elitist influence with its entire focus zeroing in on generation of good and healthy resources for the exchequer in order to ameliorate conditions of marginalized millions, removing regional economic disparities, and strengthening vital institutional framework of the fledgling state; hopes soar high, ideals have yet to start fade away, and standards yet not bristling. Then CTT and TC, on one hand – though showing traces of elitism infiltrating into operational mores of the polity, yet balance between tax collector and taxpayer appears an objective – form a bridge between state-centric efforts to reform revenue function, and NTRC, on the other, which marks initiation of elite-centric reform efforts sponsored, propounded and propagated by a thoroughly captive state. NTRC marks a clear departure from the statist perspective when elites appear to have infiltrated into the public policy formulation structures, and much of the malaise that the tax system
continues to suffer to-date were infected by NTRC. The rest i.e. TRC, RMTRC, CTR, and TFTA were all specks on steep continuum of a down-hill slide. Evaluating purely at intellectual plain, some of these efforts particularly TEC, CTT and to a certain degree TC, conveniently compare with Carter Commission\textsuperscript{536}, Meade Commission\textsuperscript{537} or Shoup Commission\textsuperscript{538} reports.

At rather a more mundane level, even though not implemented, even though not purported in a perfect form, yet every single matter pertaining to Pakistan’s tax system has been discussed, deliberated upon, and recommended one way or the other, a number of times. Ideally then there should not have been a point in appointing new commission once every few years. But then this may prove the hypothesis that a new reform initiative is commissioned to draw curtains on the unimplemented recommendations, after the “good ones” have been implemented, that is. Moreover, new reform initiatives have been required and commissioned every now and then to create distraction, or to address new economic realities emanating from ever-changing global scenario, or to manage negative fall-out of implementing “good” recommendations or to round-off their rough edges. Such situation emerged due to both spatial and temporal gaps between delivery of the recommendation and a decision on its implementation or non-implementation – as the decision moved through bureaucratic modulation at different points in time and place, and suffered institutional refinement through standard interest articulation, aggregation and maximization processes. Mark Twain’s famous words that “History doesn’t repeat itself, but it does rhyme,” fall on all fours of Pakistan’s tax system.

\textsuperscript{536} Carter.
If one were to identify one string running through all reform efforts undertaken by the U.S., it would be: “the nation’s economic well-being will be best served by a broad-based, low rate income tax system that is fair and equitable, understandable by the general taxpaying public, easily administered, and conducive to growth and stability.”

In overall terms, there is abundant trust of both state and society in its extractive arm. This is not a relationship of animosity, distrust, and constant hostility, but that of employer and employee. The U.S. IRS is a servant of the state and is there to carry out its avowed functions in the best possible manner. “The managers and management officials of the Internal Revenue Service (IRS) are dedicated to the fair and efficient administration of the tax laws. These dedicated men and women have spent their working careers in the public service and pursue the goal of fair and efficient tax administration on a daily basis.” Such unfortunately, is not the case with Pakistan. It is very difficult to draw out even a single common thread running through abundant reform efforts. While problems continue to persist and simmer, overarching objectives appear not be emanating from a national consensus. In sum, despite repeated efforts to reform Pakistan’s revenue function, there is no progression – neither of the state, nor of the extractive system – on the continuum of history; there is only stagnation, retardation, and decline.

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539 Galvin, "Tax Reform in the United States and Canada: A Comparison."
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Chapter 6
System Domination: Elitist Compartmentalization of Information State

Section I
Introduction

George Orwell's dystopian novel *Nineteen Eighty Four* portrays a jurisdiction in which the oppressive implication of authority is accentuated by the control of information by an oligarchical collectivism. Intriguingly, one of the most dominant perceptions of as enigmatic a state as Pakistan is that it carries a thick varnish of secrecy all over it – be that its structure, society or interaction between the both of them. This perception, in particular, of the state conduct is prevalent not only inside Pakistan but also outside it.¹ Likewise, a plethora of incidents are quoted of state conduct in international relations to suggest Pakistan’s secretive and double-agent role.²

The broadside that Pakistan is a highly secretive state, loosely speaking, can be analyzed from five distinctive but mutually entangled and reinforcing strands. Firstly, perhaps most innocuous one, and which, to be fair, is found in many developed and developing countries alike, is access and flow of information from government about its functioning and decision-making to citizenry. Secondly, reverse of it, i.e. insufficient flows of information from citizenry to state, which information deficiency, inter alia, causes twin-revenue and governance deficit. Thirdly, Parliament’s lack of proverbial omnipotence,

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¹ This perception of a dubious, non-transparent, muffled and secretive state conduct is generally based, including but not limited to, on (a) murder of Prime Minister Liaqat Ali Khan; (b) fall of East Pakistan; (c) Abbottabad debacle; (d) Abbottabad Commission report; (e) Wikileaks on Pakistan; (f) drone attacks; (g) 1977-election rigging; (h) operation of Gang of Four-I and coup d'etat of 1977; (i) operation of Gang of Four-II and coup d'etat of 1999; (k) Hamoodur Rahman Commission report; (l) Kahuta project; (m) Kargil war; (n) Kharotabad Commission; (o) National Reconciliation Order; (p) Memogate scandal; and (q) 2013-election rigging.

² "Secret Pakistan" is a two-episode BBC documentary aired in October, 2011, claiming, inter alia, that Pakistan's premier Inter-Services Intelligence Agency (ISI) had tipped off top Al-Qaeda leadership hiding in Tora Bora - an area adjoining Pakistan's Tribal Area, about the likely US Airforce bombing.
which is theoretically associated with parliaments, to extract all kinds of information from governments or their underlying bureaucratic organizations that it needs to legislate, set national agenda and formulate policy. Fifthly, most glaring one is the information black-out which one institution of the state places on other institutions of the state. Fourthly, scant outflows of vital information on Pakistani persons operating internationally, and non-Pakistani persons operating nationally, which on the one hand, has dried-up inward information flows from other countries into Pakistan on the principle of reciprocity, and on the other, started to bear down pressure on the polity to comply with international standards on exchange of information or brace for adverse implications. Goes without saying that in a rapidly globalizing world, exchange of information at international level about persons’ economic and other activities, is pitted to redefine and under-grid all economico-political bilateral and multilateral cooperation in the years to come.

The society, in which a state exhibiting above informational strands is anchored, betrays an abnormality – a paradox of privacy. At the sociological level, Pakistan is a society in which, on one hand, individual is found begging for one moment of privacy in his personal life, that is, in matter of faith; in matter of get-up; in matter of relationing with opposite gender; and in matter of health. One observes that society’s appetite for intrusion into personal realm of an individual’s life is insatiable and at certain level, appears to be emanating from a relentless demand that it raises on the state to curb sin – even at times, at expense of crime. This is one particular aspect of governance in Pakistan in which religious elite are always found in agreement with ruling dispensations of whatever shade, origin, or legitimacy. On the other, however, it is the same society that
exhibits strong preference and leanings for brute secrecy in economic realm – be that with regard to inflows of economic resources, stock of economic resources or even conspicuous consumption indulged into by men of means. The society’s preference for secrecy in economic realm at the expense of secrecy in personal realm – stands in stark contrast to internationally accepted modern mores of societal and state conduct.

In this chapter, it is argued that this misplaced societal preference for secrecy in the economic realm is immediately espoused and adopted by vested elite interests, who then take to leverage on it, organize themselves, provide the preference with requisite ideological moorings, strategize, create perverse alliances with generalist bureaucratic segments, and end up mining the entire legal infrastructure of the state and its administrative apparatus with intricate web of statutory and administrative secrecy manacles in order to optimize on their economic agenda and maintain the status quo. The analysis from this perspective in this chapter would sharpen the overall analysis of the domination of Elites Ltd on the polity of Pakistan.

This chapter is divided into IX sections. After the introduction in section I, section II takes account of the theoretical concepts that loosely underpin the issue of informational compartmentalization of the elitist state. While section III explores into the connections between elites and secretization of the state, section IV conceives and develops a standard information aggregation model with its realization hung in the future. Section V – the very core of the chapter – deals with elitist setting of the rules of the game pertaining to the state informetrics in its all three sub-areas, that is, generation, access, and utilization. It is in this very section that elitist games of the rules are illustratively unraveled to hammer home oligarchically-oriented informational control of the state. Section VI
connects domestic brutal secrecy status quo with strong international currents sweeping across globe geared and pushing hard to dismantle it. While section VII is an account of an on-going debate in Pakistan pertaining to the right to information, and connects it with its consistent denial by the elitist state, section VIII bring in the U.S. for a contrast and backdrop. The chapter concludes in section IX with a brief account of oppressive implications of authority that get accentuated through brutal secrecy regime as demonstrated in Pakistan.

**Section II**

**Theoretical Underpinnings**

The centrality of informational inputs into extractive and coercive functions is theoretically proven. It has been authoritatively argued that governments need to observe transactions in the economy in order to be able to impose tax on them.\(^3\) Similarly, it has also been suggested that understanding information inflows is central to effective taxation. When governments imperfectly observe transactions, important differences emerge between forms of taxation that are equivalent in standard models of taxation but differ in the outcomes that they generate.\(^4\) Likewise, third-party reporting, verifiable paper trails and whistle-blowers are thought to play an important role in facilitating tax enforcement.\(^5\) The challenge of enforcing taxation is particularly severe in developing countries, where many transactions in the economy are not readily observable by the government, and it has been argued that these limited sources of information can explain

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some of the key differences in tax systems between developed and developing countries.\textsuperscript{6} The proposition that formal political theory is now going through the same ‘informational revolution’ as economic theory during the 1970s and 1980s,\textsuperscript{7} has merit to it.

In typical economic terms, a transaction in which one party has quantitatively more or qualitatively superior information compared to another is called an asymmetric situation. A standard asymmetrical information situation can potentially lead to two problematic scenarios. One, \textit{adverse selection} which implies immoral behavior by taking advantage of asymmetric information \textit{before} a transaction has taken place. Two, \textit{moral hazard}, which entails immoral behavior by taking advantage of asymmetric information \textit{after} a transaction has taken place. Within the context of a typical tax situation, while on one hand, taxpayer thrives from a double vantage position of asymmetry in that he can do tax planning before actually undertaking the transaction (adverse selection), or after undertaking the transaction (moral hazard) as it will still be prior to filing his tax return or making out a formal declaration, and on the other, tax-collector sulks being made to operate within the perimeter of \textit{bounded rationality}, which, in turn, is determined by flexibility of governing laws and concomitant support of administrative machinery. Bounded rationality implies that in decision-making, rationality of an individual is delimited by quality of information that he possesses, cognitive limitations of his mind, and finite amount of time that he has to make a decision within – contextually, that is, to challenge, contradict, or falsify a taxpayer’s tax declaration. Since essentially the state’s extractive arm operates in an a-priori environment within which a taxpayer is equipped

\textsuperscript{6} Roger H. Gordon and Wei Li, "Tax Structure in Developing Countries: Many Puzzles and a Possible Explanation," \textit{Journal of Public Economics} 93, no. 7-8 (2009).
with optional tactical tools of adverse selection and moral hazard, and tax collector being completely dependent upon (a) what a taxpayer declares, and (b) what he can find out himself about resource-generating activities of the taxpayer by using state apparatus and its various institutions and departments through which a taxpayer has to enter market and/or operate. Now, if tax collector does not receive information from the rest of state apparatus to optimize on its revenue effort, state may be abandoning its critical extractive function to fend for itself, delivering sub-optimal outcomes – like in Pakistan.

An informationally deficient state is Elites Ltd’s ultimate bastion. Information being at the core of a state's all extractive operations and its machinery being able to take cognizance of only what it can actionably observe, rational actor approach mandates that all information particularly pertaining to income flows and stocks and the transactions which create them, be blocked. Thus, if Elites Ltd intends that it be not subjected to par taxation, it must, at strategic level, resort to a third ploy; namely, it must block transmission of actionable information to state’s revenue administration. The other two ploys being (a) rigging tax policy formulation process to a maximum degree, and (b) keeping tax administration in a forced state of incapacitation. It is, therefore, that Elites Ltd does all what it takes to keep state’s revenue arm starved on vital tax information and completely in dark about economic exploits of its members. At a sub-strategic level, Elites Ltd surgically but comprehensively operates to tinker with state’s revenue machinery in all three areas of informetrics, namely; (a) information generation; (b) information access; and (c) information utilization.

At operational level, generalist lackeys posing able catholicon whiz-kids to ruling elites are found on call of duty to prescribe disruption in information generation,
superimposition of secrécies on information access, and limitational hurdles on
information utilization – erecting high humps in way of extraction, coercion and
statecraft alike. This is because the pattern of domination pursued on extractive function
is by and large applicable to coercive function, too. The study posits that manipulation of
informetrics for gains in economic zone by Elites Ltd weakens and saps state capacity to
efficiently perform in coercive realm, which has converse implications for Elites Ltd in
medium and long term – offsetting perverse gains in economic zone. These and other
important aspects of informetrics will be explicated later in the chapter.

Section III
Secrecy – The Elitist Connection

The secrecy madness in Pakistan has an elitist method about it. Historically, Elites Ltd
has exhibited a definite degree of commitment (and with success) to shroud the entire
state structure with a thick secrecy cover. In this connection, members of Elites Ltd, each
one of them, has played its due role diligently and effectively in different periods of
history. “The vested interests block information on the pretext of national security or
public interest,…” with the result that “pattern of governance in Pakistan thrives on the
culture of information blockade or control, which is pervasive at all levels in almost all
the state institutions.” The CTR had very succinctly observed that the “cloak of secrecy
is often worn by vested parties to protect themselves against public displeasure.”

Does all this occur without a design? It appears that Pakistani elites exploit their political
capital to the maximum to protect the existing brute information black-out that keeps the
extractive system in a permanent state of given incapacitation. Elites Ltd would go to any

8 CRCP, Freedom of Information - Importance and Introduction (Islamabad, 2007), 1.
length to keep informational blind-spots intact so that compulsive information bits that get generated here and there do not end up getting aggregated with state’s extractive function; any function for that matter. Akbar, not in so many words though, links elitist shackles to colonial overhang of state and states “… that the colonial state was committed not to the principle of liberal citizenship but to establishing and maintaining a suffocating level of social control over what it perceived to be its backward subjects. Insisting on the immutability and supremacy of laws and bureaucratic procedures established under colonial rule does nothing for the cause of justice in society today.”

The colonial path dependency in Pakistan does not manifest any signs of getting watered down with passage of time like in most other states that were created in the aftermath of World War II; it is rather getting deeper, thicker and wider with time.

Elites Ltd being cognizant that if adequate taxation has to be warded off and tax collector to be kept at bay, divulgence of information as regards incomes and amassing of assets has to be controlled and kept confidential. This is why whenever there is an attempt to plug loopholes in tax declarations and jack up below par reporting requirements; markets are shut down in agitations sponsored by business elite and industrial elite. In Pakistan, the bone of contention between state and citizen is not as much over-taxation, high tax rates, tax departments’ excessive powers, as much it is the requirements of divulgence of information in tax returns or through other reporting requirements. In Pakistan, simplification of tax system – essentially an elitist ploy – is conveniently equated and synonymized with a libertarian luxury to furnish only sketchy, half or no information in tax returns. Informational exemptions, that is, waivers from filing of tax returns by

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persons enjoying (totally) exempt incomes, and declaration of assets and liabilities by taxpayers beyond certain threshold, and blank columns in withholding statements are only some of the obscene illustrations of scant flow of critical information from private domain to public domain sponsored and actualized by elites. Likewise, non-filing of tax returns is not an offense per se – but something contingent upon evasion of tax – even when committed by way of non-compliance to a notice for filing of return of tax.

Elites-Generalist Nexus

In order to cloak the entire administrative apparatus of the state in secrecy, Elites Ltd enters into a collusive alliance with the generalist mandarins of Pakistan civil service. At strategic level, over-arching objective remains brute water-tight compartmentalization, horizontal divisiveness, informational iron-curtaining between state’s critically important institutions, and erection of high humps in the way of information aggregation with state’s revenue and coercive functions. At tactical level, however, the elites-generalist duo’s favorite mode has been to insert a well-crafted, high-sounding, and all-encompassing “confidentiality provision” in almost every substantive law legislated to govern a given aspect of socio-economic life or to create an organization equipped to deal with, govern and regulate economic agents operating in the state.\(^\text{11}\)

Max Weber pointed out that “concept of the “official secret” is the specific invention of bureaucracy, and nothing is so fanatically defended by the bureaucracy as this attitude,” because this way “bureaucracy strives to increase the superiority of its position by keeping its knowledge and intentions secret,” and also because “in so doing it shields its

\(^\text{11}\) There are other tactics, too, that are resorted to by the elites-generalist duo, which will be discussed later in the chapter.
knowledge and conduct from criticism.”\textsuperscript{12} He further holds that epitome of legislative oversight is latent in parliament’s ability to call any time, any information from the government, but “bureaucracy inherently welcomes a poorly informed and hence a powerless legislature – at least in so far as ignorance somehow coincides with a bureaucracy’s own interests.”\textsuperscript{13} Broadly speaking, Weber is correct in his assertion that bureaucracy and parliament have conflicting interests when it comes to access of information about decision making in government. However, his position on bureaucracy versus legislature, in peculiar context of Pakistan, may be little off-mark when analyzed against backdrop of grim governance realities persistent since 1947.

In this context, it is argued that interests of Elites Ltd and generalist lackeys converge as both have a perverse agenda to promote. Thus, quite a quid pro quo takes place. Elites Ltd through their control of government helps lackeys control ED, by dint of which, the latter are able to control all key positions in the governance apparatus. Lackeys return the favor with constituency-specific spending options, nepotistic employment opportunities in government and Public Sector Entities (PSEs) whether warranted or not, rent-seeking opportunities, and tinted public policy decisions. Thus, such a collusive strategic alliance, in order to sate mutual perverse symbiotic instincts, by way of a part ploy, brings secrecy in its brute form to bear down upon all state institutions and their operational mechanics i.e. laws, rules, and regulations, and attempts to preserve it with a commitment.

Elites Ltd’s Role

What can be argued with certitude is that Elites Ltd has played hugely critical role towards enveloping the entire state institutional framework into a thick secrecy cover.

\textsuperscript{12} Max Weber, \textit{Wirtschaft Und Gesellschaft} (Frankfurt: 1918), 730-731.
\textsuperscript{13} Ibid., 730-31.
However, what cannot be posited with certainty is perhaps the role of individual elite groups towards this unparalleled feat. Although, this phenomenon may be pretty much intractable, yet Elites Ltd’s role towards realization of secrecy in Pakistan appears more than the sum of its members’ contributions, yet a comment on individual elite groups’ role will be instructive to illuminate further discussion.

Religious Elite

Veil – that has so beguilingly captured the imagination of Pakistani society under the preponderant impress of religious elite may be an intriguing explanatory metaphor for a state which – with its institutional cylinders so painstakingly concealing everything inside them even from one another – finds itself informationally compartmentalized effectively – disallowing aggregation of information at any one point in time and place – not to speak of the revenue function. Religious elite who, more often than not, influenced public policy and enjoyed significance in state affairs much greater than the sum of their ballot power, supplied ideological explanations for secrecy regime as currently manifested in Pakistan in most dimensions of state governance. Veil streaming into various forms and manifestations of secrecy – from covering one’s face to hiding one’s economic activities i.e. both flows and stocks of economic resources, to assets and liabilities of rich and mighty, corporations, trusts and foundations, chambers of business and industry, and political parties – is the very corner-stone of a state propounded, defined, projected and promoted by religious elite having strong ideologically-sponsored secrecy leanings. Other members of Elites Ltd, on one excuse or the other, let entire state structure get cloaked into a varnish of secrecy and permeate it into all realms of civic life particularly economic realm with vengeance, harvesting optimal gains.
The roots of such state-sponsored percolation of religious ideology into life patterns of a semi-literate society could be traced back to military-elite led dispensation under General Zia-ul-Haq (1977-88). The General’s Nizam-e-Mustafa, an all-encompassing program geared to Islamize both state and society launched in 1979 promised “to protect the sanctity of chador and chardivari (seclusion within four walls) of women touched a vital chord in priorities of middle- and lower-middle class values.”¹⁴ The program afforded Elites Ltd a Godsend opportunity to exploit an ideological divide between so-called Islamic-oriented sections and ‘Islamicate’ sections of the then Pakistani society, to interpret Islamic dictates to their liking and benefit, secure their turf and promote their own respective agendas. Zia-ul-Haq’s program sanctified chador (veil) and chardivary (literally “four walls” or “boundary wall” but metaphorically seclusion inside a boundary-wall) – a physical as well as a figurative curtain separating everyday world of men and women – remains a powerful symbol even today.¹⁵ The “veil-and-wall” gambit which initially covered only female folks and where they resided was later on extended to cover houses, madrasas and seminaries, too. A raid conducted by police on Maulana Abdul Ghafoor’s compound in Kalat, Baluchistan in search of fugitives was stated to be “against Islamic, tribal and local traditions (creating) resentment among the party workers.”¹⁶ Such expansion in scope of Veil and Wall doctrine was not only encouraged but also projected by business elite and industrial elite to promote their own agenda as soon all kinds of business premises like shops, godowns, warehouses, factories, banks

¹⁵ Ibid.
and private hospitals were slowly, steadily, but systematically brought into the ambit of “chaddar” and “chardivary.”\textsuperscript{17}

\textit{Sundry (Judicial) Elite}

After religious elite, the most significant role played towards laying, extending, thickening, and perpetuating confidentiality cover on Pakistan state and society is by sundry (judicial) elite. Taking lead from religious elite and optimizing on their prompts, sundry (judicial) elite legitimized ideologically-oriented prescriptions of secrecy, which then Elites Ltd scrambled to formalize through parliamentary, alternative legislative or policy formulation processes. Judicial elite have held all aces for Elites Ltd and contributed to process of secretization of state mechanics through four modes. Firstly, judicial elite for a long time refused to admit as valid and take cognizance of information that was illegally obtained. In Pakistan, “citizens have no means, other than informal, to know how concerned government quarters dealt with matters involving important rights and privileges of citizens. “Citizens are generally provided with very brief order of the authorities without assigning any reason or justification.”\textsuperscript{18} For a long time under various judicial pronouncements it was held that information illegally or informally acquired could not be used for legal purposes.\textsuperscript{19} However, it was not until Bisvil Spinners Case, when SC took a volte face and “held that information acquired through informal means could be used for seeking relief and remedy in case of legal violation by the government departments.”\textsuperscript{20}

\textsuperscript{17} The author, while posted as Assistant Commissioner, Income Tax, Gujar Khan, conducted a raid on a booming private hospital business in November, 1994. One of the charges levelled in the FIR lodged to thwart tax proceedings by the entrepreneur was "voilation of sanctity of chaddar and chardivary."

\textsuperscript{18} CRCP.

\textsuperscript{19} Ibid.

\textsuperscript{20} Ibid., 3.
Secondly, judicial elite helped legitimize “Veil-and-Wall” doctrine at the ideological level and operationalize it at practical level letting it permeate and feed into very vitals of the state. In 2004, when SBP issued an internal circular under the Banking Companies Ordinance, 1962, directing all banks and DFIs to provide to FBR, in respect of all non-remunerative accounts, the information of (i) title of account; (ii) address of account; (iii) NIC/NTN number; and (iv) amount of profit/return paid, judicial elite came down cracking. LHC held that sharing of confidential information by banks was illegal, and that people in Pakistan had a right not to have their private financial matters given to banks in good faith under fiduciary relationships placed before “preying eyes of tax collection agencies” without any allegation of any wrong doing.\(^{21}\) The judgment went on to state that the Circular was violative of Articles 4, 9, 14, and 25 of Constitution.\(^{22}\)

Thirdly, judiciary being final arbiter of power in polity, instead of arresting rot of secretization, gave it traction by legitimizing humps created in way of information aggregation by Elites Ltd and its various franchises. Traditionally, states do not self-cuff to take cognizance of flagrant breaches of its own legal infrastructure. Tax department’s stance to issue tax notice to any person in respect of any number of past years was embedded in pre-partition extractive milieu and resorted to only sparingly. The ITO, 2001, was amended vide Finance Act, 2000, to clarify section 56 in that “a notice under this section may be issued in respect of any assessment year including the current assessment year and any preceding assessment year.” Such an effort on the part of tax administration was geared to thwart judicial overtures to equate non-filers with under-

\(^{21}\) M.D. Tahir V. Director State Bank of Pakistan, CLD 1680, (LHC, 2004). This judgement has been discussed at length later in the chapter, too.

\(^{22}\) Article 4 pertains to "Rights of individuals to be dealt with in accordance with law;" Article 9 to "Security of person;" Article 14 to "Inviolability of dignity of man;" and Article 25 to "Equality of citizens."
filers under sections 56 and 65 of the ITO, 2001, respectively. While former provision of law was always interpreted to mean sans limitational caveats, latter’s time limitation had been brought down from ten to five years in 1985. Military elite-led coalition, through Finance Act, 2002, moved in quickly to backstop sundry elite’s efforts when in a bizarre and blatant move section 56 was likewise amended to provide “that no notice under this section shall be issued after the expiration of five years from the end of the assessment year for which the return of income was due.” This must go down as Elites Ltd’s major gain in terms of shock approach as NTRC-propelled amendment incorporated a great incentive to not to declare their riches for five years whereafter the same would automatically get whitened. This was all tax information was rendered perishable after five years. Fourthly, it was again judicial elite who validated ignominious split (contradictory) declarations by persons as regards value of their assets i.e. one for higher value to secure bank financing and other lower value for tax purposes and legitimimized this fraud in the name of planning and business expediency.

Business Elite

Understandably, since business elite and industrial elite are direct significant beneficiaries of brute and wide-going secrecy incapacitating state’s revenue function, they have also taken more pains to have it thickened and maintained. For instance, in 2011, when FBR proposed that all taxpayers declared their yearly expenses in their annual income tax returns (Form-D), business elite sponsored a march and converged on Islamabad to besiege it with single point demand to withdraw this particular declaratory
Trade bodies in unison denounced the requirement, and announced to hold a protest demonstration against FBR’s unrealistic tax system, extortion mafia in Karachi and traders’ abduction in Baluchistan, in front of parliament house. Thus, trade bodies’ representatives from across the country besieged “FBR headquarters in Islamabad against the impractical and illogical system of the tax department,”… to protest against “issuance of Form-D, which has been made compulsory for tax returns, in violation of bank secrecy act by the officials of tax department.” The business community reckoned this move as unjustified and illogical because “it would not do any service to the FBR rather it would further tighten noose around the registered tax payers only.” Traders community also questioning “logic behind the decision under which every trader will have to submit all details of his households, vehicles, petrol consumption, number of children, their schools fee amount,” “was surprised that instead of taking measures to widen tax net and control leakage, the policies are being evolved to add to miseries of the business-doing people.”

A constructivist would find a few interesting expressions in trading community’s demand articulation. The use of concepts like “impracticable and illogical system of tax department,” “FBR’s unrealistic tax system, extortion mafia in Karachi and traders’ abduction in Baluchistan,” alongwith demand for “low interest loan schemes” and “provide security to the business community,” is clearly aimed at camouflaging their own demand of seeking waiver from declaration of their expenses, which would eventually compel them to offer, at least, a proportionate corresponding income for tax purposes.

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23 The requirement of declaring total expenses was rendered mandatory for the taxpayers in the shape of Form D to the Income Tax Return, in 2011.
25 Ibid.
26 Ibid.
27 Ibid.
The rest were all additives to make the demand look palatable. Pakistan’s history is replete with such obscene demands – not only of being made but also for being fulfilled. “The dismal state of governance in Pakistan can largely be attributed to the lack of freedom of information, which retards the capacity of the citizens to effectively monitor public institutions.” NTRC’s proposal that “a scientifically organized and systematically co-ordinated effort” was needed to put tax system on track, and which was possible through “a nation-wide Census of Business Premises and Commercial Industrial Property,” was never heeded to by state.

Military Elite

Military elite have historically exhibited a strong propensity to have thick secrecy in place – not only in their operational realm but in all realms of life – particularly, of course, in economic realm. For instance, military elite-led dispensation, which came to power in 1977 as a result of blood-less coup d’état, readily took to co-opting religious elite, and against the backdrop of building up of public perception that politicians were corrupt and root-cause of all the malaise the country was inflicted with, decided to have a go at landed elite, industrial elite, and business elite by requiring of them to file declarations of assets and reconcile increase or decrease as appearing therein in pursuance to Martial Law Regulation No. 12, dated November 1, 1977. Interestingly, even the omnipotent regime of Gen. Zia-ul-Haq did not go to ordain that these declarations be forwarded to CBR to be reconciled against the returns filed by the elite.

28 CRCP, 1.
Instead, CBR led by a generalist in its usual defeatist mode, issued Circular No. 2 of 1977 to hammer home that these “declarations have been appearing for some time in all the national dailies,” and that since “particulars of such declarations are useful for the purposes of income-tax, wealth tax, gift tax, and estate duty … the commissioners of income-tax and the controller of estate duty were … advised … to take note of these declarations and to maintain their daily record.”

CBR, hoping that instructions were being complied with, advised its field formations that “declarations of assets should later be verified by asking declarants to file a photo-copy of declarations submitted by them to Chief Martial Law Administrator and the Zonal Martial Law Administrators.” Since the initiative was a non-starter from the word go, it fizzled out rather early. This is one significant example of how zero-sum transactions in the political realm imperceptibly give way to non-zero-sum transactions in the economic realm. Soon, Martial Law Regulation No. 12, dated November 1, 1977, receded to oblivion, and back-end quid pro quos led to abolition of tax on agricultural income levied by PPP-led government in 1977, followed by abolition of Estate Duty in 1979, and Gift Tax in 1985.

### Section IV

#### Standard Information Aggregation Model

Information aggregation refers to collection of information from multiple sources in a conveniently retrievable format with maximum granularity as regards economic and other activities of both natural and legal persons for law enforcement, revenue generation and other important areas as identified by the state. In a broader sense, information intermediaries such as newspapers, magazines, professional journals, and more recently,

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31 Ibid.
increasing number of web portals are open information gatherers and platforms since they all collect information from multiple sources and place it there for convenient access and consumption, but this is not what is meant by information aggregation for purposes of this study. This, in turn, could easily be dubbed as information glut as information spread across horizons – howsoever useful and important it might be – lacks functionality of analysis, use-with-convenience at different levels of administrative hierarchy for specific goals e.g. governance and revenue optimization. More importantly, such information lacks independent validity and legal sanction.

It can be argued that information aggregation can have concrete and substantial multidimensional positive fall-out starting with citizens’ perception to actual ability of state to go after delinquents who venture to take its systems for a ride. Firstly, it is very likely that state revenues might start showing quick improvement even in the short run. When information of every economic activity being undertaken by every economic agent in economic market is being stored, collated and aggregated with revenue function, it can easily be anticipated that on one hand, tax system will be fully equipped (and with ease) to compare the declarations filed by economic agents with information that it has about the sum of their income-generating activities undertaken by them during the accounting period, and on the other, information aggregation being in place, would substantially and positively influence perceptions of under-filers, and even non-filers. Secondly, substantial amount of positive externality cannot be ruled out for overall governance levels of the country. This is likely because aggregation of information relating to economic activities in a jurisdiction will inject transparency in financial management of society thereby

33 Ibid.
cutting on creation of black money which once created, can be used for all kinds of anti-social and anti-state activities. Financial transparency can directly reduce serious violations of laws not only because proceeds of crimes could not be easily laundered, but also because easy funneling of funds to syndicate and organized criminal gangs would financially dry them out with their potential dissolution in medium term. Thirdly, a systematic aggregation of information taking place with revenue function is very likely to be a lot more cost effective as compared to manual or even automatic but cylindrical storage of information about economic activities taking place in a society. Fourthly, countries that have good information aggregation systems in place resulting in improved levels of governance are likely to have their image risen in the comity of nations, which is then leveraged to promote national economic and other interests to the benefit of all countrymen. Lastly, all states having well-integrated information aggregation systems in place, would have the sum of their diplomatic power increased at international level, and even their enemies would find it difficult to make an ingress both physically and diplomatically into the turf of well-informed states – well-informed of their inner-core i.e. their citizenry and their activities. It goes without saying that while improved governance is dependent upon increased resource allocation, increased allocation is dependent upon enhanced functioning of the revenue system, which, in turn, is dependent on the quality and quantity of the actionable economic information available with state structures. Thus, while governance is a key to development, progress and integration with international economic system, information aggregation is a key to improved governance – a prerequisite for international integration.
In the currently applicable model of information handling at the national level, all institutions that are entrusted with information creation as their primary responsibility or as a by-product of their primary operations, block their information from getting transmitted to other important state institutions who need it to optimize on their performance, whereby key state functions, that is, extraction and coercion, are starved on their key input resulting in sub-optimal delivery on their part. A standard information aggregation model is contrived and depicted below.

**Standard National Information Aggregation Model**

What the picture depicts is that when societal agents operate in the economic market they are regulated and operationalized by two types of entities. Firstly, intermediary regulators and operators e.g. stock markets, mutual funds, banks, real estate investment trusts, investment trusts, companies, registered partnerships, cooperative societies etc. Secondly, all this economic act is overseen by government’s apex regulators and information gatherers like SBP, SECP, NADRA, FMU, ANF, EC, PBS, CC, provincial property
registration authorities, police and cantonment boards etc. Ideally, all important information bits must be transmitted to a standard National Information Aggregator (NIA). This NIA databank can then be rendered freely accessible and used by state’s extractive and coercive functions. But all this would require requisite legal infrastructure to be put in place at all tiers of governance and in all areas of socio-economic life. It is then that extractive and coercive arms of state could be expected to regulate the regulators, economy, and society in an optimal fashion. Without there being adequate channels of aggregated information flowing into state’s critical functions, their performance is always going to be below par – as perhaps it is now.

Reverse Shackles

Elitist state not only blocks inflow of information from its other institutions into its extractive system thus not letting convergence and aggregation of information that may potentially threaten proper or near-proper taxation of riches of its members, but reverse is also true i.e. it does not permit outflow of information from the extractive arm to other critically important institutions like EC, ED (with reference to civil servants), banking sector, higher judiciary and to top all Parliament. Section 216 of ITO, 2001, titled as “Disclosure of information by a public servant” does carry an outright bar on sharing or disclosure of taxpayers’ information. The law then goes on to provide exemptions from the above-cited position to about a couple of dozen situations/organizations to which a person’s tax information could be divulged but that does not particularly help as the same are a safety valve to let the steam out to avoid a burst. This reverse blockage of information can have serious repercussions for overall governance of a country, and

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34 In Pakistan’s case, NADRA could be a suitable candidate organization for the role of National Information Aggregator.
proper working of various institutions which are debarred from having access to important information about citizens held by tax system.

Section V
Informetrics: Rules of the Game

In this part, it will be explicated how the elites-generalist duo keeps captive the elitist state and manipulates with its informetrics so as to optimize on their economic exploits and maintain the politic-governance status quo. It is argued that manipulation takes place in all three areas of informetrics, that is, (i) information generation, (ii) information access, and (iii) information utilization. In the succeeding paragraphs, all of three dimensions of the informetrics will be explicated.

(i) Information Generation

Elitist state monopolizes and manipulates informetrics at the very point of information generation. This is simply because actionable economic information is the raw material for the state’s all extractive operations. All arenas wherein important economic and financial activities take place, transaction-recording, profiling, and storage are kept in a grey zone so as to create high humps in the way of information aggregation at the initial most stage. Illustratively, unlike most countries, information generation and storage is the lowest priority in Pakistan and its state institutions. Systematic information about any aspect of governance, economy, or society is either not generated, and if generated it is not stored in a systematic retrievable format; hence inaccessible. Many a times, Pakistan-related critical information that is not available inside the country is maintained by IFIs for their own consumption, which is generally beyond access of a common researcher.
and policy formulator. Thus, whenever support data is required to fine-tune a policy, it is either reported as unavailable, inaccessible or confidential by the relevant institutions.35

Such a phenomenon has three important dimensions. Firstly, the very landscape of elitist state is kept fragmented. For instance, bulk of private capital in Pakistan is invested in real estate – mostly urban, that is. But Pakistan perhaps should be the only country whose cities are not “owned,” managed or administered by a single government i.e. municipal authority, mayor or city local administration. Pakistani cities are, instead, owned and administered by DHAs, Bahria Towns, Cooperative Societies, and Development Authorities, Cantonment Boards etc. – and only the remainder by standard city governments. Secondly, since all such authorities and entities operate independent of each other and even of the governmental oversight, they pretty much operate as “little governments” in their own right. These “little governments” acquire massive tracts of land, develop it, plan it, and resell or allot it to general public, keep records of ownership, mutate ownership, collect and impose local cesses and taxes, provide utilities and operate as freely as any other full-fledged standard city government. Thirdly, thus since all such “little governments” have their own laws that created them, they have their own avowed objectives, pursuits, and interests, and operating procedures and by laws to govern information collection systems and record keeping as it suits them. These systems are mostly archaic, manual and manipulable, and they are deliberately kept to be so out of

35 For instance, during budget exercise for F/Y 2013-14, extended efforts were made to gather information as regards taxation of private security agencies, but neither Ministry of Interior, nor Security and Exchange Commission of Pakistan, nor provincial governments could provide any any data as regards approximate number of registered security agencies, their total clients, number of security guards recruited, and approximate quantum of business of the security agencies. Resultantly, an amendment to render private security agencies as withholding agents under tax laws could not be made. Astonishingly, data pertaining to such an important aspect of governance was either not being generated anywhere or was not being shared even with state's revenue arm.
fear of access by other state institutions and paranoia of integration with national information management or aggregation systems, if any, at a future date.

Other mega economic sectors like agriculture, services, wholesale and retail trade, and even industry operate almost in an informal manner. In organized economic sectors like stock market, banking, and import and export, other ploys are utilized to hinder information aggregation. Thus, in Pakistan either information is not generated, if generated, it is not profiled and systematically stored, and if profiled and stored, it is kept inaccessible. At a bizarre level, whenever it suits the elites-generalist duo the information generated is even destroyed. Many a times, sensitive information is reported to have been lost, gutted, flooded, or destroyed when needed for investigation, policy formulation, or judicial probe purposes. Such data-destruction reports have pertained to property mutations, bank accounts, tax records, and even civil servants annual declarations.36

(ii) Information Access

Having disrupted or disallowed information generation at its point of creation, next hurdle that elitist state erects in the way of information aggregation is by putting restrictions on access to information – whatever little of it gets generated. This objective is mainly achieved through compartmentalization of information state through superimposition of both statutory manacles as well as administrative manacles on information transmission out of silos in which it is created. But the elites-generalist duo’s most favorite and prolific stratagem has been to insert a well-crafted, high-sounding, and all-encompassing “confidentiality provision” in almost every substantive law legislated to

36 In 2007, in the aftermath of Red Mosque strife in Islamabad, FBR's Record Room containing truckloads of historical records and other data sets was reported to have been gutted.
govern a given aspect of life or to create and operationalize an organization equipped to deal with and govern economic agents operating in the state. This way a state is actualized with a brute water-tight compartmentalization, horizontal divisiveness, and an informational iron-curtaining extant between its critically important institutions, and high humps in the way of information-aggregation with any state agency – particularly its revenue collection function. The application and operation of both types of manacles can be explained in the context of overall statecraft and governance and revenue function.

(a) Secrecy in Statecraft

The origins of statutory secrecy manacles can be traced back to British-India setting. The statutory secrecy manacles dating back to British colonial era obviously had politico-strategic motives and control-dynamics at work. The trend which was loaded with imperialist overtones, theoretically speaking, must have abated, but mysteriously continued even after independence with vengeance. It could be argued that elites seamlessly substituted British as rulers to maintain the politico-economic status quo – with generalist lackeys continuing to play tactical ploys for perverse gains. A cursory survey of the select legal infrastructure of the state is undertaken in the succeeding paragraphs to lay bare various dimensions of secrecy.

The Official Secrets Act, 1923

The (British) Official Secrets Act (OSA), 1911, which, in turn, considerably drew upon the OSA, 1889, is perhaps the foremost evidence of a state flagrantly officializing secrecy pertaining to its conduct through an act of parliament. “Government secrecy … blanketed vast areas of British public life for most of the last century, upheld by a fierce and
undiscriminating Official Secrets Act, passed through parliament by underhand means in 1911 (the government of the day pretended it was just to stop German spies), and by the gentlemanly code of those in the know.  

At theoretical level, the support argument advanced for such an overture was that a secretive, armed, and may be a democratic state could protect itself better and keep its subjects safe from foreign plots, and also – though this was not much trumpeted – from internal subversion. The inception of secrecy could also be associated with gelatinization of democracy since, in many ways; it jeopardized traditional aristocratic monopoly over critical information pertaining to sensitive areas of the British government. “In all the battles over secrecy… a class-war element is obvious. It was them – the elite – against us.”

The OSA, 1952, was by and large an adaptation of the OSA, 1923, empowering only the persons in authority to handle official secrets, and barring those who handled such secrets in prohibited areas or outside them, and sanctioned prosecution by the former of the latter. The statute could be dubbed as elitist in tone and tenor and criticized for its arbitrariness on three counts. Firstly, the fact that the information might have been communicated to a person contrary to his desire was irrelevant, and therefore, did not immunize him. Secondly, the law did “not provide any definition of official secrets,” and left it to mandarins to adjudge as to what constituted secret and what did not; resultantly then “the information of ordinary nature is kept secret on one pretext or

Thirdly, it also rendered journalists liable to cooperate and assist an investigation, and divulge, if required, the source of particular information. Fourthly, the law “quite often arbitrarily used to punish political opponents or those who are to expose corruption or inefficiency of the government.”

The Pakistan Army Act, 1952
The next statute that cloaked the entire politico-governance ambience of the state soon after its establishment is the Pakistan Army Act (PAA), 1952. If one were to pick a single defining feature of this law, it is confidentiality. Secrecy regime as enshrined in the PAA, 1952, is such that eventually SC had to intervene and direct the government pointblank to amend it to lift bar on handing over a copy of verdicts to the convicts of the FGCM so as to, at least, enable them to appeal the judgment. It is generally believed that military elite are excessively prone to controlling information not only pertaining to the institutional decision-making and operations, which is justified, but also pertaining to their economico-financial ingress and exploits, and on identical pretexts.

The Qanoon-i-Shahadat Order (Law of Evidence), 1984
The Qanoon-i-Shahadat Order (QSO), 1984, which primarily replaced the Law of Evidence, 1908, as part of General Zia-ul-Haq-led military dispensation’s efforts to Islamize the legal system of the country. The QSO, 1984, with particular reference to section 6 and 7 thereof heavily accentuated secrecy in Pakistan with subtle ideological nuances. Section 6 of the QSO, 1984, categorically debarred everyone “to disclose official record relating to the affairs of the state unless authorized by the head of the

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39 CRCP, 1.
40 Ibid.
department concerned, who shall give or withhold such information as he thinks fit.”\textsuperscript{42} If carte blanche of section 6 was not enough, section 7 was brought in to stipulate that no public official could be compelled to disclose communication “when he considers that the public interest would suffer by disclosure.”\textsuperscript{43} In a subtly planned gambit, the QSO, 1984, empowered courts, and not the executive, to determine as to what constituted ‘public interest’ with regard to the questions of disclosure or non-disclosure. The validating evidence to this proposition comes in the case of Ms. Benazir Bhutto vs. Federation of Pakistan, wherein SC “held that privilege claimed under section 6 and 7 of the 
\textit{Qanoon-i-Shahadat Order} does not give absolute power to public officials to retain the documents or evidence at their will,” and therefore, “what constitutes public interest is to be determined by the courts.”\textsuperscript{44} Thus, judicial elite tactfully juxtaposed themselves as eternal central arbiter of power in the polity as far as decision as to what constituted “public interest” was concerned. This judgment had far-reaching implications for statecraft and governance in Pakistan, and its more and more dimensions, one way or the other, continue to unfurl every now and then.

The National Accountability Bureau Ordinance, 1999

The National Accountability Bureau (NAB) was created in 1999, when military elite-led coalition ruled the roost. The NAB Ordinance, 1999, dubbed as a draconian law legislated “to eradicate corruption and corrupt practices and hold accountable all those persons accused of such practices,” was based on well-known doctrine “guilty unless proven innocent” rather than vice versa i.e. “innocent unless proven guilty,” had all elitist

\textsuperscript{42} Ibid.  
\textsuperscript{43} Ibid.  
\textsuperscript{44} CRCP.
leanings when it conveniently excluded military elite and parts of judicial elite out of its scope and nexus.\textsuperscript{45} Section 19 “Power to Call for Information” empowered NAB to seek any information or documents that it needed to go after who had made money through rent-seeking and corrupt practices. However, a proviso to Section 19 of the Ordinance was intriguingly added, which: “Provided that the copies obtained or information received or evidence collected under clauses (d) and (e) shall be kept confidential and shall not be used for any purpose other than for legal proceedings under this Ordinance.”\textsuperscript{46} A simple question that arose was as to why information pertaining to corrupt practices of those in power could not be shared with state’s coercive and extractive functions so that both tax-take and governance could be improved – at least, by way of a deterrent for future. An identical query could be raised about the potential beneficiaries of this brute informational iron-curtaining.

The Pakistan Banking Companies Ordinance, 1962

The most perverse type of secrecy that manifests itself in Pakistan and plagues her is undoubtedly the banking secrecy. Banking secrecy takes multiple forms and appears to be originating from various laws, rules and regulations. However, the most obvious and pervasive secrecy is enshrined in Section 33A of the BCO, 1962 (“Fidelity and Secrecy”); at least, it has been interpreted to mean as such. Section (33A) of BCO, 1962, reads: -

Subject to sub-section (4), every bank and financial institution shall, except as otherwise required by law, observe the practices and usage customary among bankers and, in particular, shall not divulge any information relating to the affairs of its customers except in circumstances in which it is, in accordance with law,

\textsuperscript{45} “The National Accountability Ordinance,” (Pakistan: 1999).
\textsuperscript{46} Ibid.
practice and usage customary among bankers, necessary or appropriate for a bank to divulge such information.\textsuperscript{47} Although the very incorporation of expression “except as otherwise required by law,” inside section 33A of the BCO, 1962, was good enough to cover any law, yet the banking sector has always leveraged this provision – inserted into law book during second PML-N regime in 1997 – to mean an absolute iron-curtain to hide entire stock of liquidity in formal banking sector from state’s extractive and coercive arms. On July 3, 2013, Finance Minister, Muhammad Ishaq Dar, while responding to a question by Dr. Shireen Mazari, PTI, unequivocally admitted that “government had found that a number of sectors of the national economy were operating under the influence of cartels,” which included “banking, accountancy, print media, stock exchange, cement, sugar, telecom, jute bags, poultry, power equipment, ghee and shipping.”\textsuperscript{48} To compound, the impact of inflation, the Central Bank, which generally operates as regulator of banking and financial industries in other countries, in Pakistan it operates as a protector and promoter of their interest – for right or wrong.\textsuperscript{49}

The Protection of Economic Reforms Act, 1992

PML-N dominated coalition that came to power as a result of establishment-maneuvered general elections, 1990, right from the beginning took to building on elitist gains. The Protection of Economic Reforms Act (PERA), 1992, was legislated to explicitly and powerfully override “anything contained in the Foreign Exchange Regulation Act, 1947…, the Customs Act, 1969…, the Income Tax Ordinance, 1979…, or any other law

\textsuperscript{47} “The Banking Companies Ordinance,” (Pakistan: 1962).
\textsuperscript{49} This point has been explicated further later in the chapter, too.
for the time being in force.\textsuperscript{50} Sub-section (1) of section 5 supra extended an unprecedented libertarian amnesty. “All citizens of Pakistan resident in Pakistan or outside Pakistan and all other persons shall be entitled and free to bring, hold, sell, transfer and take out foreign exchange within or out of Pakistan in any form and shall not be required to make a foreign currency declaration at any stage nor shall anyone be questioned in regard to the same.”\textsuperscript{51} Such an amnesty was unprecedented in the annals of external sector management of any country. Likewise, while sub-section (2) thereof extended blanket immunity “against any inquiry from the Income Tax Department or any other taxation authority as to the source of financing of the foreign currency accounts,” sub-section (3) outrightly exempted “balances in the foreign currency accounts and income there from shall continue(d) to remain exempted from the levy of wealth-tax and income tax and compulsory deduction of Zakat at source.”\textsuperscript{52}

Apart from the exemptions of all shades and hues, and immunity from probe to sources of funds of dubious credentials, the PERA, 1992, also envisaged one of the most pervading and powerful secrecy regimes. Sub-section (3) of section 5, expressly ordained that “The banks shall maintain complete secrecy in respect of transactions in the foreign currency accounts.”\textsuperscript{53} However, in order to leave no room for any ambiguity, section 9 was also brought in to reiterate beyond any shadow of doubt that “Secrecy of bona-fide banking transactions shall be strictly observed by all banks and financial institutions, by

\textsuperscript{51} Ibid.
\textsuperscript{52} Ibid.
\textsuperscript{53} Ibid.
whosoever owned, controlled or managed.”\textsuperscript{54} The use of term “bona-fide” was quite intriguing in the context of what the PERA, 1992, was pitted to achieve.

Judicial elite moved in quickly to lend legitimation to a statute of highly suspicious purpose and intent. The LHC declared that any authority exceeding its limits as laid down in sub-section (1) of section 5 or violating secrecy required to be maintained by banks would be violating the PERA, 1992; hence liable to punitive action.\textsuperscript{55} The court held:

On consideration of various provisions of the Protection of Economic Reforms Act, 1992, we have reached the conclusion that so far as foreign currency accounts are concerned, the holders thereof, have complete immunity from inquiry and scrutiny and complete secrecy must be maintained in respect of those accounts which cannot be violated by any agency or functionary. That being so, neither the Income Tax Authorities nor Federal Investigation Agency had any justification to hold any inquiry in respect of the transactions in the foreign currency accounts nor could the same be made basis of criminal prosecution.\textsuperscript{56}

In March, 1997, PML-N Government charged about a dozen of CBR officers for violating the PERA, 1992. The officers had just sought confirmation from banks as regards veracity and genuineness of claims of various taxpayers’ sources of investment – without, in fact, probing into source of sources claimed which act would have been cognizable under the law prevailing at the time. This created a high degree of fear as far as the PERA, 1992, was concerned in the rank and file of the revenue and enforcement functions of the state. Thus, even after exemptions and immunities enshrined in the PERA, 1992, had been diluted and watered down to a significant degree in 1999, no

\textsuperscript{54} Ibid.
\textsuperscript{55} It was generally believed that M/s Hudabiya Engineering (Pvt.) Ltd. belonged to ruling Sharif family, and that LHC judgment was managed through quid pro quo transactions with Justice Malik Muhammad Qayyum - it deliverer.
department or departmental officer was ever found willing to implement the law.\textsuperscript{57} While a separate full-length study would be needed to document all-pervading harmful effects of the PERA, 1992, the most significant malaise that this shady law inflicted on Pakistan’s polity was the process that subsequently was dubbed as “dollarization of economy,” that is, apart from ignominious and brute secrecy.

**The Civil Servants Act, 1973**

The Civil Servants Act (CSA), 1973, provides a comprehensive framework of state’s administrative machinery. The CSA, 1973, was then leveraged to create a whole gamut of services and cadres under ED and rules and regulations were issued to govern conduct of those joining these services and determine their rights and liabilities. Rule 3 of the Efficiency and Discipline (E&D) Rules, 1973, mandated every civil servant to furnish a declaration of his assets and liabilities at the end of every year to Establishment Division as well as to his controlling department.\textsuperscript{58} These declarations, if properly profiled within the state’s information management system and analyzed by a trained and specialized function, could prove a handy tool towards abatement of corruption and purification of country’s entire governance apparatus. However, elitist state under overbearing impress of generalist lackeys makes it a point to block transmission of civil servants’ declarations to its extractive function so as to deny information optimization at any level about its not-so-ordinary citizens i.e. its own managers. In view of the worldwide practice, sections of the society have been demanding that “scope of privacy in the case of public officials must be restricted to the minimum so that it does not become an excuse to hide

\textsuperscript{57} “The Protection of Economic Reform (Amendment) Ordinance,” (Pakistan: 1999).
\textsuperscript{58} “The Efficiency and Discipline Rules,” (Pakistan: 1973).
irregularities and corruption,” … and “that all the information about the academic
records, bank loans, and property, etc. of public officials should be open to scrutiny.”

This is generally believed that secrecy of civil servants’ declarations of assets is a
significant contributory factor towards existence of massive black economy in Pakistan.

The Political Parties Rules, 2002

Rule 4 of the Political Parties Rules, 2002, enjoins upon every political party registered
with the ECP to maintain its accounts in prescribed format and submit a statement of
annual accounts of income and expenditure indicating therein its incomes and
expenditure, sources of funds, assets and liabilities, and certifying that no funds from any
prohibited source were received by it. Fundamentally, ECP is the institution mandated
to hold elections and neither has nor is supposed to scrutinize and audit complex
statements of accounts furnished by political parties. A functional and symmetric
information state would go a step further and require of ECP to pass on the statements of
accounts furnished by political parties to FBR – specialized state arm for the purpose – to
take cognizance and correlate the donations made with financial capacity of the donors to
render such donations. Such an arrangement is in place in quite a few countries. In India,
for instance it is obligatory on political parties to file their annual income tax returns if
they wanted to avail exemption from taxes, and even then exemptions are limited to
income from property, interest and donations only.

Unfortunately, in Pakistan, not a single political party out of 357 registered with ECP
filed its tax return for T/Y 2013. A similar conclusion could be drawn for all years since

59 CRCP, 7.
1947. During the budgetary exercise F/Y 2013-14, a serious effort was made by FBR to have inserted section 51A into the ITO, 2001.62 FBR approached ECP for comments and concurrence.63 However, ECP chose not to take a position on the matter even after a long-drawn correspondence. Informally, it was communicated that such a change in legal regime would be tantamount to undermining ECP’s exclusive authority and control over country’s political system; hence, was not supported. Likewise, Finance Minister, Ishaq Dar, shot down the particular proposal during his very first meeting he took on FBR’s budgetary proposals.

The National Database and Registration Authority Ordinance, 2000

The successful bloodless coup d’état of October 12, 1999, by General Pervez Musharraf, brought realization to military elites – though in an unarticulated and ambiguous manner – that real underlying problem with state governance in both extractive and coercive functions was acute levels of informational deficiency. Military-led technocratic dispensation in Islamabad, immediately took to making up these deficiencies through two declared policy choices. Firstly, it conceived and established the National Database and Registration Authority (NADRA) - apex National Information Aggregator (NIA) – through the NADRA Ordinance, 2000. Secondly, it launched an ambitious national tax

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62 The proposed section 51A ("Political Parties") read as follows: - "Any income a political which is chargeable under clause (c) of subsection (1) of section 39 of the Ordinance, or by way of voluntary contributions received by a political party from its members shall be exempt from tax under the Ordinance. Provided that (a) Such political party keeps and maintains such books of account and other documents as would enable the Commissioner to properly deduce its income therefrom; (b) In respect of each such voluntary contribution in excess of twenty-five thousand rupees, such political party keeps and maintains a record of such contributions and the name and address of the person who has made such contribution; and (c) The accounts of such political party are audited by a qualified chartered accountant. Provided further that if political party fails to submit a report under section 13 of the Political Parties Ordinance, 2001, for a tax year, no exemption under this section shall be available for that political party for such tax year. Explanation: For the purposes of this section, "political party" means an association or body of individual citizens of Pakistan registered with the Election Commission of Pakistan as a Political party under the Political Parties Order, 2002."

survey with stated objective of creating a reliable and authentic database of national wealth and its possessors. To backstop and gainfully operationalize second initiative, military elite-led technocracy also went on to appoint Task Force on Tax Reforms and Administration (TFTRA), and tasked it, inter alia, to “Review systems and processes, particularly for the management of information as a key ingredient in improving the effectiveness of the tax machinery.” The underlying twin-objective was also to appease IFIs, who were getting more and more jittery and stringent on terms and conditions of international extraction, and compelling business elite and industrial elite into cooperation and, if necessary, cooption.

Initially, NADRA augured to be an entity with requisite potential to graduate into a workable NIA, and trigger corresponding change in economico-administrative management and milieu of the country. Soon, however, implantation of secrecy provision inside the NADRA Ordinance, 2000, diluted the very force and impact of the initiative and rendered it merely yet another department to be headed by yet another generalist protecting elitist interests. Section 29 of the NADRA Ordinance, 2000, envisaged that any person found guilty of breach of security and secrecy protocol of NADRA information ware-house “shall be punished with rigorous imprisonment for a term which may extend to fourteen years, or with fine commensurate with the nature of offense and harm, if any, caused to a particular registration or, database system as aforesaid by such contravention, but in any case not less than one million rupees, or with both.” This will not be out of place to mention that fourteen years is the maximum punishment under Pakistan’s legal framework and is awardable in capital offenses like murder etc.

The other initiative of military-elite dispensation met even worse fate. Army officers duly assisted by CBR personnel were cordoned off, took hostage by shopkeepers and harassed inside markets in many major cities. Resultantly, national tax survey was abandoned, and information collected till then was dumped inside cellars of tax offices all over the country never to be accessed or used, or mentioned subsequently. Similarly, the new tax system envisioned to be based on voluntary compliance with a sufficient deterrence to be erected by tax department through profiling and warehousing of all economic information about taxpayers pouring into its back-end database automatically and independently evaporated into thin air rather early. While establishment of NADRA was an effort to arrest supply-side of informational deficiency, reconditioning of tax system was geared to enhancing demand side efficiencies of informational utilization. The implantation of mutually repulsive secrecy provisions inside both the NADRA Ordinance, 2000, and the ITO, 2001, actually did the elitist trick. Secrecy iron-curtains were leveraged by generalists heading both institutions to create strategic space to promote their personal and elitist group agendas.\textsuperscript{66}

The Representation of People Act, 1976

The Representation of People Act (RPA), 1976, was legislated to provide a political framework of a state that had till then a chequered history of political management and to inject some stability and vitality into its system. The Representation of People Act, 1976 (Rule 42A) stipulated that every member of the National Assembly shall “submit a statement of assets and liabilities of his own, his spouse and dependents annually to the

\textsuperscript{66} Ali Arshad Hakeem, a political appointee initially as Chairman, NADRA, and then as Chairman, FBR, publicly and repeatedly claimed to possess data of 3.7 million confirmed tax evaders without actually ever handing it over to FBR for extractive utilization.
Commission by the thirtieth day of September each year." Likewise, the Senate (Election) Act, 1975, through Section 25A rendered every Senator liable to submit to ECP in the prescribed form, an annual statement of assets and liabilities of his own, his spouse and dependents. Although, ECP is liable to publish such statement of assets and liabilities in Official Gazette and make them available to interested members of the public on payment of prescribed fee, and publicize the names of those members of National Assembly who did not file the statements, and even could suspend their membership if they failed to comply with the law, yet all these powers have till now produced on impact as the same have never been operationalized. The reasons for such a dismal performance may be that ECP is not a trained organization in analysis and reconciliation of incomes, assets and liabilities, and therefore unable to detect and flag any abnormal increases and decreases. Moreover, even if it were able to detect an abnormal accumulation of wealth – not commensurate with ostensible sources of the declarant – it had no legal instrumentalities in place to trigger an adequate legal action. On the other hand, declarations of assets and liabilities, returned by MNAs and Senators being legally confidential could not be shared by ECP with FBR – the state institution specialized and mandated to do the job. Thus, on this mutual information blockade between two key state institutions, Pakistani politicians have thrived as todate not a single MNA or Senator has been proceeded against on charges of furnishing of inaccurate particulars of his assets and liabilities or abnormal accumulation of wealth. Expectedly then, out of total members of National Assembly and Senate only 26% and 37%,

respectively, filed tax returns in respect of T/Y 2012.\textsuperscript{69} Even those that filed tax returns, their returns were never audited or properly scrutinized as audit has remained log-jammed in bitter legal conundrum for almost a decade. The general perception that Pakistani politicians do not pay tax extant both inside and outside Pakistan stands validated to a good extent.

The Anti-Money Laundering Act, 2010

In the modern day world, money-laundering is taken to be a very serious public offense and states tend to unleash their maximum recoil towards money-launderers with full thrust. Money laundering is defined as “Legitimization of illegally obtained money to hide its true nature or source (typically the drug trade or terrorist activities). Money laundering is effected by passing it surreptitiously through legitimate business channels by means of bank deposits, investments, or transfers from one place (or person) to another.” Since money-laundering can be used to finance terrorism and all kinds of other anti-state activities across the globe, there is a lot of focus on curbing money-laundering through any modes. Given the fact that money-laundering is a difficult phenomenon to capture, all states tend to mobilize all of the enforcement institutions towards curbing this menace. In Pakistan, the Anti-money Laundering Act (AMLA), 2010, was legislated under unbearable international pressure. However, finally when the AMLA, 2010, was delivered it carried elitist signatures all over it from, at least, a couple of important perspectives. Firstly, it carried a brute secrecy provision stonewalling entire stock of information to pile up inside Financial Monitoring

\textsuperscript{69} Umar Cheema, \textit{Representation without Taxation} (Islamabad: Centre for Investigative Reporting in Pakistan, 2011).
Unit (FMU) – the conceived nerve-centre of Pakistan’s anti-money laundering initiative.\textsuperscript{70} Secondly, through insertion of section 41 of the AMLA, 2010, entitled “fiscal offences” i.e. all tax offenses were ousted from the purview of the anti-money laundering regime – elite’s significant spoils.\textsuperscript{71}

The General Statistics (Reorganization) Act, 2011

Immediately after the creation of Pakistan, a Central Statistical Office (CSO) was established in 1950 by Prime Minister Liaquat Ali Khan, as an attached department under Economic Affairs Division. Afterwards, national statistical system underwent changes a few times upon appraisal by both local and foreign experts. Nonetheless, some institutional arrangement has always existed to cater to the supply side of national informetrics. The General Statistics Reorganization (GSR) Act, 2011, is currently the law which governs informetrics in Pakistan. Section 27 of the GSRA, 2011, upfront creates blind spots in Pakistan’s statistical regime, when it harangues “Nothing in this Act shall authorize the collection of statistics or of any information relating to any work of defence, arsenal, naval, military or air force establishment or any other defence factory, installation or establishment.” Likewise, section 28 (“Secrecy of Answers, Information and Returns”) with effortless poise secretizes all information gathered under the GSRA, 2011, and restricts its utilization precisely within its own precincts as any other “person not connected officially with” the information-collection process is barred from handling the information. Section 28(1)(b), in particular, bars divulgence of information collected under GSRA, 2011 “in a form which may disclose the state of affairs of any particular

\textsuperscript{70} “The Anti-Money Laundering Act,” (Pakistan: 2010).
\textsuperscript{71} It was not until FATF came down hard on Pakistan, put her on caution, and FMU approached FBR for consultations on inclusion of tax offenses as predicate offenses under the AMLA, 2010.
individual, firm or institution,” meaning thereby that state’s revenue function, which
deals with persons in their “individual” capacity, cannot, in any manner, benefit from it.
Moreover, section 29 permits disclosure only with “prior written consent of the person”
to whom such information pertains. Section 48 thereof prescribes imprisonment for up to
a six-month term and fine up to twenty-five thousand rupees for a person who “discloses
or knowingly causes to be disclosed or divulges directly or indirectly, any information
obtained under this Act to any person not entitled under this Act to receive the same.”
Such a silo approach on part of PBS is all set to have implications for extractive and
coercive state functions. Asif Bajwa, Chief Statistician of Pakistan, proudly claimed that
he had even refused pointblank to divulge information about Osama Bin Laden, to the
Abbotabad Commission constituted by Government of Pakistan in the aftermath of May
2, 2011-fiasco in which U.S. Commandos conducted a covert night-time operation by
entering Pakistani airspace and taking out Bin Laden hiding in Abbotabad.72

Parliament

Where does Pakistan stand in terms of brute secrecy shackling the key state institutions
and their functioning can be gauged from the fact that even the Parliament is denied
access to vital information not only about national security but also about other civil
matters. The Parliament has effectively been restrained from discussing and appraising
defense budget, and even the issues that are not related to combat capability of the forces.
“In popular perception, information is blocked less for reasons of security and national

72 Asif Bajwa, claimed this while giving a formal talk to Workshop on Data Management held in Serena
Islamabad on April 24, 2014.
interest and more to hide corruption, policy blunders and incompetence,”\textsuperscript{73} and to promote economic agenda of each interest group extant and operative in Pakistan.

Commission and Committee Reports

A dimension of secrecy ball-game in the elitist state is that reports of various committees and commissions constituted to investigate matters of national import are kept confidential and out of public access. “It is owing to the lack of public accountability and culture of secrecy that any disasters, national debacles and financial scams continue to remain shrouded in mystery.”\textsuperscript{74} It is perfectly understandable as to why these reports are kept confidential.”\textsuperscript{75} But propensity to keep things confidential has no upside. “It is astounding that even the reports of various committees and commissions on reforms in areas such as policing, education and corruption are treated as confidential, and therefore, inaccessible by citizens.”\textsuperscript{76} The elitist penchant to overly secretize state structures and its conduct has eventually led to a tremendous harm to building up state-society relations; citizenry appears to lose more and more faith in Commissions and Committees constituted to investigate and enquire into various national tragedies. For instance, the Judicial Commission constituted by Government of Punjab to enquire into May 12, 2014, incident that took place on Model Town, Lahore, Dr. Tahir-ul-Qadri, Chairman, PAT, refused to cooperate with Commission and present his party’s viewpoint on the issue expressing absolute mistrust in the initiative. “In the absence of formal-legal arrangements for access to information, a lot of time, energy and resources of media, concerned citizens and civil society organizations is wasted in obtaining access to

\textsuperscript{73} CRCP, 2.
\textsuperscript{74} An illustrative inventory of such debacles, incidents, and events has been provided earlier in the chapter.
\textsuperscript{75} CRCP, 2.
\textsuperscript{76} Ibid.
information through informal means and arrangements… There is no procedure available to know the manner in which the decisions were taken.‖

Non-Profit Organizations and Trusts

The regulatory regime of non-profit organizations (NPOs) in Pakistan is totally out of sync with reality and shrouded in secrecy. Non-profit organizations and trusts – conduits of substantial financial transactions – enjoy an infinite secrecy particularly since 2006, when Rule 214-217 of the Income Tax Rules, 2002, were amended to allow validity of approval under section 2(36) of the Income Tax Ordinance, 2001, by Commissioner, IRS, until revoked. This was significant gain on by part of sundry (NPOs) elite. The Report of the Committee for Study of Corruption, 1986, observed secrecy in government rules and regulations to be one of the underlying causes of corruption in Pakistan, and by way of Recommendation No. 14, suggested to “Reform the Government Secrecy Rules and Procedures,” as a means to overcome and eradicate corruption in Pakistan. Not only that nothing was done to eliminate secrecy from within the operating government rules and regulations, but also that secrecy continued to flourish in cadence with Pakistan’s history. In the aftermath of the terrorist attack on Army Public School in Peshawar on December 16, 2014, when the government exhibited its resolve to crackdown on terror financing, and started looking into accounts of various seminaries, it was noted that

77 Ibid.
“most of them did not comply with the rules to submit audited accounts and get renewal of their licenses (even) after a lapse of five years.”

(b) Secrecy in Fiscal Function

In preceding section, secrecy’s various dimensions and manifestations were explicated with reference to statecraft and governance in Pakistan. This section looks to explore confidentiality, its perverse operations, elitist machinations, and pull-back effect it exerts on state’s revenue function both in historical and current contexts.

The Income Tax Act, 1860

Seeds of secrecy were sown deep beneath foundations of the sub-continental tax system at the very time of its creation; nay, conception. In the aftermath of Mutiny of 1857, and consequent passage of the Government of India Act, 1858, by British Parliament, placing India directly under Crown displacing East India Company, when Prime Minister Lord Palmerston appointed James Wilson – founder of The Economist – as India’s first Finance Minister, Indian Government was faced with a staggering deficit of around £ 8 million for F/Y 1860. Wilson – later called father of Indian tax system – had not only to come up with a viable, stable, and palatable revenue system but also to deal with bureaucratic rivalries, political chicaneries, and the administrative machinery deeply couched in the Company ways. His prescription was the ITA, 1860, which involved massive background tussle and wheeling-dealing. While Sir Charles Trevelyan – Governor of Madras – wanted either no tax, or no tax in his province, or at least, an open public debate on various facets of the new tax system, Wilson wanted a universal, across the board income tax a la in Britain without any exemptions for any province or sector.

with its administration shifted from local to central revenue administration, and to top all
wanted no public discourse on the issue. 81

In the final analysis, the latter had his way, and continues to have it. “…Wilson extracted
a promise of secrecy from all members, that none would seek to publish dissenting views
through the Legislative Council or the press. This was confirmed via Government
telegram sent to all who were privy to the discussions.” 82 The argument that was
advanced for such a secrecy cloak was that “it would be highly injurious to the Queen's
service that these documents should at present be made public in any way.” 83 Trevelyan,
however, after months of private arguments ran out of patience, “broke ranks and went
public,” declaring “Wilson's income tax was wrongheaded in every respect; a desperate
“leap in the dark.” 84 Wilson retorted and dubbed it a “great Madras revolt.” 85 Walter
Bagehot, Wilson’s son-in-law and administrator of his intellectual estate, writing in The
Economist as “a loyal propagandist” lampooned Trevelyan for breach of secrecy code:
“Sir C. Trevelyan thinks there is danger in the course Mr. Wilson has taken. But is there
not greater danger in his own course? He has told the natives of Madras that new taxes
which are unjust and unnecessary are about to be levied upon them. He has used his
authority as local Governor to spread this doctrine. He has hinted that he expects the
natives will rebel. Who will be to blame if they do rebel? Surely the ruler who was
instructed with an authority over 30,000,000 of people, and who incited them to

81 C. L. Jenikens, "Legislative Comment - 1860: India's First Income Tax," British Tax Review XX, no. 87
(2012).
82 Ibid.
83 Ibid.
84 Ibid.
85 Ibid.
resistance.”86 It was, of course, sooner than later, Trevelyan lost his job signaling colonial Indian state’s preference for secrecy in its revenue function at the expense of openness. When the ITA, 1860, was eventually passed, its section 33 also prescribed an “oath of secrecy” on part of Revenue Officers, in favor of “those who submitted returns.”87

The Income Tax Act, 1922

The ITA, 1922, substantially drawing upon primordial secrecy culture, laid foundations for a secrecy regime that would look to erect an iron-curtain between state’s revenue function and the citizen; it appeared to have imperialistic overtones. It was stipulated as far back as 1928 that: “The assessee cannot be held to have any right to inspect his own assessment file either in person or through a representative.”88 During run-up to World War II, secrecy regime was re-accentuated into enforcement in 1942: “All correspondence and notes of discussions between the Income Tax Officer and his superior officers should be kept in a separate confidential file, which should in no case accompany the records either to the Appellate Assistant Commissioner or to the Tribunal.”89 Looks like that during the inter-war period, it was the executive itself that was optimizing on the statutory of section 54 thereof and constantly trying to expand and reinforce secrecy regime on state’s revenue function.

In 1961, Supreme Court of India, while interpreting section 54 of the ITA, 1922, held in Chandra Kunda vs. Gurpada Ghose, and validated that information produced by taxpayer or collected by department during a tax assessment proceedings, could not be produced in

During post-independence period, while all those structures which could in any manner be associated with or branded as emblems of “colonial legacy” were crumbling, secrecy in revenue function was not allowed to be watered down. Instead, CBR did not take long to refresh secrecy imbedded in pre-independence existing system and sought to reinforce and apply it to post-independence scenario. “The Board, therefore, directs that a separate file and a separate order-sheet should be maintained for entries of a confidential or departmental nature.”

It is interesting to note that during the inter-war period, the colonial state looked concerned with securing information from its citizens, and the pattern of intra-state, inter-institution secretization with which the state appears beset now, had not either been triggered or not taken strong roots, or even perhaps the colonial state institutions did not need to secretize themselves.

The Income Tax Ordinance, 1979

When the ITA, 1922, was replaced with the ITO, 1979, secrecy section 54 of former statute was reincarnated in section 150 of the latter legislation. Section 150 of the ITO, 1979, given the fact that it was being delivered by military elite-led dispensation duly under-grid by religious elite, carried a far wider scope of secrecy as compared to its predecessor provision i.e. section 54 of the ITA, 1922.

Section 150(1) of the Income Tax Ordinance, 1979, expressly harangued that “All particulars contained in (a) any statement made, return furnished or accounts or documents produced under the provisions of this Ordinance; or (b) any evidence given, or affidavit or deposition made, in the course of any proceedings; or (c) any record of any assessment proceedings or any proceedings relating to the recovery of a demand, shall be

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treated as confidential, and no public servant shall, save as provided in this Ordinance, shall disclose any such particulars.”92 Through subsection (2) thereof it was further ordained that notwithstanding anything to the contrary in any other law, “no court or other authority shall . . . be entitled to require any public servant to produce before it any return, accounts or documents contained in, or forming a part of, the records relating to any proceedings under this Ordinance, or any records of the Income Tax Department generally . . . or to give evidence before it in respect thereof.”93 The tax department did have the powers to call for certain information under section 144 of the ITO, 1979, but those powers were very restrictive, subject to internal approvals, and sans substantial coercive powers to carry out information-seeking notices, and got rendered stingless with passage of time.94 Slowly Elites Ltd kept on making gains as secrecy continued to pervade both horizontally and vertically into state’s other functions.

The Income Tax Ordinance, 2001

Although preparation and promulgation of the ITO, 2001, was sponsored by military elite on behalf of IFIs, yet the law, in its method of dealing with secrecy, ran counter to international trends. Section 216 (1) of the ITO, 2001, unequivocally stipulated that all particulars contained in any statement made, return furnished, or accounts or documents produced; or any evidence given, or affidavit or disposition made, in the course of any proceedings under the Ordinance (except in cases of Prosecutions); and any record of any assessment proceedings or any proceedings relating to recovery of a tax demand, were to be kept confidential – save as situations in which the aforementioned information could be disclosed. Section 50(4) of the STA, 1990, likewise commanded that all “business information gathered”

93 Ibid.
94 Ibid.
“shall be confidential to be used only for official and legal purposes and (that) no unauthorized person shall claim for any access to such information.” 95 This way confidentiality cover was extended to two major inland taxes i.e. Income Tax and Sales Tax, comprehensively.

Section 216(3) of the ITO, 2001, listed down exceptions under which tax information obtained could be disclosed. Such exceptions included: (i) departmental officers entrusted with execution of the ITO, 2001; (ii) persons appointed in IRS’s IT arm (PRAL); (iii) scenarios occasioned by lawful employment of any process for service of any tax notice; (iv) Auditor General of Pakistan officers while conducting statutory audit of IRS’s revenue operations; (v) Auditor General of Pakistan while conducting audit of tax receipts or refunds; (vi) any federal or provincial government officers entrusted with the task of levying and realizing any tax imposed by a government and a concomitant exchange of tax information between various tiers of governance; (vii) inter-tax exchange of information at federal government level (i.e. between Pakistan-IRS and Pakistan Customs Service; (viii) lawful proceedings to make up short-fall of tax paid under the Stamp Act, 1899; (ix) State (Central) Bank of Pakistan (SBP) to enable it to compile various data and statistics; (x) Pakistan Customs Service and SBP officers entrusted with implementation of the Foreign Exchange Regulation Act, 1947; (xi) Securities & Exchange Commission of Pakistan (SECP) and the Competition Commission of Pakistan for purposes of administration of specified laws; (xii) inquiry into charge of misconduct against a legal practitioner or an accountant engaged in tax practice; (xiii) any civil court proceedings against federal government/tax administration; (xiv) any prosecution proceedings in a civil court for an offense under the ITO, 2001, or any (allied) offense under the Pakistan Penal Code, 1860; (xv) any inquiry against departmental officers

emanating from their conduct when exercising their powers under the ITO, 2001; (xvi) any inquiry against a public servant when his financial matters might be called into question; (xvii) an authorized ADTA partner; and (xviii) Federal Tax Ombudsman.

Similarly, section 216(4) supra averred that nothing contained in this section shall apply to the production of any document, declaration, or affidavit filed or the giving of evidence by a public servant before a court of law. Section 216(5) thereof, however, posited that the principle of confidentiality as enshrined in sub-section (1) would not debar FBR from publishing, with prior approval of Federal Government, any tax information in its control. Likewise, section 216(6) ibid empowered FBR to publish “particulars of the amount of tax paid” by holders of a public office. Section 216(7) laid down an important principle that any recipient (or his employee) of tax information under aforementioned exclusions shall be, in respect of that information, subject to same rights, privileges, obligations, and liabilities as if the person were a public servant and all the provisions of the ITO, 2001, so far as may be, shall apply accordingly.96

The Banking Companies Ordinance, 1962

Of all kinds of secrecy, banking secrecy is perhaps the most perverse, pervasive and sought-after secrecy in Pakistan. In 1973, when banks were mandated to withhold tax on profit paid to account-holders, they exerted pressure on the polity and got the requirement waived off vide Circular No. 13 of 1991, which categorically stated that “The banks shall not be required to disclose the accounts and names of recipients of interest or profit.”97

This must reckon as one of most important and initial administratively doled-out specific

waivers from declaratory legal provisions across the board – without legislature’s sanction. In 2003, MOFA, FBR, and SBP, in a rare act of collaboration, decided to make inroads into banking sector’s brute secrecy empire. MOFA and FBR prevailed upon SBP – omnipotent regulator of banking sector – to issue Instructional Circular advising banks to divulge information to FBR about account holders on whose accounts profit had been paid, and consequently tax had been deducted. SBP issued Circular No. 22 dated June 30, 2003, stating “… that banks/DFIs are required to report the profit/return paid to their clients to CBR. SBP, therefore, in exercise of powers conferred to it under Banking Companies Ordinance, 1962, directs all banks/DFIs to provide information to CBR on biannual basis, with immediate effect, in respect of those accounts where bank/DFI pays any profit/return in excess of Rs. 10,000/- per annum in an account or on deposit maintained with the bank/DFI.”

The information that was sought to flow from banks/DFIs to the state’s revenue function pertained to name of account-holder, his address, CNIC/NTN number, and total amount of profit/return paid. In spite of the fact that the Circular clearly stipulated that “information provided by the banks/DFIs under the above arrangement shall be absolute and final,” and that “FBR will not ask for any further information from banks/DFIs, directly or indirectly,” it was expected and apparent right from outset that implementation of Circular would face resistance.

98 Ministry of Finance's letter No.D.O.No.DY.2783/S/FS/2003, dated June 28, 2003, duly signed by Finance Secretary, Nawid Ahsan, and addressed to Tawfiq A. Husain, Deputy Governor, SBP, was issued after intense and lengthy consultatntions with FBR, carried the well thought-out and considered parameters for SBP's Circular which was to be "issued by the State Bank keeping in view the deadline of 30th June, 2003."


100 Ibid.
M.D. Tahir vs. Director, SBP

One M. D. Tahir challenged SBP’s Circular No. 22 of 2003, in the LHC arguing that SBP had no powers to issue such instructions under the BCO, 1962, directing its regulatees to divulge client information to FBR, which was supposed to be confidential under section 33A supra, and various other legal and constitutional provisions. The LHC graciously struck down the Circular vide its judgment dated March 9, 2004 stating that account-holders’ particulars could not be splayed before “preying eyes of the revenue authorities without any criminal wrongdoing,” and that SBP’s instructions were broadly violative of Article 4, 9, 14, and 25 of the Constitution of Pakistan. This must go down as the single most brutal blow by judicial elite towards perpetuating economic status quo by extending legitimization to banking secrecy of awkward proportions.

On the advice of Ministry of Finance, SBP filed ICA No. 150/2004 in the LHC seeking to have the judgment set aside. LHC through its Order dated May 26, 2005, averred that “argument of the learned appellant counsel that the Circular No. 22 had been issued by the State Bank (appellant) in the public interest to help the C.B.R. in obtaining data and information which would be helpful in collection of national revenue viewed in legal aspect has no force as under section 41(1)(a) of the Banking Companies Ordinance, 1962, State Bank has no authority to issue any directions to the Banking Companies which would aim at helping another institution in collection of revenue,” and that “it is manifestly clear that the aims of Circular No. 22 militate against the aims, objects and purview of the Banking Companies Ordinance, 1962,” to dismiss the ICA “in limine.” This was one most brutal blow to any prospects of any semblance of economic information aggregation taking place in the polity. SBP informed Finance Secretary that
“SBP’s Legal Counsel in the instant case has informed that a remedy by way of petition for leave to appeal is available in the Supreme Court of Pakistan within a period of 60 days. We have, however, consulted with our Chief Legal Advisor Justice (R) Mamoon Qazi who is of the view that this is not a good case to be taken to the Supreme Court.”\textsuperscript{101}

FBR promptly sensitized Ministry of Finance of the LHC Judgment stating:

Section 165 of the Income Tax Ordinance 2001 (XLIX of 2001) stipulates that the banks/financial institutions deducting withholding tax from profit on debt from account/deposits maintained, shall furnish to the Commissioner of Income Tax annual/biannual/quarterly statements on the formats prescribed under the Income Tax Rules 53 to 55. The Banks have been complying with these legal provisions in past by submitting relevant information to the income tax authorities. The directions issued by the State Bank of Pakistan to the Banks/DFIs through BPD Circular No. 22 dated 30.6.2003 were, therefore, in conformity with Income Tax Law. Accordingly, the decision of the honorable Lahore High Court, setting aside the operation of Circular No. 22 may impede the implementation of above mentioned provisions of the Income Tax Ordinance.\textsuperscript{102}

Governor, SBP, vide his D.O. letter addressed to Chairman, FBR, after summarizing SBP’s own efforts to have Circular No. 22 withstand the judicial onslaught geared at eliminating it, suggested that “CBR has legal powers under Section165 of the Income Tax Ordinance, 2001, read with Section 151(1)(b), to seek such information from bank/DFIs,”\textsuperscript{103} and therefore, “chances for CBR’s authority to call for this information from the bank, being upheld by the Honorable Court, appears to be relatively better,” and informed that “Since SBP is not inclined to file an appeal against the Order of the LHC in

\textsuperscript{101}SBP, (Letter No.Bpd(Pu-35)/682-Cbr/6282) -July 4, 2005.
\textsuperscript{102}CBR, (O.M.No.3(23)It-J/05) -July 12, 2005.
the Supreme Court (within the stipulated time period i.e. upto 17th August, 2005), CBR may like to consider filing an appeal against the order of the Lahore High Court.”

In pursuance to SBP’s prompt, FBR wrote to Ministry of Law & Justice, indicating that since SBP was no more inclined to carry on FBR’s battle, and had instead suggested to FBR to “look into the possibility of filing of an appeal against the Order of the Lahore High Court,” and seeking their advice as to “whether it would be advisable to file an appeal by the Board before Supreme Court especially when the decision of the Lahore High Court is against the competence of State Bank to issue the impugned Circular and the Board was only a proforma party in the proceedings before the High Court.”

Ministry of Law and Justice wrote back to FBR advising that since SBP – “the issuing authority has accepted the version of the court by not intending to agitate the aforesaid order before the Supreme Court, therefore, in such like conditions no cogent and valid ground is available to the Central Board of Revenue for filing CPLA in the Supreme Court against the aforesaid impugned order.” Accordingly, CBR promptly informed SBP that the “matter was referred to Law Division which has advised that an appeal by the CBR would not be sustainable. Hence CBR does not intend to file appeal against the impugned order.” Consequently, SBP informed Ministry of Finance “that State Bank of Pakistan would not pursue the case further and has decided to close the matter.”

Circular No. 09 of 2011

Through Finance Act, 2011, amendments were introduced in section 165 of the ITO, 2001, whereby, in addition to the pre-existing requirements of particulars of taxpayers

104 Ibid.
107 CBR, (Letter C.No.3(23)It-Jud/05) - August 12, 2005.
whose tax was withheld by various withholding agents including banks, recording and reporting of information pertaining to a withholdee taxpayer’s CNIC and NTN, in monthly Withholding Statements, was rendered mandatory. The amendment in law had no impact on the ground, and the banking sector continued to defy the statutory provisions. FBR, vide Circular No. 09 of 2011, made another attempt to extract that all-important information from the banks regarding the entire stock of remunerative money supply lying in formal banking sector. The Circular, inter alia, stated: -

Therefore, the withholding agents including banks and Financial Institutions, hereinafter, will accordingly be required to disclose the information stipulated in sub-Para IV & V of Para 2 above (i.e. CNIC & NTN of the recipient of interest incomes) in the Monthly Withholding Tax Statements (and through the challan of payment at the time of deposit of tax deducted from payment of profit on debt) mandated to be furnished under Section 160 and 165 of the Income Tax Ordinance, 2001. Where tax is not deducted as required under the Income Tax Ordinance, 2001, it is also obligatory to provide similar details and the basis of non-deduction of tax.\(^{109}\)

Pakistan Banks Association (PBA) moved in rather rapidly as the banking industry’s avant-garde. A flurry of meetings held between FBR and PBA during closing months of 2011, could not help resolve the issue as latter would not budge an inch to let go of banking secrecy which it had got used to operate and thrive under, and was not ready to face a world which it found hostile sans a thick secrecy cover. When FBR field formations took to implementing the Circular, it was readily challenged in the court of law and its operation was got suspended. The status quo continues to-date.

Section 165A of the Income Tax Ordinance, 2001

Through Finance Act, 2013, a new provision i.e. section 165A was inserted in the Income Tax Ordinance, 2001. This provision – primarily aimed at thinning out secrecy regime as applicable in Pakistan and establishing unequivocal supremacy of the fiscal laws – overrode the BCO, 1962, the PERA, 1992, the FERA, 1947, and regulations made under the SBP Act, 1956, or any other law for the time being in force. It enjoined on every banking company to provide to FBR (a) online access to its central database containing details of its account holders and all transactions made in their accounts; (b) a list containing particulars of deposits aggregating rupees one million or more made during the preceding calendar month; (c) a list of payments made by any person against bills raised in respect of a credit card issued to that person, aggregating to rupees one hundred thousand or more during the preceding calendar month; (d) a consolidated list of loans written off exceeding rupees one million during a calendar year; and (e) a copy of each currency transactions report and suspicious transactions report generated and submitted by it to FMU under the AMLA, 2010. The provision also effectively indemnified the banking companies and their officers against any civil, criminal or disciplinary proceedings for furnishing information required to be submitted under the tax laws.

Although, insertion of subsection (4) in section 165A of the ITO, 2001, to re-accentuate the point that “all information received … shall be … kept confidential,” militated against information aggregation and its utilization by other state institutions, yet it was quite a powerful provision and potentially capable of strengthening the state’s extractive system. However, Pakistan’s banking juggernaut put its act together, invoked Article 199 of the Constitution, filed writ petition in LHC – and got the provision’s operation suspended.
Section 111 (4) of the Income Tax Ordinance, 2001

A normal functional state always reserves its right to probe into the sources of funds being invested or expended into its formal economy. This is important to ensure that incomes that do not get taxed at generation stage do undergo axe of taxation at disposal stage. Against such a theoretically well-established position section 111(4) is quite an aberration. What this particular provision does is that it stonewalls from probe by revenue function “any amount of foreign exchange remitted from outside Pakistan through normal banking channels that is encashed into rupees by a scheduled bank and a certificate from such bank is produced to that effect.” 110 The reasons for such a bizarre provision on the main tax statute of the state are understandable i.e. incentivization of foreign remittances. However, the reality is that this incentive provision has opened up a huge aperture for tax evasion as massive amounts of tax evaded incomes earned in Pakistan get re-routed and interjected back into the formal economy free of any tax charge. Thus, this curb on tax machinery to probe and lay bare sources of all dubious funds has erected a strong secrecy wall in between tax administration and Elites Ltd members – its primary beneficiaries.

There were ludicrous times of intra-organization informational bars being operative within revenue function. For instance, the STA, 1990, and the ITO, 1979, carried mutually repulsive provisions creating an out-right restriction on use of information provided under one tax for purposes of the other. TRC was to argue “that there is a need to for constant linkage between the direct and indirect tax departments through computer operations. This would enable the Income Tax Department to make use of the computer

110 “The Income Tax Ordinance.”
based data provided by the Customs, Central Excise or Sales Tax Department for determining the potential income of the importers, exporters or manufacturers of excisable or sales taxable commodities." It took polity almost a couple of decades to dismantle intra-institutional secrecy wall i.e. between sales tax, income tax, and federal excise. It was done by raising IRS empowered to manage all three taxes at one desk. Nevertheless, secrecy between the PCA, 1969, and Inland Revenue laws continues to frustrate all isolated efforts at optimizing information submitted by a taxpayer to same organization under different taxing statutes.

(iii) Information Utilization - Game of the Rules

In this part operational manacles through which Elites Ltd ensures that whatever amount of information gets generated is either not utilized or it is sub-optimally utilized, will be explained. The generalist lackeys already heading all critically important institutions of state are there to carry out the elitist biddings. The duo applies various ploys to ensure that information that is generated in bits and pieces across national economic landscape is not utilized maximally by the semblance of state institutionalism. For this purpose, an array of options is available to Elites Ltd to play a game of the rules to accentuate and heighten the impact of secrecy shackles, some of which are explicated here.

Selective application of rules

In a scenario of prevailing overarching secrecy, elites-generalist duo gets arbitrary powers to manipulate information to their benefit by relaxing or favorably interpreting the rules. Discretion is the key to selective application of rules. In 2012, Riaz Malik, proprietor of Bahria Town – a real estate tycoon – went public to level charges against

Arsalan Iftikhar, son of Iftikhar Muhammad Chaudhry, Chief Justice of Pakistan, of monetarily fleecing him on false promises of getting him undue favors from courts. After much debate and media hype, SC constituted one-man Inquiry Commission comprising Dr. Muhammad Shuaib Suddle, FTO. It was generally believed that PPP-led coalition government was clandestinely supporting Riaz Malik with a view to settling scores with judiciary, which perceivably carried an anti-PPP bias. NAB requisitioned from FBR “details of tax returns/rebates/tax waivers/issuance of any SRO in respect of Arsalan Iftikhar Chaudhry,” under section 19 and 27 of NABO, 1999. FBR, in turn, informed NAB that “in view of the restrictions imposed through section 3 and 216 of the Income Tax Ordinance, 2001, attested copy/details of income tax returns cannot be disclosed.” NAB did not agree and wrote back to FBR that since the NAB Ordinance, 1999, being later in time, overrode the ITO, 2001, FBR was duty-bound to provide the required information. FBR, referred the matter to Law and Justice Division for opinion, which came up with a non-committal and vague response stating “that till such time all facts and particulars of the case are provided, the Law and Justice Division is unable to render a considered opinion as to whether information may be disclosed.”

The politically-appointed Chairman, FBR, Ali Arshad Hakeem, out of his desire to lend a helping hand to the Government towards bullying and cornering judiciary within the then existing power dynamics, instead of supplying Law and Justice Division the requested information enabling them to firm up their position on the matter, chose to seek opinion from FBR’s own Legal Advisor. After straddling on abstractions in an effort to find some semblance of an argument, finally stated that “the Quaranic injunction in Surah Maarij

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Ayat No. 33 enjoins upon us, neither to suppress evidence nor to change its nature for the proper dispensation of justice,” and that “it is only through justice that the society can prosper and uphold principles of egalitarianism,” and held that the provisions of the ITO, 2001, being subservient to the Constitution could not be resorted to, “to refuse the information being sought by the NAB in Dr. Arslan’s case.” Hakeem, hastily decided on August 8, 2012, that “In view of Para 25/n, we may go with the advice rendered by the Legal Advisor, FBR,” and without any further delay all the required information was supplied to NAB, and by extension, to Suddle Commission. In a stark contrast, and in an almost identical situation, in 2012, in response to Senate Privilege Motion No.02(81)/2012 moved by Senator Muhammad Zahid Khan, ANP, again in case of Riaz Malik’s Bahria Town, FBR vide U.O.No.7(27)IRG/2011, dated April 9, 2012, refused to oblige Senate by citing clause (xv) of Rule 47 of Rules of Procedure and Conduct of Business, 1988, which debarred asking any question in senate “… in relation to any matter in respect of which there is a constitutional or statutory obligation not to disclose information.” The Senate did not protest when FBR’s plain refusal was communicated.

Flagrant exercise of secrecy took a raw turn when Center for Peace and Development Initiatives (CPDI) approached the NA Secretariat under provision of section 12 of the FIO, 2002, seeking attendance record of MNAs for 2011 and 2012. The secretariat declined to provide requested information within the stipulated time-frame of 21 days. The CPDI filed an appeal before Federal Ombudsman, who asked the NA secretariat to justify the denial of information. The secretariat came up with the response that requested
information was not covered in the FIO, 2002.\textsuperscript{113} The secretariat’s response was contested on the grounds that the FIO, 2002, laid emphasis on transparency and that the secretariat had misinterpreted the law in that MNAs were public representatives being paid from public exchequer and therefore, citizenry had an inherent right to access information about their parliamentary presence and performance and question it. The Ombudsman, however, arguing that the requested information involved “personal privacy of the individual and is therefore exempted under section 17 of the Ordinance,” dismissed the appeal.\textsuperscript{114} “Personal privacy” appears to have its intellectual roots in the “Veil and Walls” doctrine promoted by religious elite and sponsored by Elites Ltd.

In another identical instance the elites-generalist duo successfully managed fall-out of an investigation by Pakistan Council for Research on Water Resources (PCRWR) on Bottled Water, proving that 51 per cent of all bottled water in Pakistan was not fit for drinking purposes, and that 70 percent of water filters were substandard, and did not let the names of faulty brands be known to the public. Access to the draft law on clean water was also tactfully denied.\textsuperscript{115} In a similar fashion, the tribunal trying Dr. Shakil Afridi – the notorious actor of OBL drama – was consistently denied access to critically important records that could help it decide an otherwise highly infirm prosecution case.\textsuperscript{116}

\textit{Perishability of Tax Information}

In Pakistan, the elites-generalist juggernaut has been pushy, relentless and creative in contriving more and more innovative informational blockades to optimize on their

\textsuperscript{113} Umar Cheema, "Ombudsman Rejects Appeal to Provide Data on M.N.As Attendance," \textit{The News}, September 6 2013.
\textsuperscript{114} Ibid.
\textsuperscript{115} CRCP, 3.
agendas. While on the one hand, duo has also successfully and constantly exerted pressure on the polity structures for more and more relaxation built-ins inside both tax policy and enforcement regimes, on the other, it successfully and effectively shrank dimensions of revenue functions’ bounded rationality. The underlying premise is that putting a time limitation in terms of number of years with tax administration to go after tax-dodger would incentivize a neutral taxpayer to indulge in under-filing and even non-filing and vice versa. It is true that most tax systems place an estoppel on probe by tax systems into incomes that escaped taxation, or into sources of investments made, assets acquired or expenditures incurred, but that is in the case of filers (including under-filers) and compliant taxpayers, and not in case of criminals (that is, non-filers) who take the state for a ride, violate its laws, and engage themselves in tax evasion. A historical account of the time allowed to revenue function to deal with under-filers and non-filers would lend credence to the proposition.

(a) Non-filers

The ITA, 1922, enshrined no restrictive time limitation for the tax administration to go after both non-filers and under-filers. However, when the ITO, 1979, was promulgated to replace the ITA, 1922, it stipulated no time limitation for non-filers but fixed a time period of ten years for under-filers. Sundry (Judicial) elite moved in to trigger a change suggesting non-filers could not be kept on tenter-hooks till infinity, and that there should be a bar beyond which tax service should not go after and question them. Military elite-led dispensation took to lock horns with other elite groups, when by way of an “Explanation” to section 56 it was added that “For the removal of doubt it is declared that a notice under this section may be issued in respect of any assessment year including the
current assessment year and any preceding assessment year.”\textsuperscript{117} Soon, however, quid pro quo appears to have matured, as the very next year the “Explanation” was replaced with a proviso thereof stating that “Provided that no notice under this section shall be issued after the expiration of five years from the end of the assessment year for which the return of income was due.”\textsuperscript{118}

(b) Under-filers

In the case of under-filers, section 65(3) of the ITO, 1979, stipulated a time limitation of ten years. However, subsequently a proviso was added to section 65(3) to reduce limitation from ten to five years,\textsuperscript{119} but simultaneously, however, an effort was also made, by adding proviso to section 13(3) of the ITO, 1979, to delink reopening of assessment for purposes of taxation of any assets concealed, investment made, or expenditure incurred by including it “in the total income of the income year relevant to assessment year in which the said recovery is made.”\textsuperscript{120} The ITO, 2001, likewise conveniently adopted the limitations of five years for both non-filers and under-filers and the enabling provision to tax an asset concealed, investment made, or expenditure incurred by including it in the tax-evader’s income for the tax year in which detection had been made, was also omitted. These were significant gains made by Elites Ltd rather imperceptibly – never brought into public policy domain and deliberated upon from various perspectives. Elitist state incentivizes tax evasion by creating an informational asymmetry between the utility-maximizing citizen and the revenue function left to fend for itself. Bastiat has so very pertinently remarked that “When plunder becomes a way of

\textsuperscript{117} “The Finance Ordinance,” (Pakistan: 2000).
\textsuperscript{118} “The Finance Ordinance,” (Pakistan: 2001).
\textsuperscript{120} Ibid.
life for a group of men living together in society, they create for themselves, in course of time, a legal system that authorizes it and a moral code that glorifies it.”121 This is precisely what appears to have happened in Pakistan.

Section VI
Exchange of Information and International Connections

The patterns of informational control in elitist state runs counter to the dominant international trend which is to allow to its extractive and coercive functions an unfettered access to information held by its various organs, departments, and public and private entities – subject, of course, to minimal privacy rights. For good or bad, the developed world is in a constant struggle to reengineer the developing world socially, economically and politico-administratively. While MNCs are agents of economic reengineering, INGOs are effective social reengineering agents. Then the whole gamut of international frameworks – agreements, protocols, conventions – conceived and laid out by the developed world, which though voluntary in nature become pretty much compulsive as their non-signing and non-joining involves reputational and economic costs including sanctions of various types and intensities – do carry a potential to cataclysmically reengineer various facets of entire politico-administrative apparatus of a given state.

With privacy in the personal realm being never in dispute, at least, in the west, the world started to realize towards the last quarter of 20th century that in the interest of stability of international economic systems, progression of human civilization, and good governance across the globe, privacy in the economic realm had to be watered down with its parameters redefined. Economic secrecy – cornerstone of which, in fact, is banking secrecy – is a historico-legal concept under which banks in various jurisdictions were not

permitted to pass on information concerning their clients’ accounts and deposits to government functionaries and private persons unless, for instance, a criminal charge had been prima facie established or filed. The *Swiss Banking Act, 1934*, which led to introduction of notorious Swiss bank numbered accounts system, is considered to be the genesis of bank secrecy, which soon became to be known as main feature of private banking – not only in Swiss-styled tax havens but all over the world.

The United States’ Bank Secrecy Act (BSA), 1970, was the first sign of resistance on the part of state to recoup its lost territory to banking industry shrouded in confidentiality. The BSA, 1970, inter alia, required of banking industry to help the state’s extractive function move towards detecting tax evasion and money laundering, and sundry criminal activities. In the wake of most developed countries going into unsustainable fiscal deficits caused by ever-expanding public expenditure bill and stagnant revenue base, ever-increasing number of high profile tax fraud cases involving offshore jurisdictions, and newly emerged phenomena of money laundering and organized crime, compelled the developed countries gather under OECD umbrella and try to find a solution. The OECD responded by developing a standard on exchange of information at the international level.

The international standard prescribed exchange amongst states of all information (a) that is relevant to enforcement of domestic tax laws; (b) that is relevant to enforcement of provisions of international conventions; (c) that concerns implementation of domestic taxes of every kind; (d) that is even remotely relevant for aforementioned purposes; (d) sans domestic-interest pre-condition; (e) without application of dual-criminality doctrine,

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122 The BSA, 1970, specifically rendered financial institutions liable to (a) maintain records of cash purchases of negotiable instruments; (b) file reports of cash transactions exceeding US $ 10,000; and (c) submit reports to authorities of suspicious transactions that might signify money laundering.
and subject to the conditions that information so exchanged will be used only for purposes it has been exchanged, and for other purposes if laws of both states permitted as well as to privacy rights of the persons involved. The standard, in turn, draws upon latest applicable versions of OECD Model Tax Information Exchange Agreement (TIEA), Multilateral Convention on Mutual Administrative Assistance in Tax Matters\textsuperscript{123}, and article 26 of OECD Model Double Taxation Convention (DTC). The OECD has also established Global Forum on Transparency and Exchange of Information with membership in excess of 12 states and jurisdictions.\textsuperscript{124} Pakistan being member of Asia Pacific Group (APG) is also struggling to keep compliance with FATF recommendations – a body created, inter alia, to implement UN Security Council Resolution No. 1617 (2005), and UN General Assembly Resolution No. 60/288 (2006).

In the meantime, U.S. Congress ended up legislating the Foreign Account Compliance Act (FATCA), 2010, mandating financial institutions of all jurisdictions to adopt stipulated due diligence procedures, and report to U.S. IRS bank accounts and financial assets held by U.S. persons, failing which such financial institutions were to be liable to punitive withholding rate of 30 per cent on all U.S.-sourced incomes. Toeing the U.S. line, the OECD stepped up efforts to develop and launch a new international standard on Automatic Exchange of Information (AEOI) commonly called the Common Reporting Standard (CRS). A consensus appears to be fast emerging on the horizon as more and more countries lend legitimacy to the CRS and by committing to commence its implementation at the earliest. The objective of the CRS is to streamline international

\textsuperscript{123} The Multilateral Convention on Mutual Administrative Assistance in Tax Matters has currently over 70 members. Pakistan applied to become signatory to the Convention in December, 2013.

\textsuperscript{124} Pakistan joined Global Forum as its 111th member in January, 2013.
exchange of bank/financial information on automatic basis. In view of these initiatives, economic secrecy is likely to become relic of the past in near future. Per se, all of the initiatives are voluntary in nature, but the mere fact that world has scrambled towards signing and legitimizing them, countries not following the suit will be left out and finally isolated – even running a risk of having sanctions being slapped against them.

Although, Pakistan has joined Global Forum as its 111th member, and applied for becoming signatory to Multilateral Convention, and its financial institutions have become FATCA compliant in an abortive manner, the legal infrastructure that is required to fully become compliant to these international frameworks as explicated in earlier sections, is not there: domestic demand and existence of secrecy is coming into collusion with international demands for dismantling it. It is likely that if political will is not mustered and exhibited to move in step with international drift of events, polity will go into strains, and like always when the pressure will become unbearable, the duo will make abortive patchwork to be compliant with international demands so to keep international extraction going and also keeping apertures for Elites Ltd’s maximization of perverse gains.

Section VII
Elitization of “Right to Information”

At the international level, a lot of work has been done in the post-World War-II period – mostly under the UN framework, which primarily deals with establishing citizens’ right to access to government-owned, corporation-owned and other information. The citizens’ right to freedom of information was duly been recognized in the UDHR, 1948. Article 19 of the UDHR, 1948, stipulates everyone’s “right to freedom of opinion and expression” including “freedom to hold opinions without interference and to seek, receive and impart
information and ideas through any media and regardless of frontiers.”¹²⁵ Building on the UDHR, 1948 principle, CCPR, 1978, mandated each state to recognize the right of citizens to receive information.”¹²⁶ In the same vein, the Consumer International (CI) provided eight rights, interalia, the right to information. These rights were later recognized in the UN reiterating that consumers have the “right to be given the facts needed to make an informed choice or decision,” and that “Consumers must be provided with adequate information enabling them to act wisely and responsibly.”¹²⁷ Since Pakistan is signatory to both UDHR and CCPR and, therefore, “is under obligation to ensure citizens’ right to freedom of information.”¹²⁸ It has also been argued that “democratic governance requires an open government and easy access by citizens to the government.”¹²⁹

In pursuance thereto, a large number of countries have put in place adequate legislative frameworks to facilitate their citizenry to have an easy access to government-controlled information, documents, and records. In Pakistan’s context, Article 19A of Constitution deals with citizens’ “Right to Information,” and stipulates that “Every citizen shall have the right to have access to information in all matters of public importance subject to regulation and reasonable restriction imposed by law.”¹³⁰ Theoretically, access to information by citizens to government decision-making, and government-held information can be associated with greater transparency, efficiency as well as eradication

¹²⁸ CRCP, 4.
¹³⁰ Article 19A was inserted into the Constitution of the Islamic Republic of Pakistan, 1973, by the Constitution (Eighteenth Amendment) Act, 2010 (Act No. X of 2010, dated April 20th, 2010.)
of evils of corruption, favoritism and nepotism resulting in good governance, hence abhorred by the elitist state.

Federal Government’s Response

In the late 1990s, the international pressure impelled Pakistan to become first country in its region to promulgate the Freedom of Information (FOI) Ordinance, 1997. Although, law had been delivered with a number of flaws, “as the ruling classes never wanted to allow the citizenry to get the so-called ‘sensitive’ information,” yet soon even this flawed legislation, being an Ordinance, was allowed to lapse. PML-N’s government with strong right-wing leanings and playing to the tunes of religious elite, business elite, and industrial elite did not make an effort to either re-promulgate it or have it legislated.

In early 2000s, military-elite led ruling coalition ended up promulgating the Freedom of Information (FOI) Ordinance, 2002, which was provided legislative cover through 17th Amendment to the Constitution. The legislation allowed a citizen access to public records held by a public body including ministries, departments, boards, councils, courts and tribunals excluding corporations and provincial governments. The law was reckoned deficient at least on three counts. Firstly, it looked to arbitrarily allow government, its functionaries and its agencies to classify anything they wanted “to be exempt from being made public, without explanation as to why they are doing so.” Secondly, mechanism enshrined within law as regards its operationalization was rigorous, worked as a filter, and gave substantial discretion to government departments to block outflow of information which could at times be frustrating for interested members of public. Thirdly,

appeals against a government decision to deny access to a certain piece of information took too long towards obtaining the appellate authority’s decision. The procedure was so long-drawn and cumbersome that appellants would lose their interest in the matter midway and give up their quest.

Some kind of RTI law was part of Charter of Democracy (CoD) signed by PPP and PML-N in London, in 2007, which, in a way, was reflective of broad consensus between major political forces of the country – across the political divide. However, as a result of the general elections, 2008, while PPP being in government did not take any serious steps to keep its public commitment, PML-N being in opposition did not pressurize the government enough to fulfill its commitments. Even after its coming to power as a result of the general elections, 2013, latter has made a lukewarm progress on delivering a good law on the matter. PML-N Government’s current draft (FOI) Act also strives to curtail information rather than facilitate access to it by prescribing imposition of a fine if a request for information was found to be malicious or frivolous.\textsuperscript{133} But then such way of the world may not be considered an aberration as when it comes to control of information from the masses, all elite groups under-gridding ruling coalitions behave in identical fashions.

Although, Pakistan has been playing switch-on-switch-off with YouTube since 2008, yet the website was banned seemingly finally on 17 September 2012, after it refused to remove trailer of Sam Bacile's “Innocence of Muslims” – a short-film that looked to insult Islam and indulge in blasphemy. Cross sections of the society found it strange that despite the fact that on April 21, 2014, Senate Standing Committee on Human Rights

\textsuperscript{133} Riaz Khan, "Freedom Available," \textit{The News}, September 6 2013.
revoked ban, and on May 6, 2014, National Assembly passed a unanimous resolution to have it lifted, yet it was not lifted. PML-N government hedging behind an NGO’s constitutional petition in LHC silently chose not to lift the ban, which has led to interesting insinuations and interpretations. It has been argued that “While other nations factor in and meet the challenges thrown up by the internet and a globalised world — including Muslim countries — Pakistan penalizes its citizens under the pretext of protecting them from material they might — might — find offensive.” Thus, it is generally being believed that taking shelter behind blasphemous material, Government is reluctant to open YouTube to avoid criticism on account of corruption, maladministration, mis-governance, and poll-rigging, and limit public exposure to the content that may ignite socio-political unrest, and eventually jeopardize its incumbency.

Understandably, elitist state wants to starve citizenry on information pertaining to its own working and ploys. Pakistan, since 1947, has received hefty sums through international extraction in shape of grants, aid, loans, and charitable donations etc. Since 2001 alone, Pakistan has received 16.765 billion dollars for social sector development programs from various donors and international financing institutions. On an average external funding comes to about U.S. $ 2.2 billion a year. However, dismal ground realities in sectors like infrastructural development, education, health, power generation lead to an irresistible conclusion that resources harvested by state from international extraction have not productively, purposefully, and optimally been utilized. It is generally believed that bulk of these and other funds have been siphoned off by more privileged members of the

Elites Ltd. It can thus be argued that corruption and control of information pertaining to
government decision-making may have a strong perverse nexus.

_Provincial Governments’ Response_

Contrary to the public position that PML-N leadership historically took on RTI regime,
no significant progress was made during their rule in the Punjab during 2008-13. A law
was drafted in 2010, but approved in last cabinet meeting before it stepped down in 2013,
letting it die its own death as there was no assembly to pass it.135 Although, Punjab Chief
Minister, Shahbaz Sharif, during his pre-election campaign had unequivocally stated:
“Mark my words. This will be the first law approved from the Punjab Assembly if we
form the next government.” However, while during the first couple of months of his
taking oath, the Punjab Assembly passed 7 Acts, the RTI law attained prominence by its
non-legislation.136 To keep the critics at bay, a draft RTI law was drafted, approved by
Provincial Cabinet, and advertised seeking public feedback. Section 13 of the proposed
law empowers the government to decline information “if it is likely to cause harm to
national security, public order, international relations, privacy interest, legally privileged
information, intellectual property rights, life of a person, prevention or detection of crime,
ability of the government to manage the economy and effective formulation of a
policy.”137 It has been argued that “intention behind the bureaucratic drafting” of the
Punjab Freedom of Information Act “seems to be to complicate matters and leave
loopholes and ambiguities.”138

135 Umar Cheema, "Shahbaz, P.M.L-N Failed to Keep Promises on Info Rights Law," _The News_, September
14, 2014.
136 Ibid.
137 Ibid.
138 Ibid.
Likewise, PTI-KP government’s much-trumpeted “Right to Information Ordinance, 2013” appears more like an ‘information withholding’ ordinance in that sections 14 to 22 deal with information that is immune from disclosure. Although, there is a half-hearted attempt to protect whistleblowers, yet composition of KP Commission without there being a mention of women and other stakeholders has been rated its downside.\textsuperscript{139} “There is no sign of a new Pakistan in the content of the ordinance,”\textsuperscript{140} as far as information aggregation for coercion and extraction is concerned. Interestingly, in pursuance to the general elections, 2013, both KP and Punjab have new dispensations led by PTI and PML-N, respectively. Interestingly, both parties bitterly scathed each other during election campaign – including on RTI issue. However, in the post-election scenario both parties exhibit marked similarities in their conduct on this particular mater. “Rhetoric aside, the PML-N and PTI are awkwardly alike in denying the public the right to information as their provincial governments in Punjab and Khyber Pakhtunkhwa (KP) have framed Right to Information Laws that will change nothing on ground.”\textsuperscript{141} Legalese apart, even after the passage of the RTI law, there is a perceptible politically-oriented resistance by the generalist juggernaut to implement it in its true spirit. When a citizen invoking relevant provision of the RTI law in the Punjab asked for the records of the use of official vehicles, one of the District Coordination Officers (DCO) denied the information stating that “Disclosure of logbook of any officer having responsibilities of sensitive nature has potential to compromise security of that officer which may result in some untoward incident in the prevalent security situation.”\textsuperscript{142}

\textsuperscript{139} Ibid.
\textsuperscript{140} Ibid.
In this section, a brief over-view of secrecy as applicable in U.S. and its ramifications for the state’s extractive and coercive functions will be undertaken. It has already been averred that a standard tax system is the storehouse of all critical economic information pertaining to both national and non-national persons operating in an economy. This is because important economic information flows into the tax system from multiple sources in a variety of ways, that is, filing of voluntary tax returns, monthly sales tax or VAT returns, reporting requirements imposed on various governmental and non-government agencies and structures regarding specific economic transactions like banks, non-banking financial institutions, and other withholding agents. On the flip side, the tax department generally enjoys unfettered powers to access and requisition any information with any other organization that may, in any manner, be of any use to determine accurate figure of state revenues. Traditional approach has been to treat the information so obtained as sacred under individual’s privacy rights and put it to restrictive use.

In pursuance to the ratification of the 16th Amendment to the U.S. Constitution, when the Congress enacted a new taxing statute in 1913, which imposed tax on income of individual earners at graduated rates starting from 1 and going up to 7 per cent, for a byproduct, the Amendment transformed U.S. IRS into a potential depot of all economic information. Further, in 1916, when Congress finally erased the word “lawful” from the taxing statute, it put to rest the debate as to what constituted “lawful” income, rendering IRS the only government agency to nab and go after delinquents who could not be tried or successfully prosecuted under any law or by any other agency. Afterwards, U.S.
Supreme Court also held that 5th Amendment to the Constitution was not available to illegal income earners. Another very significant aspect of this new trigger in socio-economic life of the U.S. citizen was that this placed all vital economic information in the public domain. This created popular resentment, and in order to address any prospects of resistance or protest, in 1916, Congress extended a semblance of protection to citizens “by requiring that information from tax returns be kept confidential.”

Section 6103 of the Internal Revenue Code (IRC) is the basic confidentiality clause that restricts divulgence of all tax information available with IRS. In principle, section 6103(d) prohibits access to tax return information by anybody outside the IRS itself, and there too only the authorized officials. In order to optimize on utilization of critically important economic information available with one agency is made available to all Federal, State and local agencies that need it for extraction, coercion and regulation purposes. However, “Federal, State and local agencies, bodies and commissions, and agents authorized under section 6103, to receive Federal tax information are required by IRC Section 6103(p)(4)(A) to establish a permanent system of standardized records of requests made by or to them for disclosure of Federal tax information.” The legal requirement for maintaining the records is five years. Under IRC Section 6103(p)(4)(C) access to Federal tax information can restrictively be allowed only to those persons who require access in order to adequately perform their avowed functions.

145 Ibid., 3.
146 Ibid., 23.
One of the key features of IRS’s Federal tax information management system is usage of the same information by the State and local governments for various purposes including taxation. The mutual in- and out-flow of tax information between Federal and State revenue administration, inter alia, enhances systemic efficiencies “by reducing duplicate government resource expenditures and increasing taxpayer compliance.” Such exchanges also help various government tiers extract at the maximum possible, and deters any would-be delinquents against any felonious conduct.

In this context, the U.S. Banking Secrecy Act (BAS), 1970, is reckoned as a watershed. It is through this very law that the U.S. government hit bank secrecy in the mid-section. The BSA, 1970, requiring of all U.S. financial and non-financial institutions to lend a helping hand to government towards detection and prevention of tax evasion, money laundering, and financial crimes. The BAS, 1970, “mandated financial institutions to keep records of cash purchases of negotiable instruments, file reports of cash transactions exceeding $10,000 (daily aggregate amount), and to report suspicious activity that might signify money laundering, tax evasion, or other criminal activities.” The overarching objective of the BSA, 1970, was “to prevent financial institutions from being used as intermediaries for the transfer or deposit of money derived from criminal activity and to provide a paper trail for law enforcement agencies in their investigations of money laundering.” Likewise, “The United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act, 2001,” popularly

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147 Ibid.
149 Ibid., 3.
known as the U.S. Patriot Act, 2001, ended up legislating a new set of “rules for American banks in an attempt to defeat bank secrecy.”\(^{151}\) Empowered by the Patriot Act, 2001, U.S Treasury was to develop and distribute a list of all such banks and conduits that were not to be allowed to wire money through them. The law also contained substantial reporting requirements.

The next in line was the U.S. Foreign Account Tax Compliance Act (FATCA), 2010,\(^{152}\) that created an obligation on the U.S. persons, individuals included, living outside the U.S. “to report their financial accounts held outside of the United States,” and “the foreign financial institutions to report to the Internal Revenue Service (IRS) about their U.S. clients.”\(^{153}\) One of the objectives of the enactment of the FATCA, 2010 was to render it more arduous and less tempting for “the U.S. taxpayers to conceal assets held in offshore accounts and shell corporations, and thus to recoup federal tax revenues.”\(^{154}\) The FATCA gave one final and fatal blow to economico-financial secrecy not only inside the U.S. but throughout the world as one of the requirements under the legislation for the non-U.S. financial and non-financial institutions was to report to the U.S. IRS all such accounts and transactions – beyond a set threshold – which were held with or undertaken through them by the U.S. persons. Initially, the FATCA, 2010, created a disgust of universal proportions, but then as one country after the other started falling in line and scrambled to sign an Intergovernmental Agreement with the U.S. IRS, this started to be construed as a phenomenal breakthrough against secrecy internationally. Soon OECED, mutatis mutandis, adopted FATCA, and transformed it into the Common Reporting

\(^{151}\) Ibid.

\(^{152}\) The FATCA, 2010, is, in fact, a portion of the Hiring Incentives to Restore Employment Act, 2010.


\(^{154}\) Ibid.
Standard (CRS) for automatic exchanges of all bank, and financial information for acceptance at the international level.

The U.S. has an extensive tax treaty network with other countries. “Under these treaties, residents (not necessarily citizens) of foreign countries are taxed at a reduced rate, or are exempt from U.S. taxes on certain items of income they receive from sources within the United States. These reduced rates and exemptions vary among countries and specific items of income. Under these same treaties, residents or citizens of the United States are taxed at a reduced rate, or are exempt from foreign taxes, on certain items of income they receive from sources within foreign countries.”155 Article 26 of the Avoidance of Double Taxation Treaties entitled as “Exchange of Information” allows effective exchange of all tax information between the U.S. and the other countries. The U.S. government has historically exploited this tool full well and contributed to good governance internationally. In the post-9/11 scenario there is a lot more focus on this tool to render it more effective both at the bilateral and multilateral levels – including the United Nations. The U.S. through FATCA, 2010, at the moment is at the forefront of exchange of information at the international level.

The mere fact that the U.S. does not have an equivalent of the Official Secrets Act, 1954, indicates that dice is effectively loaded in favor of transparency and openness rather than secrecy. This is true that even in the U.S. certain information is classified as “confidential,” “secret,” and “top secret,” in view of the potential damage that the information’s going public could cause, yet state institutions freely exchange information amongst themselves – subject of course to minimum confidentiality requirements. The

155 M. Lang, Tax Treaties: Building Bridges between Law and Economics (Ibíd, 2007).
latest move to accord confidentiality to the position taken by a particular Congressman on a particular taxation issue, would go a long way towards ensuring that the policy decisions are made on merit and that the state continues to operate as an autonomous one.

Section IX
Conclusion

Theoretically speaking, in an informationally deficient and compartmentalized state governance is an obvious casualty, but even a bigger casualty is its revenue function. In the final analysis, however, weakness of one feeds into the other – taking both statecraft and service delivery into vicious circle. This is because informational deficiency and compartmentalization in the sense of lack of state’s ability to generate, profile, systematically store and collate, aggregate, retrieve, and purposefully utilize the information about its persons – both natural and individuals – critically feeds into the state’s ability to perform its avowed extractive and coercive functions; and causes malfunction. It could thus be argued that – a tax system’s ability to effectively utilize information in a vertically and horizontally integrated system of extraction for state exchequer remains an important variable – the higher the inflow of actionable information about activities of the economic agents the higher the effectiveness of the revenue system. It has already been argued that Pakistan’s tax-to-GDP ratio – under 9 per cent – is one of the lowest in the world. Likewise, in terms of governance, Pakistan ranks quite low in comparison with similarly-circumstance countries.

In overall terms, secretization of Pakistan’s state apparatus has had multi-faceted implications, for extraction, statecraft and overall governance. Firstly, society’s pronounced preference for secrecy in economic realm may be at the heart of non-building
up and ever-weakening of state-society relations. Taking advantage of secrecy of all kinds, terrorism and crime rate have picked up in the society, which, in turn, led to further erosion of the people’s confidence in state institutions, triggering joblessness and prompting centrifugal forces to flourish. Secondly, an un-delimited secrecy allows elites to rob the state funds at will.\textsuperscript{156} The result of general elections, 2013, transpired that 90 per cent of the successful candidates were those who paid no or nominal tax and many of them even did not have NTNs. Notably, General Pervez Musharraf – ex-president – declared assets worth over 600 million to ECP without disclosing their source and payment of tax. The same was true for many ex-legislators who were contesting again but had never filed tax returns. This confirmed in a sociological sense that payment of taxes was not a stigma in Pakistan.

Thirdly, middle class is the worst sufferer of brute secrecy regime as enforced in Pakistan. Not only that it has inhibited growth of middle class in the country, it has also left it to erode. Sub-optimal performance by extractive and coercive functions led to expansion of fiscal deficits, giving rise to inflation thereby undermining purchasing power of the populace. Upper classes having privilege of mobility across borders at free will and secrecy cover to shift their resources overseas, educate their progeny in top educational institutions, and avail health facilities wherever available, and poor classes having absolutely no access to such facilities, whatever semblance of facilities that state had created over time, those got worsened, leaving lower and middle classes in a state of quandary. In spite of all this, it can be said with certitude that it is only the middle class which nurtures centrist leanings vis-à-vis state of Pakistan.

\textsuperscript{156} Staff Reporter, "Supreme Court Set to Reveal 182 Payments, Let 18 Remain Hidden," \textit{The News}, April 12 2013.
Fourthly, society’s secretization and its streaming into state’s operational mechanics and functions effectively scuttled the process of state-stoking in the post-colonial state. During initial period of modern state-building while over-regulation can render life of citizens miserable and be counter-productive, a necessary degree of regulation and tinkering with peoples’ lives is a must to relocate their loyalties from the traditional source of authority i.e. local fief to the state. This might be through asking a remote village farmer to send his kids to school, get his infants vaccinated, obtain a tractor driving license for himself, but he must be nudged by the state machinery. The secrecy varnish kept state’s outreach to a very limited expanse, leaving the masses to live like they had been living at the same place and in the same fashion for thousands of years – opening up vast expanse of strategic space for non-state actors to spring up and exert pressure on the polity. Fifthly, economic secrecy provided a safe haven for financial rat race. With time it was money and not the means which gained importance.\textsuperscript{157}

It can safely be argued that the polity has nowhere to go to from here until and unless its secretization at a considered and conscious level is registered and avowed to be reversed with requisite political will to back it up. This is because economic secrecy has no egalitarian anchors, also because it is anachronistic as already decided by the comity of nations. Thus, even if there are no internal voices being raised to undo inter-institutional secrecy, the international pressures that have already started telling on the state, would lead to thinning it down – sooner than later. However, the question remains with how much cost that can be attained. On the contrary, in U.S. secrecy in all realms of life –

\textsuperscript{157} Like argued earlier, international trends in economic transparency have started exerting a lot of strain on the polity to have Pakistan's doestic secrecy regime watered down.
except personal – is fast crumbling and simultaneously spurring the rest of the world to follow the suit.

The study’s take-home, likewise, is quite straightforward. The republic does need to put in place a NIA – the sooner the better. While the basic spadework – including diagnosis of the malaise has been done in this chapter, Government needs to consider appointing a National Secrecy Commission to be headed by a senior Parliamentarian representing bipartisan parliamentary presence, academia, and civil society intellectuals with the mandate to scan the entire legal infrastructure of the state, subsidiary legislation i.e. rules and regulations, operational instructions to ensure smooth in- and out-flow of information on the five strands as discussed earlier. The NSC may define parameters of confidentiality in cases where information has really to be blocked, and recommend ways and means to ensure proper implementation of informetrics in all three areas i.e. generation, access, and utilization. It would also identify areas which are necessary to be tinkered with to be compliant with looming international frameworks so as to avoid adverse fall-out for the country in the years to come.

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499
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Conclusion

The fundamental concern of the study was to look into the relationship between the elites and the state as evidenced and played out in the amphitheater of extraction. It started off by framing the overarching query as to why, if the people of Pakistan had additional resources to offer to the state, the state could not extract the same from them on account of its maintenance and operations costs, and in consequence was always run on a deficit. The answer to the problem found through the intricate and complex debate spanning over six chapters was that it was due to the brute elite capture Pakistan was under. Similar question when posed in respect of the U.S., it, however, transpired that the U.S. was an autonomous state to a reasonable degree – hyper factional activity notwithstanding. In comparative terms, it has also come up that in U.S. and Pakistan, both state and society, respectively, were prone to react to the question of taxation in markedly different ways. Illustratively, while Americans went violent, rebelled and revolted against taxation when they perceived it to be unjust, discriminatory or without solid legal basis e.g. “No taxation without representation,” Pakistanis avoided violence and found other means to deal with it. These attitudes when seeped into the governance culture of the respective states, set starkly different trends, too.

The study, after rambling through different dimensions of Pakistani state and its interplay with various societal agents who exert spurious pressure on its structures particularly those dealing with its primal extractive function, reaches the irresistible summation that Pakistan may yet not be a capitalist state; it may yet at best be a pre-capitalist state. It is because the elites underlying the state and forming its economic mores are yet not capitalists; yet not competitive and innovative enough to be able to tap unlimited
potentialities latent in capitalist production system. They are lowly self-interested rent-seeking opportunist actors. They cannot take the heat of the market because they are not ready for it yet. Theoretically speaking, when Kaleckian profit-surplus partitioning is applied, Pakistani elites clearly fall out of this framework as being pre-capitalists.¹ The Kaleckian equation of profit as discussed in chapter 1, when applied to Pakistan’s political economy scene, modifies as under:

\[ P_N = C_P + I + D_g + E_e - S_w + R \]

To Kalecki, if capitalist’s profit equals his consumption and investment, government’s deficit, net exports less workers’ savings, the study suggests to add R to the equation to denote rate and quantum of rents which the elite seek and muster. It follows that if Pakistani elites were capitalists it would be in their own advantage to undertake some degree of distribution of wealth so as to raise a middle class (like in India) by way of increasing the aggregate demand at a sustained level. It would also be in their benefit to raise small and medium enterprises which would have created a decent job market and contributed towards increasing purchasing power of the masses and sustaining it over longer term. It was also perhaps in their own interest to educate the low-lying millions so as to enlarge a wider job market, which would have led to an increase in productivity, which, in turn, could have resulted in an increased profitability. But since they were not capitalists with a knack, eye and acumen to glean the market for their profits, they always looked for opportunities rig the market and perversely exploit the state for their rents.

If Lieberman’s memorable exhortation that “central dilemmas of collective life are embodied in the question of taxation”\(^2\) has any meaning or relevance, it is for the present-day Pakistan. In fact, Pakistan may be the only country in the world wherein not only that these central dilemmas of collective life have not been resolved but also that a march towards their resolution has not started yet despite lapse of near-seven decades; it would further not be incorrect to say that these dilemmas are complicating and grid-locking with every passing day. The tax-to-GDP ratio of below 10 per cent having crept into the socio-economic-governance mores of the polity, superimposes an unshakeable path dependency on its extractive function. It may not be incorrect to assume that this historically imbedded low performance trajectory of the extractive function has long started to operate as a cultural fact on the entire institutional framework of the state and impels all of its functions to underperform. The grounded propensity to extract low and the resultant below par performance of its various functions when coupled with the geopolitical realities of the country, its polarized political intellect, low-productivity human capital, ideologically sanctioned and socially sustained high population growth rate, fragmented fiscal base, fissured bureaucratic machinery, imbalanced and deteriorating ecological drawing board, and other systemic malaise and distortions, is not good enough to break its low economic equilibrium.

Thus, the study’s rigorously researched and considered finale is that this system with its extant inbuilt tectonic fault-lines cannot be reformed, improved, or corrected, and is set to continue at the same low and unhealthy performance trajectory for a time. Such a conclusion, inter alia, is based on six parsimoniously gleaned premises. Firstly, the elitist

juggernaut operative in the polity being preponderantly powerful and pervasive is in full semantic and overall control of the citizenry; with the former setting the lingo of the latter and defining its meanings, and the latter having been effectively numbed and opiated responds in solemnity. The very meaning of “reform” and “change” have been elitized and rigged to mean (further) reduction of powers of state functionaries, (further) elimination of corruption, (further) facilitation of the taxpayer, and (further) roll-back of government machinery from its regulatory function.

Secondly, the key stakeholders of the system lack consensus as regards its revitalization because each actor’s interests are being served full well through the existing arrangement. While Elites Ltd’s members, the powerful men of means have tremendous vested interests in the present status quo, the masses, the ordinary, and the marginalized have also found ways and means to parasitize on the elitist system; hence, lawlessness galore. At certain level, it is pretty much Locke’s Social Contract gone perverse where-under the elites framed laws and policies to their exclusive advantage, have them implemented the way those optimally suits them; and the masses make their both ends meet by flouting those laws and leeching those policies – with state playing the role of pimping ineffective middleman by allowing the former to rig its legal and policy infrastructure and turning a blind eye to the latter’s flouting of its laws and policies. Thirdly, it is clear that the polity has fully exhausted all options for change and improvement through repeated misdirected efforts that only ended up further lock-jamming it through retrofitting and patchwork, and that the society’s corrective mechanism is suffering from fatal atrophy.
Fourthly, it is also apparent that the requisite degree of political will to correctly conceive and carry out the requisite change is absent primarily because the perverse political process put on auto-pilot being overly elitist in both inputs and outputs perfectly serves the interests and is poised in favor of the power-wielding classes; hence the system is there to stay. Fifthly, the system’s internal and inbuilt design capacity for change stands sapped; it effectively suffers from paradigm paralysis. Sixthly, that critical mass and intensity of public dissatisfaction with the present state of the system functioning and a demand for improvement therein is not extant in Pakistan, which means that one of the most critical ingredients of change is absent; hence no expectation of a change or reformation of the system. A comparable scenario to present-day Pakistan, in terms of gridlocked, fissured, and rigid extractive system with historically embedded low performance levels, would be that of Turkey of early 20th century, when in the aftermath of World War I and exodus of 1.2 million enterprising and capital-owing Greeks, Mustafa Kemal Attaturk had to establish special tribunals that undertook ruthless measures and executions of the delinquents and doubled the national tax-take in around a decade. However, identical fatigue with the system, its wear and tear, and the state’s ability to break the shackles of elite capture and make an effort to attain autonomy are not extant in Pakistan.

This bleak culmination to the study emanates from the extensive empirical analysis carried out in the preceding chapters. In chapter 1, it has been established as to how the state is dominated by the elites, and how they manage to shift fiscal burden from their

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own shoulders to those of the marginalized millions. The analysis of the policy formulation process in Pakistan makes it abundantly clear that citizenry at large has no say in the decision making that affects it, and that those that rule in combine with generalist lackeys, are not going to let go of this control of the policy making process since it is abundant source of not only preserving their already grabbed (both stock and flow of) resources, but also amassing more and more of new ones. The argument that Pakistan’s internal and external stakeholders having evolved a consensus as to keep Pakistan afloat as a state, engage each other and bargain and agree on their respective shares in financing the minimal operations of the state, being a seminal one, makes it vividly clear that it is extremely difficult to crack into the consensual subsistence level equilibrium that prevails upon the country’s governance horizons – particularly given its international nexus. The generation of the powerful idea that Pakistan is an equilibrium consensus subsistence state, gives it an altogether a new dimension, proffers an alternative analytical perspective, and opens up vast vistas for fresh future research.

The extreme levels of apathy and insensitivity of major societal agents that is, political parties, intelligentsia, institutional framework, media and civil society, towards the state’s extractive function, as conceived and outlined in chapter 2, and establishment of their strong connection with the process of state-building, further reinforces the point that this system is there to stay. The point that was hammered home with the support of the heretofore unexplored and unidentified empirical evidence is that the significance the select societal agents accord to state’s extractive function which spurs and drives their responses and actions towards it, which, in turn, determined extractive function’s
expected output and performance levels, being extremely low, any perceptible change or improvement in the performance of state’s extractive function cannot be expected.

Another important aspect of the intricate and complex landscape of Pakistan’s extractive system as brought out in chapter 3 in terms of its being a collusive, symbiotic, and mutually self-serving arrangement between Pakistani elites and generalist mandarins, portrays it as a highly kleptocratic and controlled one, directly feeding into the very autonomy of the state. It was evidentially argued that elites and the generalist mandarins serve each other’s perverse interests at the expense of citizenry’s rights. Having occupied and rigged the state and its governance structures, the ruling oligarchs help the generalists spread their tentacles at every position of some import in the polity, who, in turn, then oblige the ruling elites with quid pro quos like constituency-specific spending options, jobs for their people in government departments and PSEs whether needed or not, and creation of rent-seeking opportunities through tinted public policy decisions – a log-rolling of sorts. In this regard, the two ploys as exploited by the duopoly to control the polity, that is, appointment of a generalist head of state’s extractive function, and accordance of a subservient status to state’s revenue function in terms of allocation of resources and autonomy only betray and exhibit not only the mechanics but also the level of capture and domination that the polity is operating under – with particular reference to its extractive function. In the final analysis it is not the collusion per se but the brute

4 The shackles of the generalist cadres that showed visible signs of weakening during the military-led dispensation of 1999-07, have again clawed back with vengeance on the state structure since early 2008. During the PPP regime 2008-13, intra-generalist tussle for increase in their respective grab reached its peak, which provided, unintendedly though, some kind of breather for the professional cadres. However, since the installation of PML government in mid-2013, the generalist cadres have seen an unprecedented ascendency as PML-N believes in managing the generalists, who, in turn, would manage the country, and help them perpetuate their political rule in the country.
strength and imbeddedness that it has attained over time, which reinforces the summation that this system has gone beyond repair and reform.

The historical survey of the sinisterly pervasiveness of the duopoly operational paradigm over the state’s extractive function from various dimensions, as conducted in chapter 4 through *incremental approach*, led to an unmistakably firm belief that under-extraction being the root cause of most of the malaise of Pakistan, was laid into the very foundations of the state, that is, it was ingrained and belonged to pre-partition days. The decade-wise analysis threw spotlight on the fact that the ingress of the duopoly paradigm attained depth and expansion with every year passing, thus, hardly demolishable; hence, the conclusion that the system is all set to stay. The most recent evidence comes from the present government itself. The typically elitist dispensation led by PML-N being the protector of the interests of industrial elite and business elite, quite in accordance with the rational actor dilemma, resorted to the favorite elite ploys of withholding taxes and jacking up of rate of indirect taxes and expansion of their scope to the most marginalized masses. It is thus not surprising that about 90% of the projected revenue of Rs. 3.1 trillion fixed for F/Y 2014-15, is set to come from the spurious windows of withholding and indirect taxes.

Likewise, chapter 5, by employing *shock approach*, brought to the fore about a dozen conscious efforts in the form of reform commissions and committees undertaken by the elitist state, which were optimized by Elites Ltd for a bonanza in terms of weakening of the system still further. The effect of such consistent major shock bashing of the extractive system twice in a decade on the average, has drained and sapped its capacity so
fully that it is near-irrational to expect that it would ever be able to recoup its strength, perform and deliver at a desired level in the future, and that even if it does, it would be able to undertake healthy extraction. Ironically, Muhammad Ishaq Dar, Finance Minister, delivering his Budget Speech for the F/Y 2014-15, announced to constitute yet another Tax Reform Commission, which was to submit its report within 90 days. However, while some elitist recommendations made by the Commission in its interim reports submitted to the government in time for the budget of F/Y 2014-15, its life-tenure has been extended a third time.

The culminating proposition that Pakistan’s extractive system is set to stay as it is and by implication the entire governance pattern of the country, is underpinned and further strengthened by the seminal contribution of chapter 6, which essentially argued that since actionable information is functional extractive system’s absolutely-required raw material, the elites-generalist duo systematically blocks this information, compartmentalizes the info-bits that get generated in various institutional silos, and successfully scuttles the process of economic information aggregation at any one point in time and place in the state. Secrecy being so deeply and widely ingrained in the economic-governance structures of the polity, and given lack of total appetite for its shedding or thinning, it does not appear logically plausible that secrecy shackles could be done away with in any foreseeable future, and that actionable economic information bits so very important for determination of state liability on economic agents operative in the polity, would start flowing into the extractive arm of the state thereby enabling the system to perform any better; hence, the bleak and chilling culmination. The most current and chilling evidence is provided by the current government itself as it is dragging its feet on signing a new
ADTA with Switzerland; OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters; joining OECD-sanctioned Global Forum on Transparency and Exchange of Information in Tax Matters, and is not ready to vigorously pursue Exchange of Information with Middle Eastern, North American and European states and other jurisdictions known to be tax havens – for obvious reasons.

At some level, it might sound like heralding a doomsday but then if this is the empirical diagnosis reached after analyzing all the symptoms, facts, figures and aspects of the malaise, it cannot be helped. One of the underlying themes investigated in the study is if wholesome continuity of the collective life, namely solidarity and integrity of the state and simultaneous well-being of its people, could be ensured without resolving the primal question of taxation faced by the polity. The responses evolved through the process of research are two-pronged, that is, (a) it is not possible to ensure wholesome solidarity of the state and welfare of its people without first resolving the question of taxation; and (b) that the state of Pakistan had effectively exhausted all options and failed to resolve the question of question. If the failure of repeated reform attempts and the polity’s continued defeatist romance and obsession with the same old beaten ploys was not good enough, the Eighteenth Amendment to the Constitution effectively fragmented state’s fiscal base\(^5\) as good as for eternity. To supplement this media playing its usual role towards transmitting elitist explanations of the exercise of angular policy choices lending them legitimacy and forging their acceptability in the hearts and minds of the populace, and the trend is neither receding nor abating.

\(^5\) Scholarship in the revisionist stream on the 18th Amendment to the Constitution has started to come up from various dimensions. See, for instance, Shahid Javed Burki, "The 18th Amendment: Pakistan's Constitution Redesigned," *ISAS Working Paper*, no. 112 (2010).
If, just for argument’s sake, the scope of the study is broadened and the preceding analysis is extrapolated to cover also the overall governance apparatus and its functioning, it would transpire that the latter, too, is log-jammed with equally stringent complexity, and inflicted with metastatic malaise of underperformance and serving the interests of Elites Ltd; hence, no anticipation of a turnaround. Of late, as elites-generalist monopolization got stronger by the day, weakening state-society bonding and eroding government writ, and thereby opening up vast expanse of strategic space for non-state actors of all shades and hues to scramble, fill it up, take on state itself through violent or non-violent (but extremist) views of world, dragging the entire country into a quagmire of unmeasured depths – with little capacity to react and trigger a suitable recoil.

While Pakistan’s political leadership could never really decide the “important question whether societies of men are really capable or not of establishing good government from reflection and choice, or whether they are forever destined to depend for their political constitutions on accident and force,” U.S. political leadership did – and quite early. The U.S. political leadership undertook a preemptive strike to co-opt factions and suck them into the system by providing them a channel of interest articulation and by assigning the state an elevated role of an ultimate arbiter of (supposedly) just economic order and a harmonious society. Such rigorous reflection and its actualization in the arena of state-building and governance, unfortunately, did not occur in Pakistan. The elite capture model – though still looking to be operationalized fully from various angles and

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7 See, for instance, ibid.
dimensions – does indicate, at least, that Pakistan may no more be an autonomous state; nor even a relatively autonomous state – it may never have been; hence, a captive state. Political leadership may have missed the bus to streamline and legally authorized role of factions and groups in the polity by providing a system-sanctioned mechanism of transparent and across-the-board interaction between homogenous sectional clientele into which society divides itself, and government-sponsored politico-bureaucratic channels for above par policy outputs. The vacuum so created induced a scramble for state to be taken over that stands taken over effectively not only in respect of extractive function but also other functions. Shahid with precision summarizes the scenario in the case of both Pakistan and the U.S: “Parliamentarians must be professionally smarter than the rest in every field; minus that, the state will become an unmanageable mess as it is now, including in the United State.”\(^9\)

The study did identify certain gaps in the pool of research available on the tax system and its relationship and interplay with the state, particularly in the context of Pakistan. While some of the gaps have been filled, admittedly some others are compulsively going unfilled for the future generation of researchers to work at. While the U.S. tax landscape is plentiful in terms of available relevant research, a lot is required to be done in Pakistan’s case, and until that is done, the state of Pakistan would continue to under-perform on its avowed functions, and the relationship between the state and the society would continue to grow weak and thin.

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References


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Annexure - I

Pakistan Tax-to-GDP Ratio

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<th>Year</th>
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<th>GDP</th>
<th>Tax/GDP Ratio</th>
<th>Year</th>
<th>Tax Collection</th>
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1 The statistics for tax revenue have been taken from FBR, and GDP from the Hand Book of Statistics on Pakistan Economy, 2010 (Chapter 11), published by the State Bank of Pakistan. Statistics for 2004-12, are taken from the Economic Survey of Pakistan, 2012, Ministry of Finance, Islamabad.
2 The amounts reflected are in million rupees.
3 The GDP is reflected on current factor cost.
4 The figures of tax-to-GDP ratio, wherever required, have been rounded off for ease of comprehension and reference.
5 The figures of GDP on factor cost not yet made available by the Government of Pakistan.
6 The figures of GDP on factor cost not yet made available by the Government of Pakistan.
### Annexure – II

**Commissioners, IRS**

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