Pakistan: The Political Economy of Fiscal Management

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Political culture and institutions are universally accepted as the most important factors in defining the economic viability and development of a country. The existence of symbiotic relationship between political developments and economic evolution is axiomatic and it has been verified by the politico-economic experiences of the developed as well as the developing countries. The objective of this paper is to illustrate the effectiveness and relevance of this relationship by focusing exclusively on the fiscal management of Pakistan as it has responded to political dispensations during the last two decades culminating in the most recent developments such as presentation of the Federal Budget 2014-15 in the National Assembly on June 3, 2014. An analysis of the latest budget is relevant in the sense that it carries the imprint of historically maintained budgetary policies of Pakistan and at the same time, it provides some useful insights about the futuristic predicaments of Pakistan's economy.

Literature on Fiscal Management: A Brief Review

Public finance and fiscal management are accorded top priority within the hierarchy of policy-making in the developed world. The budget-making processes and implementation mechanisms are well-defined and involve investment of immense effort and energy. The executive branch of the government, the Parliament, the industry and the academia join together to help formulate an "optimal budget" on an annual basis and then find ways and means to translate the budget into a concrete reality.

The academia in the industrial countries fully supports the government by continuously diagnosing the fiscal issues at the micro and macroeconomic levels. A review of literature on the subject is obviously the most arduous task as the streams of intellectual output over time are getting wider and deeper. A reference to Musgrave (1982) and Peacock and Shaw (1976), however, is a sine quo non for the discussion in hand because of their pioneering contribution on the subject. More recently, Fukuyama (2011) has analyzed various aspects of economic and fiscal management of western countries and some of Asian countries from the historical and political economy perspectives. His contribution on the nexus between taxation and political institutions is of seminal nature.

The journals on public finance and fiscal issues are plenty, which are published on a regular basis throughout the world.

In case of Pakistan, ample research has been carried out on Pakistan's economic issues inclusive of fiscal policy and public finance. On a selective basis, reference could be made to Burki (1996), Hassan (1998), Hussain (1999), Papanek (1996), Qureshi (1989), Iqbal, Qureshi and Mahmood (1998) and Zaidi (2005).

Similarly, certain basic aspects of fiscal management in Pakistan have been analyzed in Kazmi (1979, 1981, 1985, 1998 a and 1998 b). The focus of these studies is on the modes of financing the development budget especially the Public Sector Development Programme (PSDP). Based on the innovative parameter of Resource Base Co-efficient (RBC) devised by the author, an hypothesis is developed to measure the relative efficiency of the budgetary system.

Christened as Kazmi's hypothesis, it has its applications for the countries which have adopted the practice of presenting the national budget as Revenue Budget and the Capital Budget. An additional set of writings such as Kazmi (1991, 1992, 1994 and 1995) deals with the well-known Ricardian Equivalence Hypothesis (REH) in the context of Pakistan's economy. The REH with a somewhat arcane nomenclature actually deals with the modes of financing the budget deficit of any country. At the same time, the REH has opened new vistas of research on fiscal management in the developed and developing countries.

Government of Pakistan (2014 a, 2014 b, 2014 c, and 2014 d) are the basic documents which, inter alia, provide detailed information about Pakistan's public finances supported by analyses on taxation, public spending and debts.

Pakistan's Economy: The Fiscal Fall and Faultlines.

In the perspective of political economy, we have to look at the fiscal structure to Pakistan to see its inherent strengths and weaknesses and historical changes thereof. One of the principal features of the fiscal scenario of Pakistan is reflected in the sharp deterioration in almost all the budgetary parameters of the country. These parameters include tax revenues, non-tax revenues, current expenditure, development expenditure, total expenditure (generally equated with the size of the budget), the revenue balance, the overall budget deficit and the level of public debt-domestic and external.

In 1991-92, the total tax revenues of Pakistan stood at 13.7 percent of GDP which came down to 9.6 percent in 2012-13, the non-tax revenue declined from 5.5 percent of GDP to 3.4 percent in the same period and the total revenues dropped from 19.2 percent of GDP to only 13.0 percent - a massive fall equivalent to 6.2 percent of GDP.

Following the trail of revenues, steep retrenchment was experienced on the expenditure side with the current expenditure falling from 19.1 percent of GDP in 1991-92 to 16.0 percent in 2012-13 and development expenditure declining from 7.6 percent to 5.0 percent during the two decades period. Resultantly, the total expenditure was reduced from 26.7 percent of GDP in 1991-92 to 21.0 percent in 2012-13, a substantive fall of 5.7 percent of GDP.

The year wise changes in the main fiscal parameters are given at Table 1

Table 1

Table:1 - Fiscal Indicators (as percentage of GDP)

Year	Real GDP Growth	Fiscal deficit	Expenditure			Revenue		
			Total	Current	Development	Total	Tax	Non-Tax
1992	7.6	7.5	26.7	19.1	7.6	19.2	13.7	5.5
1993	2.1	8.1	26.2	20.5	5.7	18.1	13.4	4.7
1994	4.4	5.9	23.4	18.8	4.6	17.5	13.4	4.1
1995	5.1	5.6	22.9	18.5	4.4	17.3	13.8	3.5
1996	6.6	6.5	24.4	20.0	4.4	17.9	14.4	3.5
1997	1.7	6.4	22.3	18.8	3.5	15.8	13.4	2.4
1998	3.5	7.7	23.7	19.8	3.9	16.0	13.2	2.8
1999	4.2	6.1	21.9	18.6	3.3	16.0	13.3	2.7
2000	3.9	5.4	18.9	16.4	2.5	13.4	10.6	2.8
2001	2.0	4.3	17.4	15.3	2.1	13.1	10.5	2.6
2002	3.1	5.5	19.6	16.2	3.4	14.2	10.7	3.5
2003	4.7	3.6	18.4	16.0	2.4	14.8	11.4	3.4
2004	7.5	2.3	16.4	13.8	2.6	14.1	10.8	3.3
2005	9.0	3.3	17.2	14.5	2.7	13.8	10.1	3.7
2006	5.5	4.0	17.1	13.6	3.4	13.1	9.2	3.9
2007	6.8	4.1	18.1	14.9	3.2	14.0	9.6	4.4
2008	5.0	7.3	21.4	17.5	3.9	14.1	9.9	4.2
2009	0.4	5.2	19.2	15.5	3.7	14.0	9.1	4.9
2010	2.6	6.2	20.2	16.0	4.2	14.0	9.9	4.1
2011	3.7	6.5	18.9	15.9	3.0	12.3	9.3	3.0
2012	4.4	8.2	19.6	15.5	4.1	12.8	10.2	2.6
2013	3.6	8.0	21.0	16.0	5.0	13.0	9.6	3.4

Source: Economic Survey, Debt Policy Coordination Office Staff Calculations

The revenue balance defined as the difference between total revenues and current expenditure, which was in surplus by a small fraction of 0.1 percent of GDP in 1991-92 was turned into a large deficit of 3.0 percent of GDP in 2012-13.

The transformation of revenue surplus into a deficit since 1992-93 onwards reflects some serious imbalances in the budgetary system of Pakistan. It indicates that public revenues have been reduced to the extent that these fail to fully cover the current expenditure and that all development spending had to be financed through borrowing both internal and external. In other words, the year 1992-93 heralds the beginning of the well-known “debt-trap” in which Pakistan seems to be perpetually caught with long-term consequences for savings, investment, growth and welfare of the common man.

Having outlined the main elements of Pakistan’s fiscal system as it has experienced a free fall in the last 20 years or so, a brief analysis of the Federal Budget 2014-15 would be imperative to find out as how far the present Government of PML (N) under the leadership of Mian Nawaz Sharif is serious to reverse the process of fiscal fall or it remains addicted to the policies of status quo in fiscal management of the country, with dire consequences for the economy.

Total expenditure in the Federal Budget for 2014-15 is projected at Rs. 3,936 billion with the current expenditure of Rs. 3,130 billion (79.5 percent of the total) and development expenditure of Rs. 806 billion (20.5 percent of the total). As a ratio of GDP, total expenditure in 2014-15 is estimated at 13.6 percent, current expenditure at 10.8 percent and development expenditure at 2.8 percent. These data about the prospective government spending show two important but adverse trends in the fiscal regime of Pakistan. First, the overall expenditure of the government continues to shrink and second, the share of non-development expenditure in the declining aggregate expenditure continues to rise as it has gone up from 71.5 percent in 1991-92 to 79.50 percent in 2014-15 (budget)

It is worth noting that debt-servicing (4.6 percent of GDP) has a share of 33.7 percent in the total expenditure followed by defence expenditure (2.4 percent of GDP) with a share of 17.8 percent in total spending, grants and transfers (1.3 percent of GDP) and with a share of 9.4 percent and civil administration (1.0 percent of GDP) with a share of 7.4 and subsidies at 0.7 percent of GDP have a share of 5.1 percent in the total budget. Of special interest to fiscal managers of Pakistan is the evolution of the three principal heads of expenditure, (the well-known three D's) which over time have competed with each other for the largest share in total spending. These heads are development, defence and debt-servicing. The historical data pertaining to these heads of expenditure indicate that upto 1984-1985, development was the top priority of the Government of Pakistan, defence was the second and debt-servicing the third. However, by the year 1989-90, defence assumed the top, development the second and debt-servicing the third place in the expenditure profile of Pakistan. By 1994-95, another metamorphosis of the fiscal system led to a new order in expenditures with defence at the top, debt-servicing at the second and development at the third place. After a period of another five years, the fiscal conditions of Pakistan further deteriorated as debt-servicing assumed the top, defence the second and development the third position.

From the year 1999-00 to the budget year of 2014-15, debt-servicing has remained at the commanding heights as the top head of public spending, however, development has come to regain the second place while defence remains at the last position among the three main heads of expenditure. Figure 1 presents the historical shifts in the expenditure priorities of Pakistan from 1984-85 to 2014-15. It highlights the fact that debt-servicing comprising the interest payments on domestic debts, interest on foreign debts and payment of principal amount of foreign debts, happens to be the major driver of the fiscal regime of Pakistan and the large spending on debt-servicing is an indicator that Pakistan's stock of debt has reached the unsustainable limits.

Figure 1
Changing National Expenditure Priorities

Priority	Upto 1984-85	By 1989-90	By 1994-95	By 1999-00	By 2014-15(B)
First	DEV	DEF	DEF	DEB	DEB
Second	DEF	DEV	DEB	DEF	DEV
Third	DEB	DEB	DEV	DEV	DEF

Public Debt and Debt-Servicing: The Fiscal Hemorrhage

Debt accumulation has emerged as the most serious problem of Pakistan which is threatening the very foundations of the Pakistan economy. By end March 2014, Pakistan's public debt stood at Rs 15, 534 billion comprising of domestic debt of Rs. 10, 823 billion (69.7 percent of the total) and external debt of Rs. 4,711 billion (30.3 percent of the total). As a ratio of GDP, public debt is valued at 61.2 percent, domestic debt being at 42.6 percent and external debt at 18.6 percent.

Public debt, in 1990-91 the first year of the first regime of Mian Nawaz Sharif had risen to 91.7 percent of GDP, which was gradually brought down to 56.8 percent of GDP in 2007-08 but in the subsequent period, the ratio continued to rise on account of reckless and extravagant fiscal policies of PPP and PML (N) governments.

Pakistan's domestic debt comprises of permanent debt (Prize Bonds, Pakistan Investment Bonds (PIB), Government Ijara Sukuks etc), with the share of 28.9 percent in the total domestic debt; floating debt (Treasury Bills and Market Related Treasury Bills, i.e. MRTB') with a share of 50.2 percent and unfunded debt (Defence Saving Certificates, Special Saving Certificates and Accounts, Regular Income Certificates, Pensioner's Benefit

Account and Bahbood Saving Certificates etc) which has a share of 20.9 percent in the total domestic debt.

Pakistan's debt dilemmas are myriad. Besides a huge stock of public debt, the annual outflow (spending) to service the debt has moved along a sharply rising trajectory. The stock of Pakistan's public debt itself is a matter of serious concern for the economic managers. With a share of about 70 percent in the total debt, domestic debt involves a cost of 9.0 to 12.0 percent per annum while the cost of external debt falls in the range of 1.5 to 2.5 percent annually. Due to highly expensive domestic debt and its large stock, interest payments on domestic debt consumed nearly 31.0 percent of total resources in 2012-13 against 10.0 percent by the servicing of external debt. A cursory look at the selected public debt indicates for the years 2007-08 to 2012-13 given at Table 2 clearly establishes that debt management remains the biggest challenge for Pakistan as debt servicing has emerged as the single most source of hemorrhage in the fiscal system of the country. During the six year period, the average real growth in public debt has been around 6.7 percent against the real growth in revenues of 2.2 percent. Therefore, the annual real growth in debt burden in the country has been around 4.5 percent.

Table 2

Table-2: Selected Public Debt Indicators (in percentage)

	2008	2009	2010	2011	2012	2013
Real Growth of Public Debt	11.5	4.6	5.5	0.5	12.4	5.5
Real Growth of Revenues	2.3	2.3	1.4	(9.3)	8.2	8.1
Real Growth of Debt Burden	9.2	2.3	4.1	9.8	4.2	(2.6)
Revenue Balance / GDP*	(3.1)	(1.2)	(1.7)	(3.3) [b]	(4.5) [c]	(2.8) [d]
Primary Balance / GDP*	(2.4)	(0.1)	(1.6)	(2.5) [b]	(4.2) [c]	(3.6) [d]
Fiscal Balance / GDP	(7.3)	(5.2)	(6.2)	(6.5) [b]	(8.8) [c]	(8.0) [d]
Real Growth in Non Interest Expenditure	21.1	(12.2)	12.8	(2.8)	5.2	16.7
Public Debt / GDP	56.8	57.8	59.9	58.5	63.0	62.7
Public Debt / Revenue	403.1	412.2	428.8	475.0	493.6	481.7
Debt Service / Revenue	37.2	46.6	40.4	38.0	39.9	40.5
Debt Service / GDP	5.2	6.5	5.6	4.7	5.1	5.3

*Adjusted for grants

[b] Includes arrears of electricity subsidies amounting Rs.120 billion or 0.7 percent of GDP

[c] Includes "one off" payment of Rs.391 billion on account of debt consolidation or 1.9 percent of GDP

[d] Includes payment for the resolution of the circular debt amounting Rs.322 billion or 1.4 percent of GDP

Source: Debt Policy Coordination Office Staff Calculations, Finance Division

Almost one half of Pakistan's domestic debt is in the form of Treasury Bills (TB) and Market Related Treasury Bills (MRTB's) with a maturity profile of 3 months, 6 months, and 12 months. It is highly disturbing to find out that nearly 85.0 percent Market Treasury Bills are of 3 months maturity incurring a cost of 9.975 percent per annum. This shows that by over-subscribing to the debt of shortest maturity of 3 months, Pakistan's economy has been caught in a deep quagmire of a debt-trap. In this regard, Debt Policy Statement 2013-14, issued by Ministry of Finance makes a critical observation:

"The growing share of floating debt in the domestic debt in recent years reflects that domestic debt portfolio is exposed to significant refinancing risk i.e the redemption profile on domestic debt is frontloaded with more than Rs.6 trillion. In such cases, an increase in interest rates could adversely impact the debt servicing and debt stock, debt structures that are too short or allow for bumps in the maturity profile can potentially generate confidence crises, fuelled by investors' concerns that the government will not have sufficient funds to repay its obligations when they fall due. There is need to develop a long term debt capital market to rebalance maturity profile of Pakistan's domestic debt portfolio."(P.13)

Fiscal Responsibility and Debt Limitation (FRDL) Act 2005

In the analysis of Pakistan's public debt, two aspects are of critical nature. The first relates to the compliance with the Fiscal Responsibility and Debt Limitation (FRDL) Act, 2005 approved on13 June, 2005 making specific provisions to keep the size of public debt within prudent limits. The second relates to sustainability levels of public debt.

The FRLD Act, 2005 stipulates the following conditions for Government of Pakistan:

(i) To reduce the revenue deficit to zero not later than June 30, 2008 and to maintain a revenue surplus thereafter.

(ii) To ensure that from July 1, 2013 onwards the total public debt does not exceed 60.0 percent of GDP.

(iii) To double the budget allocations for education and health and not to reduce the social and poverty related expenditure below 4.5 percent of GDP.

(iv) To avoid issuing of new guarantees for lending, bonds etc in amounts exceeding 2.0 percent of GDP.

During the last one decade Government of Pakistan was unable to meet the first three conditions of FRDL Act 2005 which reflects poorly upon the nature and quality of fiscal management of the country. Of particular concern has been the deficit in the revenue budget and the negative Resources Base Co-efficient (RBC) which measures the relative share of revenue surplus in financing the Public Sector Development Programme (PSDP) of the country. A minimum limit of 20.0 percent for RBC has been recommended by Kazmi (1979, 1981, 1998 b) as a litmus test for achieving fiscal efficiency in the country concerned. Higher the magnitude of RBC, higher is the level of efficiency in fiscal management. However, a negative RBC would indicate that the fiscal regime of the country is in complete disarray as it suffers from the worst type of mismanagement. No wonder that PPP government borrowed on an average of Rs 3 to 4 billion per day from the central bank of the country and one of the governors of State Bank of Pakistan (Mr. Shahid Kardar) was forced to resign as he showed continuous resistance to borrowing by the Government at such a scale. Paradoxically, the PML (N) regime has set a new record as it has resorted to the borrowing binge of Rs.9 to 10 billion per day on average during the fiscal year 2013-14. Such an impulse of borrowing can best be described as the “borrowing holocaust” because due to poor management, the economic structures of the country stand shattered and destroyed beyond any prospect of repair and restitution.

Development Expenditure: The Distorted Priorities

Whereas the size of the development budget including the Public Sector Development Programme (PSDP) has been small as compared with the non-development budget, the host of distortions which have plagued the PSDP for the last so many years, have significantly reduced its usefulness and effectiveness as a tool of economic growth, employment generation and poverty reduction. This conclusion can be clearly established if the PSDP for the fiscal year 2014-15 is examined just at the macroeconomic level.

An outlay of Rs.806 billion as development expenditure has been envisaged in the Federal Budget for 2014-15, which includes Rs.525 billion as Federal PSDP, Rs.120 billion as net lending to provinces for development schemes and Rs.162 billion as other development expenditure.

A cursory look at the sectoral allocations made in the Federal PSDP would clearly reveal the multifarious imbalances and distortions in the development spending of the Federal Government. The top priority in the federal PSDP has been given to National Highway Authority (NHA) with an allocation of Rs.111.5 billion and a share of 21.2 percent in the total PSDP, reflecting the limitless preferences of the Sharif brothers (the Prime Minister and the Punjab Chief Minister) for motorways, over-head bridges, metro buses and so on. The Pak-China Economic Corridor (PCEC) receives a large chunk of Rs.49 billion against its estimated cost of Rs.746 billion, the Lahore-Karachi motorway gets Rs.30 billion which in aggregate terms would cost a multiple of the allocations for 2014-15, and for which only the land acquisition would involve an expenditure of Rs.60 billion The shares of WAPDA (Power), Pakistan Atomic Energy Commission (PAEC) and WAPDA (Water) in the total PSDP respectively are 12.1 percent, 9.8 percent and 8.3 percent.

The Railways which has lost much of its utility in the modern age and in case of Pakistan, which is already derailed due to rampant corruption, inefficiency and wastage, has been allocated a hefty sum of Rs.39.6 billion or 7.5 percent of total PSDP. This money in every likelihood would go down the drain, because who in his right sense of mind would build railway tracks from Islamabad to Murree and to Muzaffarabad when resources are so scarce.

Interestingly, however, bridges are cropping up in the far flung hilly areas of AJK and work is being carried out in full speed which otherwise is highly unproductive. The next priority has been allotted to the so called Federal Development Progammes with an allocation of Rs.36 billion i,e 6.8 percent of the total PSDP. This is a block allocation to be shared by the provinces and it is not project-specific. One has every reason to fear that this huge amount will only open numerous channels of wasteful spending and corruption. Details of PSDP priorities for the fiscal year 2014-15 are given at Table 3.

Table 3
Federal Budget 2014-15
Federal PSDP 2014-15

Sr.	Head	Allocation (Rs. Billion)	Share (%)
1	National Highway Authority	111.5	21.2
2	WAPDA (Power)	63.6	12.1
3	PAEC	51.5	9.8
4	Water and Power Division (Water)	43.4	8.3
5	Railways	39.6	7.5
6	Federal Development Porgrammes	36.0	6.8
7	Planning, Development and Reforms Division	32.9	6.3
8	National Health Services Division	27.0	5.1
9	HEC	20.0	3.8
10	State & Frontier Regions Division	19.1	3.6
11	Pakistan MDG & Community Development Porgramme	12.5	2.4
12	Finance Division	11.0	2.1
Sub-Total		**468.1**	**89.2**
All others		**56.9**	**10.8**
Total		**525.0**	**100.0**

In the energy sector, Pakistan's priorities are extraordinarily distorted. As pointed out by Khan (2014), due to energy crisis, Pakistan has been losing nearly 2.0 percent of GDP per annum. About 16.0 percent of final energy consumption in Pakistan is met from electricity, 29 percent from oil, 44 percent from gas and the balance by minor sources showing the critical role of oil and gas in the energy supply of the country. Since Oil and Gas Development Corporation (OGDC) produces about half of Pakistan's oil and one-third of its gas with current profits in the range of Rs.100 to Rs.120 billion, its assets being of strategic nature perhaps more than the armament factories, the partial privatization of OGDC envisaged by the present government is suicidal in economic and national security terms.

What is worst, no provision has been made for OGDC in the PSDP for 2014-15. The rulers thus, have no priority for oil and gas and seem to have made serious compromises with the national energy plans.

Lastly, it appears that the very concept of "development" has been distorted by the present government. The allocations of Rs.97 billion for Benazir Income Support Programme (BISP) are shown as development spending, even though BISP consists of direct cash transfers meant for immediate consumption by the poor families and it should be reflected as part of the current expenditure.

The Fiscal Monolithicism

Since early nineties, an adverse movement in the fiscal system of Pakistan is quite visible, which can be identified as "fiscal monolithicism" The movement indicates that in order to achieve the targets of lower budget deficits as specific conditionality for receiving external loans from the International Financial Institutions (IFI) such as the International Monetary Fund (IMF) and the World Bank, Pakistan has been continuously reducing its development expenditure thus compromising its growth and development potential. Pakistan's development expenditure at 7.6 percent of GDP in 1991-92 matched with a fiscal deficit of 7.5 percent and real GDP growth rate of 7.6 percent. In the subsequent years, the development spending was reduced continuously such that it came down to touch a low level of 2.1 percent of GDP in 2000-01 which corresponded with a fiscal deficit of 4.3 percent of GDP and real growth rate of only 2.0 percent - one of the lowest in the last two decades or so.

During the period 2000-01 to 2013-14, the three fiscal parameters namely development spending, budgetary deficit and growth rate did register variations, however, the overall synchronization between the three parameters is quite significant, establishing that the government has been following a policy of fiscal monolithicism under the pressures of IMF / World Bank, which has resulted in lower level of growth, price instability, higher poverty and higher level of unemployment in the country. In the context of global political agenda pursued by the powerful rich countries, fiscal monothicism serves as an esoteric mode through which IFI's determine the broad contours and contents of development process of loan-receiving poor countries including Pakistan.

The Fiscal System: A Syndrome of Asymmetries

Budgeting in Pakistan year after year has been rendered as a ritualistic exercise driven by the sole objective of maintaining the status quo without disturbing the basic structure of the economy. As the much needed reforms of budgetary system have been postponed ad infinitum, it has come to suffer from a "syndrome of asymmetries". This syndrome suggests that the budgetary parameters which normally should have high value have assumed low magnitudes in Pakistan and those which normally should be lower in value have actually become disproportionately large.

In other words, for the last so many years, economic managers in Pakistan have been building "inverted pyramids" which have completely imbalanced as well as hollowed the fiscal system of Pakistan.

In the first category, we include seven parameters such as (i) tax / GDP ratio, (ii) non-tax revenues, GDP ratio (iii) revenue surplus, GDP ratio (iv) share of development in total public spending, (v) expenditure on social and economic services in the current budget, (vi) development budget for agriculture, industry, education and health and lastly (vii) the overall size of the budget. The value of these parameters in Pakistan's budgets is getting smaller and smaller with each passing year.

In the second category are included seven specific parameters which traditionally should be lower in scale but in case of Pakistan these have acquired unprecedently large magnitudes. These parameters are (i) the share of indirect tax in total taxes, (ii) the share of withholding taxes in direct taxes, (iii) industry-specific exemptions and concessions (iv) the share of provinces in the dividable pool, (v) expenditure on motorways, railway tracks and metro buses, (vi) stock of public debt and lastly (vii) the payments to settle the annual debt servicing liabilities.

It is difficult to locate in the globe any poor or underdeveloped country which suffers from as many distortions and anomalies in its fiscal system as outlined above in case of Pakistan. It is not difficult, however, to locate the basic causes of fiscal disorder in Pakistan. The lead to this unhealthy phenomenon is invariably provided by the perennial propensity of the politicians-cum-parliamentarians to hold national interest at the lowest level of their priorities. Their myopia and lack of vision are the principal causes of Pakistan's economic ills. By referring to these politicians, Mr. Hasan Askari Rizvi (2013) sums it all when he writes: "The poverty of ideas and vision prevents them from challenging deprivation and underdevelopment head on."(P.82)

Public Representation: The Foundation of Fiscal Responsibility

The principle of public representation is widely accepted as fundamental to budget making. This principle suggests that parliament as the representative public body has the sole authority to determine the basic directions and strategy of the fiscal system of a country. The principle owes its origin to the famous agreement of Magna Carta signed by King John of Great Britain on June 15, 1215 at Runnymede and under which the principle of "no taxation without representation" was accepted by the King. In the period that followed, the British Parliament assumed greater and greater powers in matters of taxation and public expenditure and the King had to surrender his powers and prerogatives as the struggle between the parliament and the King intensified.

Looking deeply into the political and economic history of Great Britain and Europe, it becomes quite clear that taxation and constitutionalism were the twin ingredients which contemporarously flourished as the cornerstone of western civilization.

In his celebrated treatise "*An Inquiry into the Nature and Causes of Wealth of Nations*" published in 1776, Adam Smith, the founder of modern economics, provides us with valuable information about the then prevailing taxation system of Europe. His insightful discussion of tax practices in vogue in various cantons and counties of Europe lead to a unique conclusion. He claims that given the rudimentary institutions of tax administration in the form of tax collector or tax magistrates in the European countries, there was a high level of "conscientious and voluntary payment" of taxes. All types of taxes were paid with "great fidelity" and the phenomenon of tax avoidance was not serious enough to warrant public resentment.

When the British parliament in the seventeenth and eighteenth centuries, assumed greater powers at the expense of the King, the members of the parliament made no excuse to cut their own taxes, rather the opposite happened. As claimed by Fukuyama (2011), "In peak years during the eighteenth century, British collected as much as 30 percent in taxes" (p. 419). At the same time, government spending as a percentage of national income shot up from 11 percent in 1689-1697 to 17 percent in 1741-1748 and almost 24 percent in 1778-1783.

Having seen the close nexus between the parliament and taxation in the European context, we can examine the role of Pakistan's parliament in the evolving taxation system of the country.

Parliamentarians' Tax Non-Compliance: The Roots of Pakistan Fiscal Disorder

As a result of general elections of May 2013, total membership of the parliament comprising Senate, National Assemblies and Provincial Assemblies stood at 1072. The level of tax compliance, as documented in 'Parliamentarians' Tax Directory for Year ended 30 June, 2013" published on 28 February 2014 by the Federal Board of Revenue (FBR) is highly revealing. Collectively, a sum of Rs. 251 million was paid by the parliamentarians as income tax giving an avenge tax payment of Rs. 2.34 lacs. Their contribution was 0.03 percent of the national income tax collection of Rs. 740 billion for the fiscal year 2012-13. Out of the total, 450 parliamentarians i.e. 42 percent of all membership did not pay any amount as income tax. As many as 14 members (1.3 percent of the total) paid less than Rs. 1000 while the number of those members who paid between Rs. 1,000 and Rs. 10,000 was registered at 85 (7.9 percent of the total membership). A majority of taxpaying parliamentarians i.e. 261 (24.3 percent of the total) paid tax in the bracket of Rs. 10,001 to Rs. 50,000. A group of 64 parliamentarians i.e. 6 percent of the total members paid between Rs. 50,0001 and Rs. 100,000. This is followed by 155 parliamentarians, paying income tax in the bracket of Rs. 100,001 – Rs. 1.0 million, 36 members paying between Rs. 1 million and Rs. 10 million and only 7 members paying above Rs. 10.0 million.

It is quite disturbing to see that the names of cabinet ministers, well-known senators, religious leaders and front-line politicians sitting in the national and provincial assemblies appear in the FBR Directory showing absolutely small amounts as their tax payments. The tax profile of selected but prominent parliamentarians may be seen at Annex II. The contribution by Minister of Information and Broadcasting stands at Rs. 20, 959 while the out-spoken Minister of Planning, Development and Reforms has paid only Rs. 11, 084 as tax liability. The Minister for Planning is currently engaged in preparing Pakistan Vision 2025 which is a long-term development programme based on seven pillars, namely (i) developing human and social capital, (ii) sustained and inclusive growth, (iii) governance, institutional reform and modernization of public sector, (iv) private sector led growth and entrepreneurship, (vi) a competitive knowledge economy through value addition and (vii) modernization of transportation infrastructure and greater regional connectivity.

The question arises as how can the seven pillars defined above be raised when the Minister as the author of Vision 2025 is himself a tax delinquent and pays peanuts to the national pool of resources? Building of these pillars requires huge resources. However, if the wealthy law-markers of the country including the Minister of Planning, fail to contribute even 0.1 percent (actual being 0.03 percent) to the total income tax revenues, the seven pillars would remain as clichés and hollow political slogans sans content sans meanings.

In the context of political economy of taxation, Pakistan's tax-evading parliamentarians have turned the famous dictum “no taxation without representation” into a new one “no taxation with representation”. This has serious ramifications for the national economy, polity and the society. In the first instance, the parliamentarians have emerged as the “role model” for the country’ tax evaders, taking the art and practice of tax evasion to a level of perfection. Furthermore, the failure of the law-makers to comply with the established fiscal laws of the country is indicative of their lack of faith in the integrity of the constitution of the country, its institutions and the very system which provides them with all the benefits of power, prestige and pelf. As shown at Table 4, distinguished parliamentarians like Makhdoom Javed Hashmi, Mir Zafarullah Khan Jamali (Ex-Prime Minister of the country) and Mahmood Khan Achakzai fail even to deposit a penny in the national treasury. It is not difficult therefore, to search for the causes of “state failure” or “system breakdown” of Pakistan. Tax evasion is the “common creed” of the legislators. As such they cannot be expected to support or pass an Act to control the scourge of tax evasion in the country. Divested of all moral bearings, they have no inclination to demand optimal tax collection from FBR or Ministry of Finance. In fact, the Pakistani culture of corruption and rent-seeking is fully epitomized in the nature, coverage and magnitude of tax evasion by the parliamentarians.

Table 4
Tax Profile of selected Parliamentarians 2013-14

Parliamentarian	Tax Paid in Rupees	
Senators		
Mr. Pervaiz Rashid	20,959	
Raja M Zafar ul Haq	18,725	
Mushahid Hussain Syed	43,549	
Rehman Malik	71,082	
Members National Assembly		
Mr. Ahsan Iqbal	11,084	
Sheikh Rohail Asghar	5,903	
Haji Ghulam Ahmad Bilor	40,698	
Maulana Fazal ur Rehman	13,462	
Dr. Tariq Fazal Ch.	13, 937	
Raja M. Javed Ikhlas	9,500	
Jamshed Dasti	20,387	
Imran Khan	194,936	
Ch. Nisar Ali Khan	57,124	
Engr. Khurram Dastgir Khan	21,111	
Khawaja M. Asif	58, 719	
Makhdoom Javed Hashmi	Zero	
Zafarullah Khan Jamali	Zero	
Mahmood Khan Achakzai	Zero	

Conclusions and Recommendations

The fiscal system of Pakistan, due to uninterrupted decay and unchecked deterioration has become completely dysfunctional. The fundamental cause of this ubiquitous degeneration can be traced to the country's political system which overtime has been rendered as an anachronism.

The state of Pakistan and all its institutions such as parliament, the executive and the judiciary have lost their bearings and meanings, their very raison d'etre.

All mechanisms of checks and balances have disappeared from politico-economic system of Pakistan. For decades a vast majority of Pakistan's population has been deprived of education, health, housing, drinking water, food and energy security. The rulers of the country have abdicated their responsibilities to provide for these basic needs of the masses. The state seems to have withered away. Terrorism has been ruling the country for such a long period of time that the state appears to be its patron and its partner. Moreover, our eastern and western borders remain under a constant threat of external aggression. Not only Bhartia Janata Party (BJP) led by Narindra Modi, which is a die-hard anti-Pakistan party, but the ruling juntas in the neighbouring Afghanistan have always expressed their venom and animosity against Pakistan.

Being a nuclear country does not provide a guarantee for peace all the times. According to Wilkinson (2007), it was Vegetius who in the 4th century AD gave the wisest rule of statecraft: *Qui desiderat pacem, praeparet belum* (Let him who desires peace, prepare for war). For ensuring peace, Pakistan must develop an impregnable defence. That requires resources and Pakistan simply does not have such resources. Ironically, whatever the scarce resources the country possesses are being wasted on useless and unproductive mega projects in the name of development programme. So we have to borrow domestically and from abroad and remain under the lasting and galling yoke of debt. John Adam, the second US President (1797-1801) was on point when he remarked, "There are two ways to conquer and enslave a nation. One is by sword. The other is by debt."

Looking inwardly, besides a small number of its members who pay their tax dues in full, the present Parliament is populated by rent-seekers and tax-evaders. No wonder, Pakistan's tax/GDP ratio at less than 10.0 percent is lowest in the world. For economic and political survival of the country, this ratio must be raised to a level of 20.0 percent. Furthermore, waste and corruption in public spending both in the current and development outlays must be eliminated altogether.

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