



CHARTER OF ECONOMY

A NEW ERA OF ECONOMIC GOVERNANCE



CHARTER OF ECONOMY

Pakistan's re-occurring financial crisis and multiple IMF programs over the last decades can be attributed in almost all cases to a history of profligate spending and budget deficits financed by domestic money creation and foreign borrowing and inefficient budgetary allocation.

The origin of these crises may, in part, be attributed to the planning horizon of the government in power. Myopic governments, with short planning horizons, try to capture the maximum amount of resources during their expected terms. They ignore the effects their policies have on economic activity beyond their expected tenures. The longer-run implication of increased foreign borrowing, higher taxes and excessive money creation is greater vulnerability to exogenous shocks, such as abrupt price changes of major imports and exports. Their short-sighted behavior results in political and financial crisis.

To reduce the probability of a financial crisis, an institutional change that lengthens the planning horizon of the government is required. Such changes are typically brought about through a change in government, or by an international organization (e.g., the IMF, World Bank, etc.). However, unless the short planning horizons of domestic politicians are permanently altered, these short-term policies may reappear, leading to a cycle of recurring crises.

Pakistan needs to adopt a longer-term horizon that will create a stronger economic environment, able to withstand economic shocks. Furthermore, if these policies are implemented within a democratic process, the likelihood of the survival of the political process also increases.


The recurring economic crises over the last decade due to bad economic policymaking by the political parties can and should be addressed. Now, all political parties need to sign up to a mutually agreed "Charter of Economy", on which stakeholders may be engaged and a national consensus developed.



PREFACE

We acknowledge that various institutions and individuals have published Charters of Economy, including PIDE, Pakistan Business Council and Dr. Hafiz Pasha, and many others are working on it. We also acknowledge our discussions with various economists and experts over time, which have generated some of these ideas. It is not possible to enlist all, but we would like to especially mention Dr. Ikramul Haq, Rizwan Rawji, Tuaha Adil, Dr. Salman Shah, Dr. Khalil Ahmad, Dr. Vaqar Ahmed, Mueen Batlay, Syed Ali Ehsan, and Arshad Rahim Khan. After reviewing the publications and discussions, we have decided to present our recommendations, which if implemented, can lead to a fundamental revamping of our economic system in one year.

While some of the ideas presented here are common, we are of the view that the dual thrust on restructuring federal governance finances and guaranteeing security for doing business make this Charter unique. With its distinct dual focus on fixing the federal government finances and freeing up private capital, this Charter holds the key to the nation's economic prosperity. We are also cognizant that the ownership of entrepreneurs, private firms, and political leadership, as well as state institutions, remains critical to the adoption of such a Charter. Finally, while the list of economic reforms can be long, it is our hope that while keeping the Charter as precise as possible, we will be able to create a consensus on the reform agenda and strategy.



This Charter is dedicated to all the hard-working Pakistanis who deserve a better future, where they can find happiness and attain economic prosperity for themselves and their families.

Ali Salman
Founder & Executive Director
PRIME

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CHARTER OF ECONOMY

We, the academia, and business community leaders of Pakistan, have deliberated on the economic crisis in our beloved homeland. The sustainability of private individuals, firms and families are under threat from the irresponsible management of our collective economic resources.

Political, bureaucratic, and judicial interference in economic institutions has eroded the prosperity of the national economy, and left the middle and poor classes marginalized, businesses uncertain and the government on the brink of bankruptcy. Unprecedented inflation, high unemployment, brain drain, shortages of essential resources, and an ever-weakening PKR have made ordinary citizens vulnerable to economic shocks.

Drawing lessons from history, we must realize that undue state interference is greatly damaging to a prosperous economy. Political involvement adversely damages relationships that are critical for a healthy economy.

We take exception to the vilification campaign against private individuals and entities engaged in commerce, and instead hold cronyism and special interests responsible for the economic losses to the country.

The constitution of Pakistan lays out fundamental economic rights. These rights are the core principles on which our economy is built. They include:

- 01 Freedom of Movement
- 02 Freedom of Trade, Business or Profession
- 03 Protection of Property Rights

PRINCIPLE OF POLICY: THE PROMOTION OF ECONOMIC WELL-BEING OF THE PEOPLE

We are calling upon the sincere politicians, business persons, and bureaucrats of Pakistan to join hands to save our Motherland from the clutches of economic deprivation. We call upon them to defend their fundamental economic rights to make a democratic, federal, modern, and progressive Pakistan, as dreamt by the Founder of the nation, possible. Accordingly, we adopt the following “*Charter of Economy*”.

A.

GUIDING CONVENTIONS/CODE OF CONDUCT

From the fundamental economic rights, we can derive guiding conventions for economic policy making for the political parties of Pakistan.

SPENDING RESTRAINT

01

Following the 18th Amendment, the government will close down federal departments and ministries that are responsible for any functions that have been devolved to provincial governments.

02

The federal and provincial governments will not allocate fiscal resources for new development projects for at least five years and will allocate all development funding to complete or fast-track on-going projects to minimize throw-forward, and to reduce cost-escalation on on-going projects. Climate and environmental priorities will be given special consideration. The government will prioritize the use of public private partnerships to finance development projects.

03

The government will stop the practice of provision of free petrol, free electricity, and free or subsidized plots to public officials and public representatives.

04

The government will keep the fiscal deficit as a percentage of GDP under the maximum level of -3% and will keep primary deficit to 0%.

05

There will be no increase in tax rates, but rather cuts in government spending, to reduce the fiscal deficit.

06

The government will reform pensions funds management so that direct fiscal allocation for pensions will be gradually eliminated and pensioners may enjoy the savings by setting up special purpose vehicles.

07

The military spending budget may be curtailed below a maximum of 15% of total tax collections that may only be adjusted by an act of two third majority of Parliament.

08

Any borrowing to cover the budget deficit will not be authorized to finance any new spending, but only to fund existing obligations.

FAIR TAXATION

09

A single rate of income tax, harmonized general sales tax and customs duty, set at an optimal revenue collection level, will be levied. No other taxes are to be levied on a permanent basis and any urgent fiscal needs such as natural disasters or war will be addressed by creation of funds.

10

The government will withdraw all exemptions from income tax, sales tax, and customs duty except for pension income below a threshold.

11

The government will withdraw all SROs and exemptions, except on the sensitive items, such as medicines and books or items related with climate change adaptation.

12

The Parliament will make a constitutional amendment to bring the agricultural income under the federal government.

13

All businesses in the industry, services, and agriculture sectors, whether owned by private citizens or by the state bodies, will pay the same rate of taxes.

14

The government will not set different tax rates for any local or imported product, unless during times of war and national emergency, and under special decree by two-third majority of Parliament.

15

The government will not give tax concessions, tax holidays or tax credits to any specific industries or investors or private individuals except in cases where government has entered contractual obligations.

16

All kinds of withholding taxes, except payroll, dividends and payments to non-residents will be discontinued. Indirect taxes on utilities will be withdrawn.

17 The government will not provide subsidies to the public or firms, unless in the case of a national emergency approved by a two third majority of Parliament.

18 The government will stop all kinds of concessionary financing and discrimination between businesses through fiscal incentives.

19 The government will replace energy subsidies such as tariff differential for agricultural tube wells in Balochistan with investment in renewable electricity sources.

BUDGETING

20 The government will adopt zero-based/output-based budgeting in a phased manner, starting from government-run corporations and attached departments.

21 Wherever possible, the government will apply cost-recovery and usage fee as a principle for the pricing of services and utilities under the government.

22 The finance minister will announce outputs and outcomes achieved by budgetary allocations for each budget to ensure transparency and will make audit reports available.

23 Once a budget is announced and duly approved, there will be no mini budget, unless approved by a two-thirds majority of Parliament.

SOCIAL PROTECTION

24 The government will continue to use income transfer as a mechanism for social protection and will merge various social protection programs to eliminate duplication. It will also reform and centralize zakat collection, and will re-direct 80% of zakat receipts to be spent on recipients. It will give an exact accounting of how the remaining 20% of zakat receipts are being spent, and its justification. Zakat accounts will be independently audited every year, and the results available to the public.

25 The government will not incur any debt to fund such a program, and will only use taxation and private charities for this purpose.

26 The government will use the method of Negative Income Tax, by targeting those households that are earning below the income tax threshold, by imposing a Negative Income Tax Rate. The Negative Income Tax Rate will be decided by a simple majority vote of Parliament.

FREE MARKETS, TRADE & PRICE CONTROLS

27 The government will not restrict any economic entity from engaging in any economic activity through the use of a licensing regime, except when warranted due to public health or national emergency.

28 The government will not control the import or export of any good or service except during national emergency, and on approval by a two-third majority of Parliament.

29 The Parliament may not issue any statutes to control the supply and demand of economic goods and services. The government may not uphold any statutory monopolies or oligopolies.

30 The government may not monopolize any economic resource.

31 The PSO monopoly to import most fossil fuels into Pakistan will end.

32 The government will not intervene to set prices of commodities.

33 The government will not import or export commodities and any institutions created for this purpose such as PASSCO will be abolished.

CURRENCY & DEBT

34

The government and the State Bank of Pakistan (SBP) will not have any special statutory powers or public mandate to control money markets; the manipulation of currency value to achieve a certain target value or range will not be undertaken by any mechanism including quantitative easing.

35

The government will not resort to printing money following the legislation ensuring the autonomy of the State Bank of Pakistan.

36

The government will not utilize more than 25% of commercial credit available in the country in any given fiscal year.

PRIVATE PROPERTY

37

A constitutional prohibition will restrict any commercial activity on part of government-owned organizations. It will be unconstitutional to nationalize privately-owned entities.

38

Assets of an economic nature may not be held by government and must be privatized, disposed, or restructured. A 5 year time frame will be set to privatize all government-owned enterprises.

39

The government will solicit bids for privatization of State-Owned Enterprises (SOEs) both inside and outside the country through an internationally recognized competitive privatization process including employees' ownership option.

40

Public land will not be allowed to be wasted at any given time. Obscurity of property ownership will be eliminated by individuating communal land rights and apportioning public lands through corporatization. State lands, lying unproductive or occupied by state elites, shall be leased out for industrial, business, and commercial ventures.

B.

IMPLEMENTATION MECHANISM

NATIONAL TAX AGENCY

41

A National Tax Agency (NTA) with the mandate to impose a simple and harmonized tax code will be established and will replace/restructure Federal Board of Revenue (FBR) and all other federal tax authorities in the country. It will be responsible for collecting taxes at the federal level with active role of National Tax Council (NTC). Provincial tax authorities will be similarly structured and streamlined to provide ease and simplicity to the taxpayer. The NTA will report to the Parliament through the Minister of Finance and the appointment of chairman and members shall be through a public hearing by a joint select committee of the National Assembly and the Senate. It will not assume the role of legislator and policymaker, which under the constitution is the sole prerogative of the people of Pakistan through their elected representatives.

42

A Taxpayers' Bill of Rights will be promulgated by the Parliament.

AGRICULTURAL INCOME TAX

In Legislative List (Part I) Fourth Schedule to the Constitution:

43

Entry 47 may be amended by deleting the words "other than agricultural income".

(This will enable the Parliament to levy taxes on "agricultural income" as well).

FISCAL RESPONSIBILITY & PUBLIC DEBT COMMISSIONS

44

A Fiscal Responsibility Commission will be established by an Act of Parliament to provide for the prudent management of the nation's resources, ensure long-term macroeconomic stability of the national economy, and secure greater accountability and transparency in fiscal operations within the Medium-Term Fiscal Policy Framework to ensure the promotion and enforcement of the nation's economic objectives.

45

A Public Debt Commission will be established by an Act of Parliament to provide strategy for future debt sustainability with the capacity to advise the government on future debt management and recommend alternative financing mechanisms for investment.

46

Appropriate amendments including formation of rules of business and enforceable targets with punitive measures shall be introduced in the FRDL Act 2005.

ECONOMIC MANAGEMENT

47

The secretaries of all ministries, and in particular economic ministries, shall be appointed based on their professional expertise and their appointment will be protected under a tenure system for a period of three years.



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