

### **PTI and revival of economy**

Disillusioned by the actions of Pakistan Tehreek-e-Insaf (PTI) of raising utility tariffs, seeking bailout from International Monetary Fund (IMF), devaluating rupee and following outdated tax policies of its predecessors, people ask what actions are needed for revival of ailing economy. Good economics leads to good politics. Good economics requires fundamental structural reforms to dismantle elitist structures that are our main malady. The existing elitist economic structure and oppressive tax system not only benefit the rich but are also unproductive. We cannot come out of prevailing fiscal mess unless these structures are dismantled and replaced with those that lead to inclusive growth and prosperity for all.

Fortunately, at present national consensus exists for all-out tax reforms. All parties want to make tax system having low-rates with broad-based, fair, simple, predictable, business-friendly and growth-inductive. It is now for PTI to take all the parties in House on board to undertake reforms to achieve these objectives. Undoubtedly, the existing tax system is the worst manifestation of manipulation and exploitation. A highly unjust and distorted tax base benefits the rich and mighty—exploitative elements having business monopolies fleece the economically-deprived classes.

Since the first martial law of 1958, there have been unprecedented tax concessions, exemptions and amnesties for the privileged classes in Pakistan. During military rules of General Ayub Khan, General Ziaul Haq and General Pervez Musharraf, revenue worth trillions of rupees was lost due to abolishing of all the progressive taxes, e.g., estate duty, gift tax, capital gain tax, wealth tax and federal agricultural income tax that was levied for the first time in our history by the then parliament on July 1, 1977 but frustrated after extra-constitutional takeover of July 5, 1977. No democratic government thereafter ever bothered to reintroduce progressive taxes. On the contrary, the regime of Pakistan Muslim League (Nawaz) in 1992 introduced presumptive taxes under the Income Tax Law, turning it largely into an indirect tax and also protected the rent-seekers, the corrupt, tax evaders and money launderers through Protection of Economic Reforms Act, 1992.

At present, a common man is subjected to exorbitant sales tax (though standard rate is 17% but actual incidence on many imported items is as high as 30-40% after applicable customs duty, regulatory duty, mandatory value addition and advance income tax). In return, a common citizen even does not get what is guaranteed by the Constitution, e.g., clean drinking water, free education and health cover—what to speak of affordable shelter and transport. The mighty sections of society—monopolistic industrialists, absentee landowners, generals, judges and bureaucrats—are enjoying exemptions and concessions. The cost of tax-free perks and perquisites to members of militro-judicial-civil and political elite borne by taxpayers alone is in billions!

Determination of a tax base capable of measuring an individual's ability-to-pay and its efficient

collection are major problems that our tax system is unable to cope with. In all democracies, this rule is followed by adopting progressive rate schedule for personal income tax and property tax. In Pakistan, we have moved from this policy to unequal sacrificial rule where the militro-judicial-civil complex (now an integral part of landed aristocracy by grabbing State lands as awards and rewards) and politicians, mainly representing land-mafia and/or businessmen-turned politicians, are paying meagre taxes and main incidence is shifted to the less-privileged. The rich and powerful businessmen are offered presumptive tax regime, even under income tax law, to pass its burden onto customers/clients. The masses are overburdened with oppressive indirect taxes, ever rising costs of public utilities and petroleum products, especially after massive devaluation of Pakistani rupee.

It was Louis XIV's finance minister, Jean-Baptiste Colbert, who claimed that the art of taxation was "to pluck the maximum amount of feathers from the goose with the least amount of hissing". Colbert's view was close to the truth, even in today's world, but taxation in his day was not used as an instrument to achieve a broad range of economic and social objectives. Rather, it was a tangle of practices and customs designed to finance wars, private and public works, as well as the pet schemes of the royal family—and their aristocratic hangers-on. In fact, until the 20th century, the notion of a progressive tax on income did not strike them as being virtuous. Our politicians are, however, still living in that state of mind.

In the second half of the 20th century, a number of governments in the West realised that taxation was indeed a multifaceted instrument which, if used sensibly, could help a society attain its economic and social goals. This required a delicate balance between rewarding entrepreneurship, innovation and risk-taking on the one hand, and the need to finance important public expenditures on the other, including education and social programmes, as well as the traditional public works which attracted Colbert. Not easy to do, and few countries, if any, can claim to be fully satisfied with the balances they have struck. Pakistan, of course, does not list among such countries and none in our leading political parties, including the ruling PTI, has even given a serious thought to it.

There are only three main sources of tax revenue upon which government treasuries depend: income, capital and consumption. Too heavy a tax burden on any one of those will cause it to become unreliable as a source of revenue, as well as generating distortions and inequities. In some cases, it might spur tax evasion or drive part of the economy underground or in the age of globalization, flight of capital to tax havens. Any well-intentioned politician sees no limits to levels of taxation and redistribution. If an elected politician has the courage to tax and spend in a transparent way on his or her perceived worthy social objectives, then it must happen in the democratic way. The politicians must be sanctioned or approved by the electorate to go for great revolution. However, a government can be tempted to exercise a philosophy of social responsibility by penalising the productive sectors instead of introducing reforms which require greater political courage. Yet, in doing so, it runs the risk of undermining the economy's growth potential. Many do not believe that tax systems should be over-burdened with the social convictions of politicians. Have individuals and corporations paid their fair share of taxes, yes! Have social charges disrupted the good functioning of economies, no! Excessive and unbalanced taxation can prevent many individuals and businesses from taking full advantage of the opportunities of the new knowledge-based economies.

Taxpayers should share the burden of protecting those who are vulnerable as a result of change, either through well-designed social protection measures or retraining, not through excessively rigid job protection measures and inflexible labour regimes that penalise productivity. That is why a low-rate, broad-based, fair and transparent tax system is so essential for maximising economic growth. In this regards, a detailed study [Towards Flat, Low-rate, Broad and Predictable Taxes, Islamabad: PRIME Institute, April 2016] is available that can be debated publically to find a workable tax model for Pakistan. It proposes 10% income tax rate for individuals with alternate minimum of 2.5% of net wealth, 20% for companies and other entities, harmonised sales tax on good/services of 10% and 2% uniform customs duties for all kinds of imports (exporters to get taxes back after realisation of export proceeds by State Bank of Pakistan).

The government of PTI must show the courage to achieve a sensible balance between income, capital and consumption taxes. It must also have the courage to spend, not on ill-designed social programmes introduced more to collect votes than social returns, but on important investments in creating human capital (e.g., education, training and health), and necessary public infrastructure to increase economic productivity. Bringing this paradigm shift in the thinking of our policymakers, especially the politicians and bureaucrats, is by no means an easy task, especially when media is predominantly engaged in trivial issues and most of the time detracting the attention of masses from real issues. During the election 2018 campaign, media failed to play its role to better inform voters about the impacts of undisciplined public finance that has pushed Pakistan into an ugly economic mess and deadly debt trap.

In the coming five years and with the economy in bad shape, governments at all levels will have to perform better. Independent observers and media should carefully monitor data and survey the costs and benefits of various approaches to taxation that have been adopted, changed, abandoned and reinvented over many years in various parts of the world. The experts should give frank advice on reform and best practices, and help the new government reach consensus on prudent economic and tax matters. The new assemblies and senate should also listen to them. The standing committees should debate and recommend on issues like taxation of e-commerce, harmful tax competition and transfer pricing. Simply put, the newly-elected members must unshackle the constituent elements of economic growth by letting market forces play their respective roles. In a democratic dispensation, the governments must transfer the benefits of economic growth to enhance social well-being and cohesion through transparent and well-designed taxation. If this paradigm could be made to work, then Colbert's geese would barely hiss at all! Hope somebody is listening this time!!

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