



# KILL TRANSACTIONS, KILL ECONOMIC GROWTH

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Shopping malls are empty, consumer businesses are reporting losses in double digits, people are losing jobs while new ones are not available, and new investment is not happening. This is not a downturn in the economy. It is merely the culmination of amateur hour in policy-making that donors and the bureaucracy have combined to develop for decades.

The thirst for taxation has driven the economy to the ground. Economic activity is now gasping for air – despite decades of research having clarified the principles of taxation.

- A tax system must be simple and clear.
- It should not seek to tax different goods and services differently to allow all consumer and investment decisions to be based on market realities.
- Tax rates and policies should be stable and not changing in minibudgets every few months, forcing all to speculate on tax policy.

Tax administration is a collection agency, not an intrusive and oppressive bully using the power of collection to ruin your life as well as extract rents from you. Systems are used to stop anyone from cheating the government including the tax man. The tax man is not allowed to treat citizens as thieves and bully them into submission or bribery.

Over the past 40 years, the Ministry of Finance and FBR have spurned these principles and have sought taxation like the medieval tax farmers that kept their populations in perpetual deprivation. They arbitrarily tax whatever they can see. They call indirect taxes withheld income taxes with the full intention of never returning the withheld tax. They nurture the narrative of 'tax thieves' for their countrymen to cover up their incompetence and venality.

FBR collects little tax having farmed out tax collection to withholding agents, banks, utilities, schools, telecoms,

etc. — yet it has wide-ranging powers with no accountability. As in medieval times, trade, entrepreneurship and economic activity spends time, effort and resources to hide from this predatory and thoughtless government. In Pakistan, the informal market grew similarly, not as thieves or smugglers but as people looking to make a life for themselves beyond intrusive tax farming.

Thanks to migration, the middle classes grew in every corner of Pakistan over the past 40 years. Policy impeded but enterprise of the migrant and their families generated wealth and commerce everywhere. Land values went up as the dispossessed now found wealth to buy a house and perhaps set up a shop.

This informal economy grew to provide the ‘tax hunters’ — donors, MOF, FBR and their followers — with more excuses for predatory taxation. They raised the spectre of documentation and an apartheid between the filers and non-filers. The poor migrant, building a life from a high propensity to save are considered to be thieves and precluded from accumulating wealth by an uninformed and thoughtless policy.

For the last decade, the MOF and FBR have virtually waged war against the small saver who is investing in real estate and the small trader who is making a living by setting up a small business. Their ally in this fight is the big industrialists who were raised under licenses and subsidies, then thrived on state protection and bureaucratic favours such as tax exemptions, favorable input prices and sovereign guarantees.

The upshot of all these policies is that the state is now taxing all manner of transactions arbitrarily while also imposing huge documentation costs. Real estate has been particularly singled out to virtually stop all transactions.

Migrants and small savers have for decades bought plots in housing schemes that the state promoted over the past five decades. Development was delayed by decades as collusion between regulator and developer defrauded investors on many levels. 30–40 years later, some of these are maturing not because of any effort by either the regulator or developer. The natural urbanisation process made these properties valuable.

The government is now busy maligning this investment as thieving and informal. Without any evidence, all the government wants to do is tap into the capital gains of small savers whose investments have taken decades to mature. No apologies for the failure of regulation or the failure of courts to guard contracts; and no punishment for malfasant developers. Instead, government is busy abusing savers and cheating them out of gains that they waited decades for.

Similarly, people who have attempted to set up a small business are forced out of the arena by government policy or asked to contribute way more than they earn.

Any entrepreneur rising out of poverty has to face the calumny of the state be being called ‘informal’ — another word for thief.

Hafeez Centre in Lahore is full of clever entrepreneurs who adapt to market needs to provide software, computers, mobile phones etc. Most of them are small business owners with shops less than 100 square feet. Their revenues have dried up with the recent push against mobile phone import into the country as well as harsher checks on the informal economy. There are many such centers for small entrepreneurs in every city. I recently checked some of them in Lahore and they are hurting for business. Why are those who are lifting their heads out of poverty being called names and targeted?

Government and its advisers need to change their analysis and make it more evidence based.

- They must understand that an economy is a set of transactions and more transactions mean higher economic growth.
- It is a fallacy to think that the government knows which transactions are ‘better’.
- Taxing transactions beyond a simple GST or VAT is inefficient and counterproductive. It will kill transactions and slow down growth.

It is time that the government stopped making policy on rhetoric alone. There are no good and bad transactions; nor is documentation a tax on transactions. The primary reason for much of the legal framework and government machinery is to facilitate transactions.

There is a clear need to be a transaction facilitating government rather than a transaction blocking government. The economy is shrinking because of this policy of suspicion on all transactions. If the government wants to revive the economy, it should carefully review all policies to weed out those that are impeding transactions.

Policy should remember: kill transactions, kill economic growth.

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