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As a staff-level agreement between IMF (International Monetary Fund) and Pakistan following the ninth review of the IMF programme inches ever closer, the government recently announced the Supplementary Finance Bill, which is being referred to colloquially as the “mini-budget”. The specific measures that are being introduced through this ‘mini-budget’ have been much debated in recent days. Many of these measures revolve around the government imposing both new and increased taxes in an attempt to mobilize an extra Rs. 170 billion in the remaining months of the fiscal year FY23. Although the details of the staff-level agreement with the IMF are yet to be fully disclosed, the ‘mini-budget’ is unmistakably the incumbent government’s last-ditch attempt at appeasing the IMF after having irked the global lender through a host of incongruent policy measures since gaining power last summer. The fact that the incumbent government has taken this route of imposing additional taxes in an election year alludes to the severity of the situation that the country’s economy faces were it not able to secure external financing.

The increased taxes from the latest ‘mini-budget’ are further going to hike up inflation which is already at an almost 50-year high. Having said that, there is a persistent feeling that the government has no other alternative but to increase taxes in order to reduce its deficit. This feeling that raising more taxes is the only way to overcome our persistent government deficits is nothing new. Part of this feeling has been solidified into your policymaking corridors by international financial and donor agencies and their representatives. For some time now, we Pakistanis, have been continually being called a nation of habitual tax evaders.

I was recently in a meeting with a representative of a multilateral donor agency in which they satirically asked the question – “Who even pays taxes in Pakistan, right?” – to which I was tempted to instinctively reply that almost everyone does. The fact is that the lion’s share of tax revenue in Pakistan comes from indirect taxes namely sales tax, customs, and excise duties – which by their very nature are regressive taxes that everyone pays for without much discrimination between their wealth status. Despite this reality, it is all so commonplace for people to casually remark that we Pakistanis do not pay taxes. A few years ago, one of the leading national daily newspapers ran a story with the title that “Only 1 percent of Pakistanis pay taxes” – the editors of the newspapers were allegedly quoting the Federal Board of Revenue, which for some odd reason had failed to accurately distinguish between what it means to be an income tax filer and being a taxpayer. A difference that should not be at all subtle, especially for an agency that is the very architect of the taxation system in the country. While it might be true that roughly 1-2 percent of the population are income tax filers, almost all of the population – particularly those who consume goods and services are taxpayers.

This narrative of Pakistanis being a country of obstinate tax cheats, I believe, also serves the purpose of a government and its allied state institutions such as the bureaucracy, who are quick to lay the blame for persistent deficits on tax evasion, and with little to no regard to their own profligate and wasteful spending. It is indeed true that the government deficit continues to increase. However, the assumption that it is only the tax shortfall that grows the deficit needs to be challenged. Expenditures of the government are key contributors to this deficit. These high government expenditures arise from its inability to control inefficiencies, losses, and staffing. In addition, the government creates a large number of new agencies often duplicating work and often without regard to funding and cost-benefit considerations.

Let's face it, a government that fails to cut its own excessive and often unproductive expenditure does not have any intrinsic right to ask its population to pay more taxes. Furthermore, despite the persistent clamour from both local and international policymakers regarding how "low tax collection" is the primary ailment impeding Pakistan's economic growth, the fact to note is that there are hardly any theoretical models or empirical evidence that suggest any credible relationship between higher Tax-to-GDP ratios and high sustained economic growth (GDP). A country's Tax-to-GDP ratio, which is just its total tax revenue divided by its GDP, is indicative of a country's tax collection capacity relative to its size. But there is significant variation in Tax-to-GDP ratios across countries. Poorer countries typically have low ratios whereas richer ones have higher ratios – particularly those rich countries that are considered welfare states having higher ratios. Having said that, there is no link between high tax collection capacity and economic growth. For instance, China has had high growth for several years with a single-digit Tax-to-GDP ratio. Furthermore, the figure for Pakistan is roughly 10 percent of its GDP, which is not too dissimilar from the lower middle-income countries' average of 12 percent.

To sum up, we Pakistanis are often told that we are habitual tax cheats to the point where we have internalized this narrative into our own local policy debate. But the cold hard truth is that human nature is not too different across cultures – no sensible human likes to pay taxes, even in rich countries, particularly if they cannot see the government give them something in return i.e. security, opportunity, etc. And a government that refuses to rationalize its own unproductive expenses first in order to cut deficits has no inalienable right to taxes.

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