

Taxing the Poor: A Self-Defeating Approach to Economic Growth

Outline

- 1- Introduction
- 2- Overview and Background of Taxation System of Pakistan
- 3- How Taxing the Poor is a Self-Defeating Approach to Economic Growth

3a- Poverty increases the burden and reliance of welfare programmes

~~3b- Corrupt rates raise~~

3b- Ability to save and invest slows down

3c- Demand for goods decrease with reduced purchasing power

3d- Crime rates surged up raising costs for law enforcement agencies.

3e- Workforce productivity is hindered due to stress and health problems

3f- Social unrest and public dissatisfaction creates an unstable environment.

3g- Stunted education and increase in school and college dropouts

3h- Emigration of skilled professionals to tax friendly countries.

4- Recommendations to Reform Taxation System in order to Drive Economic Growth

4a- Introduce progressive tax policies to reduce the burden on welfare programs.

4b- Broaden the tax base by bringing untaxed sectors into tax net to reduce reliance on indirect taxes

4c- Provide tax credits and subsidies to poor to meet their basic needs

4d- Grant tax-holidays to start-ups to encourage investment

4e- Improve tax collection mechanism to minimize corruption and generate revenue for development of public welfare.

5- Conclusion

Essay

Taxation has been the major source of ^{generating} public revenue all over the world. Historically, the poor have faced the forceful and regressive taxes. The taxes sparked revolution when they disproportionately burdened the poor, while sparing the wealthy. This led fueled revolutionary movements causing widespread unrest such as French Revolution, American War of Independence, Russian Revolution, etc. In Pakistan, the taxation system is complex, influenced by political motives and poor decision-making which burdens the lower class of the society. This lead to stunted economic growth. There are plethora of factors due to which taxing the poor is a self-defeating approach to economic growth. The poverty increases the burden on government welfare programs. The ability to save lowers causing slow investment. Along with this, the demand for goods decreasing with less purchasing power. ~~Along with this~~ ^{furthermore}, the labour

productivity reduces due to stress and other mental health issues. Moreover, the crime rates also surge up causing stress on law enforcement agencies. Apart from this, social unrest and public dissatisfaction leads to political turmoil. Furthermore, educational system also suffers due to increase in school and college dropouts. Last but not the least, it leads to emigration of skilled professionals and intellectuals to tax friendly countries. Thus, it can be said that taxing the most vulnerable class of the society is a vain approach to achieve economic growth.

Pakistan's taxation system has evolved significantly since its independence in 1947. Initially, the country inherited the tax framework from British India, which included a mix of direct and indirect taxes. Over the years, this system has been modified to meet the needs of the economy, but it has faced challenges of inefficiency, low compliance, and

reliance on indirect taxes. At the time of independence, the revenue base was limited, with agriculture being the primary economic sector. The government relied heavily on customs duties and excise taxes as the main sources of income. In 1950s and 1960s, efforts were made to introduce corporate taxes. But 1970s saw a shift towards nationalization imposing heavy taxes on corporate sector but agriculture remained largely untaxed. Whereas, in 1980s and 1990s, VAT (Value-added tax) was introduced. In the 21st Century, Pakistan relied heavily on indirect taxes. This has raised concerns about equity as this disproportionately affects lower-income individuals, hindering economic growth.

There are multiple ways in which taxing the poor is a self-defeating approach to economic growth, but the first and the foremost is that the poverty increases the burden. ~~and~~ This leads to over-reliance on welfare programs. To meet the ends, people rely on government-led programs as a part of their

political commitments. For instance, the Benazir Income Support and Ehsaas Programs can merely meet the need of people and led to economic growth. Over the past few years, the number of people who registered for these programs has increased significantly. This deviate the funds from economic and investment projects to meeting the needs of people. Hence, the over-reliance on public scheme creates a burden on economy while failing to alleviate the poverty at the same time. This slows down the economic growth.

The people are unable to save and invest money due to lack of accumulated capital. Even the government led schemes have shown a cut down in profit on saving. The Sarwa Islamic Term Account cut down by 1.22% profit on savings according to CDNI report in 2024. Due to this, people loss interest and do not see any advantage of saving. The unsaved money goes

wasted. Because of this, people are unable to start their own businesses that can generate revenue. Therefore, taxing the poor ~~can~~ is a hurdle in economic prosperity.

When the taxes increase, the demand for goods decrease with less purchasing power. This automatically lowers the sales and revenue generation. According to The News International, Pakistan has imposed additional taxes worth 3.8 billion to get IMF bailout. These additional taxes have increased the burden on the poor as well. Their affordability before these taxes was less but after these the conditions has been worse than that. Hence, the demand falls due to taxing the poor which reduces the revenue causing slow economic growth.

There is an increase in crime rate when people are unable to fulfill their needs, ~~causing~~ raising the

costs for law enforcement and judicial system. People start to use public resources through unfair means. For instance, the taxes on energy sector has raised the electricity cost. Almost 417 illegal electric connections were reported by LESCO in the month of October 2024 in a campaign against electricity theft. The people have been forced to take such illegal measures due to their economic conditions. Their income has remained the same but the inflation has increased. Resultantly, taxing the poor has impacted the economic growth of the country.

The social unrest and public dissatisfaction threatens the political stability of the country. This causes low investor confidence. The government of Bangladesh was overthrown due to consistent taxes on lower class of the society. It shows how revolutionary movements get support and has the

ability to overcome the governments. Due to instability in government, the foreign investors tend to leave the business or refrain from doing additional investments. Thus, the social unrest and unhappy population can threaten the peaceful functioning of the state leading to halt in the economic growth.

There is a loss of skilled labour due economic problems among the lower-class caused due to heavy taxes. The financial straits impact the mental well-being of people. Due to this, many suicide cases have been reported. Pakistan is ranked 72th globally with a suicide morality rate of 9.8 per 100,000, according to WHO (World Health Organization). This clearly reflects that people kill themselves when they are unable to bear the financial burdens and meet their daily needs. Not only this, but dawn reported a incident where father killed his daughters and wife due to poverty. After that, he committed suicide. Hence, the

Taxes on poor can have everlasting impact on the health of poor. This leads to lower workforce productivity causing lower economic growth.

The school and college dropouts also increase due to taxes which lead to illiteracy among the population. Due to this, useful citizens are not being produced. The Dawn News reported, 25 million children aged 5-16 are out of school. The youth is the most valuable asset for a growing economy if treated well. But if that similar youth grow up illiterate, that would be a burden on ^{the} economy. So the taxes increase the living cost reducing the ability to send children to schools. Instead, parents engage them in work at early ages to fulfill their needs which causes hindrance in economic growth.

The skilled professionals and intellectuals emigrate to tax friendly countries causing brain drain and hampering economic growth. For instance, the Pakistan

has seen increase in the emigration to Gulf countries for past two years. The interviewed revealed that the major causes of the massive scale emigration was lack of employment opportunities and heavy taxes in Pakistan. This has caused brain-drain pushing the useful human resources out of the country. Thus, the taxes on lower class has stunted the economic growth.

There are several ways in which the taxation system can be transformed in order to drive economic growth. One of the most significant way is to introduce progressive tax policies to reduce the burden on poor. This would reduce the reliance on public welfare programs, and those funds can be channeled to construct roads, railways, dams, etc. China introduced progressive taxation system in 2015, increasing taxes on the highest earners which reducing rates for the middle-income groups. This redistribution enhances disposable incomes, spurring domestic consumption and economic growth.

The tax base needs to be broadened to streamline indirect taxes and bring the informal economy into the tax net. India followed this practice to generate revenue through digitalising the process. This reduces the reliance on indirect taxes and generate potential revenue to be used to fund initiatives in infrastructure development. Thus, when the untaxed sectors are taxed, it creates equity and reduces the burden of lower-income group leading to economic growth.

The tax credits and subsidies need to be provided to the poor citizens. This would give them additional money to spend on health, education and technology. When these people will have extra money, this would maintain stability and create satisfaction among the population. Due to this, the public confidence in government would attract foreign investments leading to economic growth. Therefore, providing tax credits and subsidies instead of taxing them would

promote peaceful leading to economic growth.

The investment needs to be encouraged through grant tax-holidays to small scale business and start-ups Saudi Arabia's Vision 2030 Incentives ~~grants~~ benefits the new businesses from corporate taxes exemptions and reduced levies for several years. Such kinds of programs can be introduced to stimulate the economic growth. The people would be engaged in saving and investing backed by government encouragement and support. Hence, tax exemptions to small business can generate revenue through exports contributing to economic growth.

The tax collection mechanism needs to be improved to minimize corruption and generate expected revenue annually that can be used for public welfare. Rwanda has emerged as a leader in efficient tax collection through automation and digitalisation. By introducing e-tax filing

systems and mobile payment options, the government can reduce corruption and increase tax compliance. This modernization of taxation system can boost revenue collection, enabling greater investment in public sectors like healthcare and education. Thus, these sectors have the ability to produce healthy and educated workforce that can contribute to economic prosperity of the country.

The taxes on the poor has been a failure approach to economic growth in countless ways. It has increased the burden on government led initiatives to alleviate poverty. The citizen's ability to save and invest also slows down.

Along with this, the reduced purchasing power drop consumption demand leading to less revenue. Furthermore, the labour productivity is impacted due to health issues causing suicides. Not only this, but crime rates of surge up to meet the basic necessities of life. The social

unrest also increases as a result of this leading to unstable government. Moreover, the education system suffered because of increased school and college dropouts.

And most significantly, brain drain causes the fruitful resource to move out of the country. However, these challenges can be overcome by introducing progressive taxes, widening the tax base, supporting the lower-class through tax credits and subsidies, granting tax leverage to new business and improving and shifting to e-taxing systems. Therefore, this will lead to equitable taxation system and generate potential revenue that can propel economic growth.