

Does How & Rule: of Law Impact Economic Growth?

Outline

1. Introduction.

a. A brief overview of various factors that affect economic growth

b. Impact of rule of law on economic growth

c. Thesis statement

2. Impacts of Rule of Law on Economic Growth

a. Increase in tax collection

b. Decrease in corruption

c. Restoration of investors' confidence

d. More conducive environment for businesses

e. Better job opportunities

f. Decrease in inflation

g. Balance of payment

Crisis is subdued

h. Decrease in production costs leading to more exports

I. Reduction in smuggling and black economy

J. Increased remittances

K. Check on dollar flight

3. Conclusion

Essay

Economic growth and rule of law are closely inter-related phenomena. Various indicators of economic growth are dependent on rule of law. Increase in foreign direct investment, efficient tax collections, strong checks on corruption, political stability, in control inflation, increased competition, improved exports, reduction in dollar flight, increased remittances and reduced brain drain contribute to growth in economy. Rule of law positively impacts these indicators. It restores investors' confidence so they invest more in the economy. It results in creation of more jobs. Rule of law also helps in widening the tax net. This reduces the fiscal deficit. Rule of law also keeps smuggling and informal economy in check. Crack down on informal means of transactions results in increased remittances and reduced money laundering. These factors contribute to increased foreign reserves and aversion of balance of payment crisis. ^{Hence} Rule of law Hence, all these factors explain that how

rule of law positively impacts economic growth.

First of all, rule of law results in improved tax collection. In a society where powerful and influential section is able to evade law, it becomes next to impossible to bring them into tax net. For example, Pakistan stands at 137th position in rule of law rankings published by Transparency International. This absence of rule of law results in low tax to GDP ratio which stands at around 10%. On the other hand, ~~the~~ countries like United Kingdom, where principle of rule of law forms the dominant characteristic of its constitution, are economically developed. Thus, rule of law results in improved tax collection which contributes towards economic growth.

Similarly, rule of law results in reduction of corruption which in turn results in improved economic growth. Rule of law makes state institutions powerful enough to hold every section of society

accountable. These strong accountability mechanisms keep the corruption in check as people know they will be held accountable no matter how powerful they are.

One such example is a United States court convicting ex president Donald Trump of paying hush money to a porn star. Holding corrupt leaders accountable is one of major reasons of United States being a global economic super power. Hence, rule of law positively impacts the economy of a country.

Moreover, rule of law improves investors' confidence and results in increased foreign direct investment which results in economic development of the country. Rule of law ensures that investment of an investor will be safe and he will be able to rely on the courts of the country if someone tries to break the contract. When Supreme Court of Pakistan declared the contract of Barrick Gold Company illegal, it deterred investors from investing in Pakistan. Hence, rule of law is essential to gain investors' confidence and that is why it contributes positively to economic growth of a country.