



INCREASING INEQUALITY **IN PAKISTAN**

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The United Nations Development Programme (UNDP) publication Development Advocate Pakistan (DAP) on Inequality in Pakistan that was released last week makes some disturbing observations with respect to widening income inequality between the haves and the have-nots. The report while acknowledging that there has been a reduction in income and non-income poverty states that "inequality, both income and wealth-based, has largely increased globally as well as in Pakistan".

The report further adds that "while consumption-based poverty dropped from 57.9 percent to 29.5 percent between 1998/99 and 2013/14, and multidimensional poverty - which includes health, education and living standards - fell from 55.2 percent to 38.8 percent between 2004/05 and 2014/15, inequality has grown. In 1987/88, the Gini coefficient, which measures income inequality, was 0.35; by 2013/14 it had risen to 0.41. Pakistan's richest 20 percent now consume seven times more than the poorest 20 percent". A major portion of the blame for this rise in inequality stems from successive Pakistani governments' unwavering espousal of the trickle-down theory which effectively supports policies that facilitate those engaged in productive sectors on grounds that as productivity rises so would growth and employment opportunities - benefits of which in turn would trickle down to the poor.

Two well-known opponents of the effectivity of the trickle-down theory are Warren Buffet and Senator Elizabeth Warren. Buffet recently stated that "taxes for the lower and middle class and maybe even the upper middle class should even probably be cut further... I think that people at the high end - people like myself - should be paying a lot more in taxes. We have it better than we've ever had it;" Elizabeth Warren while attending the launch of Thomas Piketty's new book, Capital in the Twenty-First Century, stated that "he's (the author) got good historical data, and boy, what it shows is trickle-down doesn't work. Never did, doesn't work."

The one major reason for rising inequality in Pakistan relates to our tax system which remains grossly inequitable, unfair and anomalous. The massive rise in direct tax collections, a tax that can be supported as it is levied on the ability to pay principal or essentially on income from various sources, is increasingly being sourced in Pakistan not to income but to consumption of services/commodities. Or in other words, the tax referred to as withholding tax in official documents, budgeted to account for around 75 percent of all direct tax collections in the current year, is being levied in the sales tax mode. Needless to add, in other countries withholding tax is levied on sources of income say rent income, agriculture income etc, which qualify it to be referred to as a direct tax and not on a tax on services/goods which would qualify it as an indirect tax whose incidence on the poor is greater than on the rich. Be that as it may, the bulk of our annual revenue is collected under indirect taxes notably sales tax, customs duties and federal excise - taxes that



are passed on their entirety to the consumers and hence their incidence, like the withholding tax, is on the end user. One can only hope that the Ministry of Finance begins the reform process of the tax system which remains bogged down by the ease in collections rather than to render it equitable which would have a cascading effect on the income inequality data.

Disturbingly, the UNDP in its report added that in 1968 Dr Mahbubul Haq while referring to the 22 richest families in the country called for "reforming Pakistan's economic, social and political institutions to help prevent the concentration of such immense wealth amongst the few" but concluded that "although the landscape has changed considerably since then, his recommendations remain painfully valid. Pakistan's institutions, incentives, laws and norms continue to conspire to create rent for the rich and burden for the poor... to date, Pakistan's response to inequality has been superficial, focusing on symptoms rather than root causes."

To conclude, there is an urgent need for the government to focus on bridging the rising inequality gap and this would require revisiting the budgetary expenditure priorities as well as the revenue sources. *Clearly Benazir Income Support Programme (BISP) is not and must not be regarded as an end all of the government's responsibility with respect to dealing with inequality and efforts are required, in the words of the UNDP report, to address "both its structural and distributional dimensions.* Key institutions need to be reformed, and fiscal, monetary and other policies made equitable."