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Impact of Tax Pilferage on Political Economy: A Case of Pakistan

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Pakistan is a developing country whose main source of revenue is taxes. However, tax non-compliance is on the rise and tax gap of the country stands at around 50%. This leaves the government with meagre resources to fund its responsibilities. This has repercussions for the political economy. The government is not able to provide basic necessities of health and education to its citizens. Similarly, many loss-making PSEs need government support to function, however, due to low revenue collection, the government is unable to funds them. Another issue associate with tax non-compliance is that the evaded money remains into the hands of individuals that causes inflation due to increased circulation of money. Moreover, in order to provide public services and fund its PSEs, the government resorts to borrowing from internal or external sources and have to go through the painful process of repayments that is the foremost responsibility in government expenditures. The study recommends that in order to get rid of the vicious circle, privatization of certain PSEs, control of corrupt practices including tax evasion and effective utilization of loans may be used as tools to mitigate the harmful effects of tax evasion on political economy of Pakistan.
Key Words: Tax Efficiency, Political Economy, Debt.

1. Introduction

"*Taxes are the Sinews of the State*". This quote was stated by a Roman Statesman, orator, Philosopher and lawyer, Marcus Tullius Cicero who remained part of the Roman Council in the year 63 BC. Cicero was of the view that taxes played crucial role in the Roman Empire and that the state could not flex its muscles till the time they abstract revenue from the private sector (Winer, Profeta and Hettich 2013). Although Cicero referred to taxing the private sector as an instrument of taxation, modern literature suggests other instruments which include a variety of direct and indirect taxes. According to Winer et, al. taxation is mostly an economic issue as it enables the government to collect resources, however, choice of instrument of taxation is a political issue and that is why taxation has both political as well as economic implication.

Like other developing nations of the world, Pakistan has been facing the dilemma of poor tax collection as the tax collection mechanism in the country is not efficient. As depicted by the budget estimates, Pakistani authorities rely more on indirect taxes in order to resolve the issue of

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narrow tax base of the country. According to the Active Taxpayers List (ATL) issued by Federal Board of Revenue (FBR) of the country, Pakistan has around 2.88 million registered taxpayers as in FY 2021 [1]. It is pertinent to mention that this number is very less for a country with an estimated population of more than 220 million. The main reasons for this small number is mostly economic, behavioral, institutional and social aspects factors that affect compliance behavior (Hassan, Naeem and Gulzar 2021). This poor tax collection ultimately affects the institutional and administrative capacity of the country and ultimately the political economy suffers as a result.

In order to effectively monitor the impact of tax evasion on political economy, there is a need to first define Political Economy in concrete words. Political Economy has been another name for Economics. As evident from the literature the term Economics was previously used by Economists like Adam Smith, John Stewart Mill and Sameulson among others. According to Paul Adler, *"Political economy refers to the combined and interacting effects of economic and political structures or processes, and by extension, to the scholarly study of this domain"* (Adler 2009). According to Adler, as the market mechanism strengthened in the 19th century in the capitalist world, the role of government reduced to public economics (taxes and expenditures policies) for the purpose of social welfare. Not much has been done to measure the impact of evasion on political economy, therefore, the study has made an attempt to measure the affects of poor tax collection on different indicators of political economy.

In order to carry on with the study, a review of literature has been carried out in the first section followed by a brief discussion regarding the methodology in the second section. The third section includes discussion that contains a broad explanation of political economy and its indicators followed by impacts of tax pilferage on different indicators of political economy with special reference to Pakistan. The fifth section concluded the study along-with certain policy implications.

2 Literature Review

[1] FBR website : https://www.fbr.gov.pk/categ/active-taxpayer-list-income-tax/51147/30859/%2071169

Tax evasion that constitutes a large portion of underground economy is a significant phenomenon present in all economies whether developed or developing (Gupta 2005). This presence of underground economy has recessive effects on the economy that also creates unstable business cycle (Bajada 2003) (Dzhumashev and Gahramanov 2010) conducted a study in the Australian tax system and found that tax evasion hampers economic activity. The study concluded that the government needed to keeps tax rates, detection probabilities and penalties such that it is able to collect taxes in order to incur expenditures that are required for economic development.

3 Impacts of Tax Evasion

Tax evasion possesses ethical issues and causes distortions in welfare expenditures while hampering economic growth of a country (Giles and Caragata 2001) Discussion regarding the effects of tax structure and compliance on economic growth is a well-documented part of the tax literature. According to (Roubini and Sala-i-Martin 1995) countries with inefficient tax systems have a tendency to suppress the financial sector and create inflation by creating more money to meet the demands of the government as the main source of revenue are not available due to tax evasion. (Chen 2003), is of the view that there is an ambiguous relation between tax evasion and economic growth but –according to Chen – economic growth is effected negatively by tax evasion. (Cobham 2005) is of the opinion that a large amount of revenue is lost by governments in developing nations through tax pilferage. According to estimates of the study, a total of US$ 385 billion had been lost annually due to non-payment of taxes in developing nations. The study blamed prevalence of high level of shadow economy and claimed that shadow economy gives rise to poor tax collection that ultimately reduces revenue available to the government.

There are studies on the contrary that think otherwise. According to (Lin and Yang 2001), higher tax rates educe propensity to pay that increases tax evasion and in turn economic growth also increases. The reason is attributable to the fact that evasion transfers resources from nonproductive public sector to the productive private sector. Similarly studies suggest that sometimes tax evasion increases growth rate to a certain extent as more money remains into the hands of entrepreneurs who in turn invest the saved money that ultimately contribute to betterment in the economy (Cerqueti and Coppier 2011). Similarly, (Gale, Krupkin and Rueben 2015) was of the opinion that effective enforcement for tax compliance led to more money in to the hands of the government that used it to provide better productive inputs to the private sector that can be used to enhance profits and hence savings and investment. The research included a comparative study of different states of USA and concluded that having a lower tax rate increased chances of more compliance that ultimately lead to economic growth. Moreover, a study carried out by (Kalaš, Mirović and Milenković 2018) in Croatia and Serbia took GDP as an indicator of growth and found a significantly positive relationship between tax revenue collection and GDP growth.

4 Tax Pilferage and Service Delivery

Public service delivery has also been a subject of importance viz-a-viz tax evasion as seen by the literature. (Myles 2000) has revealed that government provided public goods by raising revenue through taxation. However, it was necessary for the government to collect tax and raise tax rates if necessary to provide public services to its citizens. These increased tax rates led some people with lower income to rethink their tax paying behavior and indulge in tax evasion. Resultantly – according to Miles, tax non-compliance hampered provisioning of public services. The same results have been presented by (Kar and Banerjee 2018) who claim that in developing nations, income tax collection was at its lowest that had impacts on provisioning of public service delivery due to shortage of revenues with the government. Literature has therefore suggested that government proves out to be inefficient in providing public services as compared to the private sector. (Myles, 2000) placed doubts on the provision of public services by the government and suggested that the government should act as facilitator for the private provision of public goods especially in countries where tax evasion is higher or where the governments were inefficient in the use of public services. The same argument had been taken further by (Beach and Jones 2017) who claimed that government provided public goods were more problematic and politically less feasible in areas with high economic inequality and diversity.

Role of monitoring level in increasing economic growth can also be affected by tax evasion. Monitoring level is an important instrument used in literature for economic growth. This is because as monitoring levels will increase, all dishonest individuals who evade taxes will have a greater probably of being caught (Cerqueti & Coppier, 2011). This higher probability of being caught would increase tax revenues and in turn an increases the economic growth of a nation. If any individual is caught evading he or she has to be penalized. Penalties play an important role in this regards as shown by literature. Provision of public goods will be the result of revenue collected that is again a function of taxes collected plus fines imposed on evasion (Blackburn, Bose and Haque 2006). Care needs to be taken on imposing penalties. Research has shown that if penalties are imposed proportionately to the amount evaded, there will be a reduction in private capital accumulation and increased economic growth, however, if penalties are imposed at flat rates then increased tax rate would encourage more evasion and the result will be negative for revenue collection (Caball´e and Panad´es 2007).

Causal relationship between evasion and inflation rate has also been an integral part of the existing literature according to (Crane and Nourzad 1986) who studied the relationship between the two variables in USA found a highly significant and positive relationship between evasion and inflation rate. (Fishlow and Friedman 1994) studied three economies for a period of 1960 – 1990 and concluded that tax evasion in developing economies lead to more inflationary taxes in the economy that reduces economic growth and increases inflation. Similarly (Hung 2017) discussed an indirect relationship between tax evasion and inflation. In their opinion, tax evasion is negatively related to economic growth that further leads to inflation in an economy. Public debt is another main cause of tax evasion as shown in literature. Public debt itself is detrimental to the economic wellbeing of a country as it becomes a source of future tax burden in the society (Greiner and Fincke 2009). As tax evasion rises, it gives rise for the government to maintain its expenditures through more borrowing and hence public debt increases (M.Ivanyna, Mourmouras and Rangazas 2016). However, (Halkos and Papageorgiou 2020) is of the view that if the government is farsighted and decides to take action against corrupt practices like tax evasion, the government acts against evaders and this action leads to more tax accumulation and hence public debt reduces in the longer run. (Petrohilos-Andrianos and Xepapadeas 2017) has concluded that lower tax collection leads the government to borrow money to finance its expenditures that have otherwise been collected through tax collection.

5 Research Methodology

This article includes descriptive study where relationship between tax evasion and political economy has been explored. The research is non-empirical based on secondary data in which literature is used to determine the effect of tax evasion on different indicators of political economy while newspapers and scholarly articles have been studied. Moreover, government documents including Ministry of Finance Pakistan (budget) document and Economic Survey of Pakistan have also been analyzed to gather data on the subject with the aim to estimate the level of presence of indicators in case of Pakistan.

6 Results and Discussion

6.1 Political Economy

Political Economy is a conglomeration of two Greek words "*Polis*" (a state of a city).and "*Oikonomos*" (manager of a household). In this context the word Political Economy is thus the study of how a country (household at public level) is governed or managed, keeping in view both the economic and political factors.[2] The term political economics was pioneered by Adam Smith in his famous book *The Wealth of Nations* in the year 1776 he termed the concept of economics as political economics. According to (Groenewegen 1987) the term actually originated in France by Montchrétien (1575 - 1621) in the seventeenth century while Sir James Steurt in 1761 was the first English economist who used the term in his book titled '*An Inquiry in to the Principles of Political Economics* '. Political Economics is basically a study that involves rational decision

[2] Britanica Online : https://www.britannica.com/topic/political-economy

making keeping in mind the political and economic factors (Alt and Shepsle 1990).

As obvious from the definition of Alt & Shaple, political economy is a combination of two terms, politics and economics, therefore there is a need to first define and explain both terms before proceeding further. Politics is termed in the political science literature as study of authority and power. According to Uphoff & Ilchman politics is the exercise of authority over a group of people which may be in the form of control over economic resources, legitimacy, information, status and power to exert force to form an organized group (Uphoff and Ilchman 1997). People in authority need these resources in desired amount in order to sustain the operations of the polity (intra-state activities) and to sustain their authority which they get either from the public or generate from the state directly (Uphoff N 1989). The authority can also be shared to some extent with the members of public or by making decisions desired by them as a result of demands created so that there is a political exchange to keep the process running (Emerson 1976). As a result of the decisions made by person in authority and which are in the benefit of the public, the public provides resources that enable the government and the regime to run and function properly (Miliban 1968).

Authority gives a particular person power to influence his decisions as authority establishes certain roles and relationships that allow a person to enforce power either through economic incentives or physical or moral force over other people (Uphoff & Ilchman, 1997). The roles thus established as a result of attainment of authority are either through consent of the parties or coerced and they establish what Easton calls political division of labor where one party is authorized to exert authority and the others (the public) is bound to abide by those roles (Oppenheum 1978). However authority ceases to exist at the very instance when a person is no longer qualified or cannot have claim over the resources or to enforce decisions.

Authority is valid till the time authority with a specific person is recognized by others or he or she fulfils certain qualifications as laid down in the polity (Uphoff, 1989, p. 312). Power and Authority are two different things. Power is the ability of an individual or a group of people to achieve their desires objectives (Henderson 2012) whereas authority is the direct or tacit approval of a group of people by permitting an individual to take decisions for them in a specifically defined area (Lindblom 1977). Lindblom has described politics as a struggle for authority where people are making efforts to gain authority over the others. He termed politics as an *'untidy process'* where some people are in an effort to gain authority over others in a society while there are others who try to gain control of those who hold authority. Politics can be considered as a study of finding mechanism to make collective choices whereas authority can be thought of a particular type of mechanism that can be used to make collective decisions (Keohane 1984).

If power of a person cannot be exercised in relation to another person as a result of his wealth or any other resource he obtains but cannot claim authority, then the first person has no authority and in this case the first person will have to exercise any power other than authority to keep the affairs running (N. Uphoff 1989). Power is a term in politics that was first described by Max Waber as a social relationship where one actor is in a position to exercise his will despite resistance within that social setup (Waber, 1947). However, later literature did not produce a substantial distinction between power and authority. Authors have used power and authority interchangeably and no distinction has been made so far. Concluding the two elements of politics, politics is the exercise of power and authority to fulfil certain objectives by people in command over those subject to their authority. Politics in short is the division of political labor where one group is given power and authority over another group to run the system of a society.

Economics on the other hand is the efficient utilization of scarce resources to fulfil unlimited wants. Adam Smith who is considered as the father of economics defined Economics as *'Science of Wealth'* in his famous book "*An Inquiry into the Nature and Causes of Wealth of Nations*" which was published in 1776. Jean - Baptiste Say also defined Economics as a science that dealt with wealth (Say 1803). Previously, economics was not a separate subject rather it was studied in conjuncture with other concepts like philosophy or politics. Political Economics at that time meant the study of conditions where production was organized in states of the capitalist system (Khumalo, 2012).

Alfred Marshall in the year 1890 criticized the definition of economics as proposed by Adam Smith by saying that the definition was too narrow and was focused on creation of wealth hence teaching selfishness. Marshall came up with his own definition of economics. According to Marshall, Economics studied both the individual and social actions that were aimed at promoting well being of the individuals (Marshall 1890). According to (Robbins 1932)*, ''Economics is the science which studies human behavior as a relationship between ends and scarce means that have alternative uses.''* (p. 15). According to Robbins, the end were wants that were unending and unlimited whereas means were the resources that are always limited. According to him, Economics is the satisfaction of unlimited wants with limited available resources.

If we look at derivation of the word from Greek language meaning *oikonomos* which means management, the definition clearly means that economics means management of scare resources and unlimited wants. Similarly Robbins also talked about making choices. As resources are limited, therefore – according to Robbins – people make choices and choose the option that best fulfils their wants. Paul Anthony Sameulson came up with another definition in his book "*Economics – An Introductory Analysis*" in the year 1948. Sameulson took the features of previous definitions as it took in to consideration the scarcity of resources and their management while he also took in to account the best use of those resources so that those scarce resources could be used for present as well as for future consumption. Sameulson's definition focused not only on production but also on consumption and was both growth and future oriented in nature (Sameulson 1948).

According to Khumalo, Sameulson's definition included utilizing scarce resource of the society to produce valuable output and distribute them among different people. The separation between economics and politics occurred and economics became a specialized subject competing other sciences and included mathematics as mathematics was thought to be the basis of any science (Heilbroner 1980) Later on in 1995, Lypsey and Chrystal came up with a concept of modern economics and defined Economics as an allocation of resources among different alternatives and distribution among different individuals (Lipsey and Chrystal 1995). Lipsey basically talked about the way allocation and distribution of a society's resources change over time that can change due to change in the mode of production or can be a result of changes in social system (Khumalo 2012).

Economy is the study that deals with the distribution of goods and services in a society such that the concept of welfare is maintained (Nelson 2008). However, some economics also considered knowledge as part of economic development. Thorstein Veblen termed knowledge an important determinant of economic development as – according to Veblem – material lost could be replaced with the right knowledge but technology was nothing without sufficient knowledge to use it (McCormick 2006). Veblem was of the view that economy was always knowledge-based and human survival was not possible without knowledge (Veblen 1915). The argument was taken further by Dale Neef who defined knowledge economy as a recent concept and added that knowledge was a prime resource (Neef 1998). However, this knowledge-based economy has existed since the existence of making (as proposed by Veblem) and is not a new phenomenon (Khumalo 2012).

6.2 Consequences of Tax Evasion on Political Economy

One of the main aspects of public economics –as explained by Adler – includes how tax efficiency affects the service delivery of the government (Black, Calitz and Steenkamp 2015). Therefore, a sizeable portion of this study includes effects of tax evasion mainly on the service delivery in Pakistan. Tax evasion has shown to be having a significant impact on the economic growth of a country. As tax evasion in an economy increases, the economic growth decreases (Chen, 2003). Moreover, tax evasion also has an impact on the provision of public goods and capital accumulation in the economy. When there is tax evasion in an economy, capital accumulation increases in the hands of entrepreneurs and hence this capital accumulation leads to economic growth as entrepreneurs have more money to invest (Cerqueti and Coppier, Economic Growth, Corruption and Tax Evasion 2009). However, on the other hand – as described by (Cerqueti & Coppier), tax evasion leads to less tax revenue available with the government which will not be sufficient for the government to provide better public goods. This again leads to lower levels of economic growth.

Public service has many definitions and includes many things however, the most important public services include health, education sector and policing (Spicker 2009). However in case of Pakistan these services are not being provided upto required standards. Pakistan ranked 164th out of

195 countries in terms of health and education standards (Lim, et al. 2018). This speaks loads about the situation of these sectors in the country. budget figures also have an alarming situation. A country where more than 40% of the total budget is utilized for debt servicing and 18 to 20% are spent on defense, a mere 5% is allocated to health and education. This situation speaks volumes regarding the level of public services being provided to a population of more than 190 million people. However, spending more than 40% on debt servicing leaves the country with no other option but to save the money from providing public services to the public.

Another issue faced by low revenue collection is lack of financing the Public Sector Enterprises or the PSEs that are run by the government and fed through taxpayers' money (Dalu, et al. 2012). According to Asian Development Bank, the Public Sector Enterprises contributed to 400,000 jobs in the country and are week in terms of revenue generation to the state (ADB 2017). It is therefore, according to an estimate that the loss incurred by PSEs in Pakistan amounted to PkR. 1.068 trillion as of FY 2018 (Dawn 2018). This situation worsens in a country where only 2% of the total population pays taxes (Memon 2018) while – according to the Economic Survey of Pakistan 2018 - having a Tax-to-GDP ratio of 12.4% and fiscal deficit of 6.8% in the FY 2018. Under these circumstances, the country has to go to external agencies for loans on strict conditions. According to the budget analysis of the country available at the Ministry of Finance website, the last five years analysis shows that more than 40% of the total expenditure carried out by the Federal Government is in debt servicing. The situation is evident from the fact that only in 2017; the Pakistani government signed an agreement with Asian Development Bank for a loan of US$ 300 million to support PSEs (ADB, 2017). Similarly, the debt to PSEs in Pakistan is also a major concern for the government of the country. Accoriding to an estimate, the net debt of PSEs was PkR 1.4 trillion in the Fiscal Year 2018 that increased to 2.1 trillion in the year 2019 – an increase of 47% (Rana, Public sector enterprises debt increases by 47% in one year 2019).

The other impact as pointed out by Dalu et, al. was inflation. According to them, tax evasion leads to accumulation of wealth that causes a large amount of cash into the hands of entrepreneurs. As a result, there is a large amount of cash available in the market that is chasing less number of goods. This phenomenon falls into the definition of inflation where too large money is chasing too few goods. As discussed in the previous sections of the study, people comply with taxes mostly due to the fear of penalties n taxes evaded. This is evident from the fact that the relationship between tax evasion and fear of penalties on tax evasion was significantly negative. Tax evasion that creates inflation has an added advantage. Tax evasion being done at a time *t* is audited at a later time. Hence future value of evaded money sometimes lower than the penalties imposed after the audit is carried out, therefore, people find it beneficial to evade and keep the fines being imposed at a later time (Caball´e and Panade's 2004).

The case of Pakistan is not different as inflation and tax evasion have shown to have a significant relationship with each other. A study carried out by Khan et, al. took a time span from 1972 to 2006 and concluded that tax revenue was one of the main factors significantly effecting inflation in the country with lower tax collection leading to higher inflation (Khan., Ahmed and Hyder 2007). Another study by took the same time period and revealed the same results. According to the study, money supply that is indirectly related to tax evasion as shown by (Cerqueti & Coppier, 2009) was a significant indicator of inflation in pakistan (Khan and Gill 2010). Similarly, Bashir et, al also presented the same results and suggested that taxation is an important determinant of inflation in the long run (Bashir, et al. 2011). The study took a time series analysis 38 years and concluded that tax collection was significantly related to inflation in pakistan.

Supply of money has also been thought of as a major deteminant of inflation in an economy. According to the quantity theory of money presented by (Fisher, 2006), quantity of money in an economy is directly responsible for inflation. Fisher argues that as quantity of money increases, the price level increases which increases inflation. Keeping all other factors constant doubling the quantity of money in an economy would double the inflation (Bashir, Yousaf, & Aslam, 2016). Whenever tax evaion is on the rise, companies and individuals have more money at their disposal from which they declare more profits and dividents (Macharia 2014). This factor leads to increased quantity of money in the hands of individuals and hence due to increased quantity of money inflation in the ceonomy increases (p. 36).

Public Debt has a negative relationship with economic growth. Tax evasion reduces government revenue and is a main source of fiscal deficit that further leads to increase in government debt in order to finance the deficit (Pappa, Sajedi and Vella 2015). Government debt is a bured on economies large and small and all economies including USA, European and other developing nations face the issue of fiscal deficit which ultimately leads them to go for debt (Marakbi and Villieu 2018). Accoridng to the budget analysis for the last five years, Pakistan's budget deficit in the FY 2017 – 18 stood at PkR. 2.3 Trillion that was increased to 3.444 trillion in the FY 2018-19. [3] In order to finance these deficits, the government has to take loans through both internal and external borrowing.

According to estimates, the total public debt of Pakistan in the FY 2019 was around PkR. 33.4 trillion with an increase of 21% in the year ammounting to PkR. 6 trillion (Rana, 2020) An estimated 40% of the total expenditure of the Federal government as evident from the budget statemsnets is paid as debt servicing od these borrowings by the government. Now comparing it with the tax gap of 3.3 trillion, this deficit can easily be catered for if tax evasioin is controlled.

Accoridng to IMF Report [4] the total tax evasion in pakistan was estimated to be PkR. 3.3 trillion. Hence, PkR 3.3 Trillion was being circulated in the economy and was not being transferred to the government wich has a double effect. First of all, as stated by Macharia, the quantity of money increased to PkR. 3.3 Trillion as a result of money being saved from taxes and kept with the investors themselves. This money that could have been used for provision of goods and services was washed away. Secondly, the money does not goes to the government institution who are responsible to provide public services. Hence the quality of goods and services provided by public sector remain poor and this calls for political issues. When private sector engages in tax evasion.

7 Conclusion and policy recommenations

Tax evasion is an important phenomenun associated with the economy of Pakistan. Like many other countries, the main source of government revenue in pakistan is through taxation. More than 90% of Federal Government revenue is collected through tax collection. Accoridng to

[3] Economic Survey of Pakistan 2019
[4] Selected Issue Paper issued with Ninth IMF Review Report in 2016

World Bank estimates, the Tax Gap of pakistan stood at 50% most of which is due to tax non-compliance of its citizens and that is a hurdle in its economic development. The study has suggested several consequences of tax evasion and its resulting poor tax collection. First of all, tax evasion leads to lack of effective provisioning of public services to its citizens. Public services that are an essencial especially in case of developing nations and has many political and economic implications include health, education and road infrastducture. Poor tax collection by the government reduces resources to fund those essencial services that further to the agony of its citizens.

Apart fromc the public service delivery, Pakistan also has to support some PSEs including PIA, Pakistan Railways and many other organizations that run in losses due to administrative issues are need government support to perform their operations. The government has to support for the losses for these PSEs that again becomes a problem for the government due to shortage of funds due to poor revenue collections by the government due to tax evasion and other non-compliance behaviors of its citizens. However, in order to fund these loss making PSEs, the government has to resort to painful injections of internal and external borrowing so that these corporations keep on providing services to the citizens.

When tax is evaded, money remains into the hands of individuals. This increases quantity of money supply in the economy hence creating inflation. Inflation in turn creates price hike and the overall price level increases. \ Borrowing is another consequence of tax evasion in countries like pakistan. Pakistan, in order to provide public services and finance its PSEs has to borrow money required through internal and external borrowings. These borrowings create a viscious circle as the government has the responsibility to service these debts and pay huge chunk in payments of installments and interests to internal and foreign bodies like the IMF, World Bank, Asian Development Bank etc. According to budget estimantes approximately 40% of expenditure is incurred in debt servicing.

As evident fro mthe literature, tax compliance and public service delivery have a complex relationship with each other. On one hand increase in tax compliance leads to improved health and education services as the government has more revenue at its disposalto provide such services (Myles, 2000) while on the other hand, . raising too much taxes may lead to problematic situation where most lower income taxpayers may not be able ot pay their share and may indulge in evasion (Kar and Banerjee 2018). It is therefore, suggested that the best way is to keep taxes as such it is affordable by almost all segments of the society. The best way is to enforce progressive taxation so that every person shares the burden according to his level of income (Timmons 2005).

Similarly, sourcing the PSEs is another big challenge for the government especially when tax non-compliance is high in a society. One of the solutions is to privatize the public enterprises that will reduce the burden of these loss making PSEs like PIA and Pak Railways. But on the other hand literature has also suggested that such a transfer of ownership leads to accumulation of profits into the hands of private sector who then resort to higher prices which ultimately leads to going away of these services from the reach of most citizens (Naqvi and Kemal 1991). However, the government has made attempts to privatize these loss making entities but the plan has always been politically criticized and the decisions have been thwarted (I. Khan 2019)

Inflation is another issue that needs to be tackled as a result of tax evasion. as evasion increases, the extra money that remains into the hands of the private sector increases demand for products and ultimately an increase in the overall price level in the economy. It is therefore suggested that tax compliance may be given due consideration at all levels of the government to curb the menace of tax evasion and indirectly to control inflation that may be a cause of many other evils in a society. As suggested by (Halkos and Papageorgiou 2020), the government needs to tackle the corrupt practices including tax evasion so that accumulation of wealth into the hands of private sector is mitigated as this is the only best solution available to control inflation or price hike in the economy.

If all the above issues affiliated with tax non-compliance are catered for, another consequence namely the public debt will automatically be resolved. Public debt is a situation when the government resorts to borrowing of money from external parties like domestic or international donor agencies. When budget is prepared, the government’s top most priority is to repay these loans or parts thereof before allocation of remaining funds. It is interesting to note that PkR. 6 trillion was borrowed by the government in the fiscal year 2018 - 19 while the tax gap for the same year stood at PkR. 4 trillion (Mehboob 2019). Therefore all the government needs is to push up efforts to reduce the tax gap by effectively utilizing its tax machinery and beef up its tax collection rather than going for internal and external borrowings.

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