

DOUBLE-LOG ANALYSIS OF INFORMAL SECTOR ECONOMY OF PAKISTAN AND DEVELOPMENT

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ABSTRACT: *The controlled tax net was completely absent and the weaker economic policies were the barricades of sluggish economic development and growth. The informal sector or informal economy is a broad term that refers to that part of an economy that is not taxed, monitored by any form of government. Pakistan's informal economy is believed to have grown to more than formal economy, which yields a GDP of \$210 billion. According to research reports, the size of the informal economy stands at \$83 billion and that it could yield the national exchequer revenue of \$8 billion if taxed at 10 percent. Recently researching the extent and measurement of the informal economy in Pakistan for a colleague and the econometric methods used to estimate the shadow economy are pretty interesting and intuitive. For every Rupees 100 in taxes, the government receives only Rupees 38 and the rest is eaten up by the tax payer, the collector and tax practitioner. There are many factors behind people in Pakistan, preferring not to register businesses or declare actual income. At present most of the tax burden is on industries and businesses. Agriculture, which accounts for 22 percent of GDP, contributes only one percent in taxes while the Industry which accounts for 25 percent of GDP contributes 63 percent of taxes during 2012-13. Similarly, the parameters such as $\beta_0, \beta_1, \beta_2, \beta_3$ shows the change in the dependent variable with per unit change in the independent variables. Therefore, the estimated coefficients of regression parameters such as Y-intercept, expenditures, revenues, tax method and economy were calculated as 0.282, 0.139, 1.064, and -0.689 respectively. Regression analysis of the factors affecting indicated that the tax net may viable and enhanced.*

Key words: Informal Sector, Economy, Development, Regression and Pakistan.

INTRODUCTION

The undocumented economy or informal sector economy in Pakistan has developed more swiftly than the formal economy over the last three decades and while estimates differ a great deal, the range of the informal sector is not less than one-third of the country's gross domestic product (GDP).

The growing influence of informal economy, especially in developing countries, has created a great concern and is a big challenge for political and economic managers. Pakistan's informal economy is believed to have grown to more than half the formal economy which yields a GDP of \$210 billion. According to research reports, the size of informal economy stands at \$83 billion and that it could yield the national exchequer revenue of \$8 billion if taxed at 10 percent [1].

The informal economy and its synonyms viz; not listed economy, black shadow economy underground economy etc. is so far to be distinct in a precise form. A common approach to define the informal economy is 'unmeasured and untaxed economic activity taking place in a country [2]. From the time when it became a mid-phase in policy discussion regarding unemployment and poverty alleviation. While economists are still not able to give a valid and common definition of the informal sector, it is commonly known as the non-regulated sector of the economy. Notwithstanding the fact that the informal sector provides a huge portion of GDP and employment in the country's economy, this sector is very ignorable in Pakistan. Very small studies have been done to measure the size and the function of informal sector in the earlier period. On the other hand, the employment estimates provided by these studies have always been controversial. These studies attention has been focused mainly to the industrial sector. However the importance of the industrial/manufacturing sector cannot be denied, the services

sector is also of significant importance as well, however it has received relatively less attention in the past. In this study, sufficient attention has been given to this neglected sector and focus is given to its role in employment in the urban informal sector. As Pakistan is a signatory of the World Bank and IMF's stabilization and structural adjustment programs, which aim to reduce the budget deficit and restructuring of public sector employment, in the compliance with these programs, retrenchment policies have been adopted in the government jobs by the respective governments. It is estimated that employment in the public sector has declined by about 10.6 percent in period 1990 to 1992 only [3]. All of these measures have exacerbated the employment situation in Pakistan. In the light of above mentioned facts, it may be viewed that the urban informal sector has become more important in absorbing this surplus labor.

The GDP 2012 possibly goes with World Bank growth projection of 3.9 percent next to 2.5 percent observed in 2011. And the alarm of spillover effects of un-functional state in an unstable region may influence neighbors (India, China and Iran) and joint agencies, (the World Bank, IMF and ADB) to lend support to Pakistan directly or indirectly by offering greater economic assistance and trade entrée to ward off the possibility of a deeper catastrophe.

The original use of the term 'informal sector' is attributed to the economic development model put forward by W. Arthur Lewis, used to describe employment or livelihood generation primarily within the developing world. It was used to describe a type of employment that was viewed as falling outside of the modern industrial sector [4]. An alternative definition uses job security as the measure of formality, defining participants in the informal economy as those 'who do not have employment security, work security and social security.' While both of these definitions imply a lack of

choice or agency in involvement with the informal economy, participation may also be driven by a wish to avoid regulation or taxation. This may manifest as unreported employment, hidden from the state for tax, social security or labour law purposes, but legal in all other aspects.

ECONOMIC ISSUES DUE TO INFORMAL SECTOR PRACTICES

Challenges for Growth

There are a number of reasons behind people in Pakistan favoring not to regularize businesses or assert real income. Presently most of the tax weight is on industries and businesses. Agriculture which accounts for 21 percent of GDP, contributes only one percent in taxes while the Industry which accounts for 25 percent of GDP contributes 63 percent of taxes.

Transit Trade

Transit Trade is also a major source of informal economy. According to FBR over the period of two and a half years 35,000 containers entered into Pakistan out of which 29,000 about 83 percent could not reach their destinations. This he argued results in a huge loss to the national exchequer through tax evasion. Informal economy grows along with corruption, speed money smuggling, narcotics, government contracts and tax evasion. A study by Lahore University of Management Sciences showed that out of Rs. 100, the government receives only Rs. 38 and Rs. 62 is pocketed by the tax payers, tax collectors and tax practitioners. It means Rs720 billion tax collection in 2005-06 and Rs. 1.558 trillion in 2010-11 was only 38 percent and if corruption is controlled the revenue could be increased to a gargantuan Rs. 4.10 trillion.

Ease of Doing Business

The World Bank reduced Pakistan's rank, in ease of doing business, to 105 while last year it was 96. This discrimination encourages people not to register businesses and to avoid paying taxes. There is also a trust deficit between people and the government. Massive corruption in government departments, embezzlements and wastage has been reported by auditor general of Pakistan. Coupled with this, the corruption perception report by Transparency International also reflects the fact that people do not trust government officials and they rather prefer to pay directly to welfare organizations in huge donations, charity, zakat etc. Pakistan is one of the lowest ranked countries in tax to GDP ratio while it is one of the top ranking countries who spend more on charity and welfare activities. According to a survey Pakistan spends 2.3 percent of its GDP in charity as compared to America (2.2 percent), UK (1.3 percent), and India (0.2 percent). If stern measures are taken to curb corruption then the confidence would be restored and tax to GDP ratio has the potential to be enhanced considerably. Giving amnesty to black money holders reflects the state's tax machinery failure in performing its main function of collection of tax where it is due. It is unfair to those who have been paying their taxes honestly, at much higher rates than those offered to tax evaders.

Discouraging Undocumented/Informal Economy

The Government plays a role to start the corrective measures to depress informal economy and tax avoidance. Those responsible for huge revenue losses to the national exchequer,

tax evaders and their partners in tax machinery should be punished and disqualified from holding any public office. He voiced that smaller formal or shadow economies appear in countries with higher tax revenue that are achieved by lower tax rates, business friendly policies, fewer laws and regulations combined with consistent enforcement and less bribery facing countries. The major driving force behind the size and growth of the informal economy appears to be an increasing burden of taxation combined with pervasive anti-state activities. In Karachi for the last couple of years due to activities of some pressure groups and political parties; extortion, land grabbing, kidnapping incidents have increased to alarming levels. It is estimated that in Karachi alone about Rs10 million worth of extortion is carried out on a daily basis. Supreme Court, armed forces and government agencies have taken serious notice of it and the graph of these incidents has fallen but it is still adversely impacting the economy.

Trade, not aid

The West and USA to give Pakistan trade access rather than aid which will enable the informal sector to indulge in export thus bringing them into formal sector net. President KCCI was of the view that every country has its own idiosyncrasies while in Pakistan's case we have been historically and chronically an aid dependant country. He opined to substitute aid with market access and trade. He underscored that all the segments of society especially the government, business community, media, civil society, and intellectuals should join hands so that our tax to GDP ratio could improve considerably. This would, in turn, get rid of huge burden of internal and external debt that would enable the government to generate ample resources to run the state's affairs and to provide more health and education facilities to the masses.

Trust deficit

The main reason of unwillingness of informal sector to get formalised was the trust deficit in the system bureaucracy and establishment. He gave the example of Ashura (Bolton Market) incidence where almost a majority of the claimants were from the informal sector who, despite having trusted the KCCI, reviewed the claims forms with actual claims. He said if the informal sector is given proper chance and trust they will get formalised. He suggested Country Director CIPE Moin Fudda to invite the government officials in the consequent roundtables on informal sector.

Addressing core issues

Chairman Sindh Board of Investment and former President KCCI Muhammad Zubair Motiwala while exchanging views stressed upon the need to address the grass root cause of informal economy. To encourage the informal sector to get formalised, he suggested the government should introduce the reward a penalty policy which is the need of time. He suggested supporting the corporate sector which was contributing the major share of revenues to the national exchequer in the form of some rewards so that the unregistered persons may get inspired and register themselves to avail same benefits. Former President KCCI Majyd Aziz, in the panel, discussion articulated that the private sector and the government's departments lack "cooperative" approach. He pointed out the illiteracy factor which was also discouraging in the informal sector to formalise. Country

Director CIPE, Moin Fudda, Regional Director CIPE Andrew Wilson, eminent businessmen, representatives of State Bank of Pakistan and managing committee members of KCCI also participated and exchanged their views in the said roundtable. There is an essential need to measure the informal sector prospects, its policy analysis of Sindh Pakistan by reviewing the current status and issues of informal sector/economy for developing a policy for efficient and sustainable development.

Evidences show that despite of all government efforts informal sector/economy has been neglected considerably, or it has not been given due attention. Informal sector/economy has the potential to generate the income source of a country and to address several economic growth and economic development problems. Current situation demands special attention from policy makers for informal sector/economy replaced into formal sector/economy for development through disciplined and planned market in Pakistan.

In the light of above facts, the present study was designed to examine the status and growth practices and its market in Sindh province and Pakistan. Therefore, the present study will help to understand the details of the informal sector/economy and also useful to set research priorities and recommend policy measures and program initiatives for the economic development and its growth with sustainable approach in Sindh province of Pakistan.

OBJECTIVES

The main goal of this study was status and growth of informal sector/economy prospects and its policy analysis. The preliminary objectives of the study were:

- To assess the current status and growth of informal sector in Pakistan.
- To examine the increasing informal sector and to observe the reasons.

- To recommend policy measures and program initiatives for sustainable development of the formal sector.

METHODOLOGY

A lot of research has been done in this area, throughout the world. In case of Pakistan, the research in this area has been limited. Very few attempts have been made to estimate the informal economy and almost all are limited to monetary approaches, such as: [3, 5, 6, 7, 8]. These studies used logged currency ratio, with little variations, and provided long-run estimates for shadow economy. This estimation method is criticized by [9, 10] that stationarity of the variables is not considered in these approaches, hence the results may be biased or illegitimate.

Pesaran and Shin [11] and Pesaran et al. [12] go beyond this and suggest a modified version of the monetary approach through autoregressive distributed lag (ARDL) model. [11] showed that ARDL-estimations are not only super-consistent, but the inferences for the long-run parameters drawn under standard normal asymptotic theory are also valid. Due to certain data limitations and properties, ARDL approach is not applied here, but it is quite clear that ARDL can provide further insight of the estimates and valid inferences. Hence it will be considered in future research.

The specific analytical methods to accomplish the objectives were discussed with the help of secondary available data. For the first objective, time series data were analyzed by the regression technique. Descriptive statistics were also used across time periods. The second and third objectives were accomplished by prior research. The existing systems of informal sector in the selected domains were also studied.

To estimate the informal economy using various approaches, data over the annual frequencies from 2006-07 to 2012-13 is used on economic variables. Details on the construction and the sources of the data set are provided in Table 1.

Table 1: Financial Indicators as Percent of GDP 2012-13

Year	Real GDP Growth	Overall Fiscal Deficit	Expenditure			Revenue		
			Total	Current	Development	Total Rev.	Tax	Non-Tax
2006-07	5.5	4.1	19.5	14.9	4.7	14.0	9.6	4.4
2007-08	5.0	7.3	21.4	17.4	4.2	14.1	9.9	4.2
2008-09	0.4	5.2	19.2	15.5	3.6	14.0	9.1	4.9
2009-10	2.6	6.2	20.2	16.7	3.5	14.0	10.1	3.9
2010-11	3.7	6.5	18.9	15.9	2.8	12.4	9.3	3.0
2011-12	4.4	6.8	19.6	15.5	3.6	12.8	10.3	2.4
2012-13	3.6*	4.7	19.0	14.6	4.4	14.3	11.1	3.2

*: Real GDP estimated for 2012-13

Note 1: The base of Pakistan’s GDP has been changed from 1999-2000 to 2005-06

RESULTS AND DISCUSSION

The key focus is to present inclusive analysis about the size of the informal economy obtained from various methodologies. Furthermore, it also our objective to highlight the significant factors which cause the informal economy in case of Pakistan.

In our first attempt we estimated the size of the informal economy of Pakistan using basic monetary approach. The monetary regression is estimated using ordinary least squares procedure by utilizing data. One can easily draw conclusion from the results that all financial and monetary variables are

significant vis-à-vis tax burden plays a dominant role. The informal economy (as % of GDP) obtained from this approach is also plotted in Figure 1. It shows that the ratio increased in 's and then slowed down in the autocratic regime. The figures of informal economy in mid 2000's show an increasing trend, but then there is some downward trend for the past two years. The size of informal economy as percent of GDP remains from 32%-38%. It shows that tax evasion (as % of GDP) remains from 3%-4% with small cyclical fluctuations over the sample period.



Figure 1:

Economic Structure of Pakistan

The country's "informal economy was 91% of the formal economy in 2007-08". Here are the figures offered by the authors for 2007-8:

- Formal Economy: Rs. 10,242 billion= \$170 billion (using Rs.60 to a US dollar)
- Informal Economy: Rs. 9,365 billion = \$156 billion
- Total Economy (Sum of 1 & 2): Rs. 19,608 billion = \$326 billion

Assuming that the ratio of formal and informal economy remained the same in 2011-12, here are the figures for Pakistan's total economy as of the end of last fiscal year which ended in June, 2012

- Formal Economy: \$210 billion
- Informal Economy: \$191 billion
- Total Economy: \$401 billion

CAUSES AND IMPLICATIONS OF INFORMAL ECONOMY

The focus of this section is to provide an insight of the causes and implications of the hidden economy and likely consequences on the macroeconomic variables.

Causes of Informal Economy

On the basis of our analysis and reviewed literature, the main causes/factors of informal economy include; cultural constraints, high ratio of per-capita income and highest currency denomination note, low literacy rate, high cost of doing business, devaluation of currency, transfer of money through hundi, low growth rate of public sector development expenditures in the right direction and current structure of financial system both in terms of growth and service delivery. Factors which may add to the potential expansion of the informal economy in future include; imposition of new GST/VAT system, decreasing rate of general purchasing power, increasing rate of cross border smuggling, price hike of electricity and petroleum goods and weak law enforcement and increasing corruption. High denomination currency notes are considered as one of the major causes of the existence and

expansion of the informal economy in Pakistan. On average, the per-capita per month money holding is less than Pak Rs. 4000/- which is the maximum purchasing power at any day in a month. However, it is significantly less than the high denomination currency note i.e. Rs. 5000/-. This simple fact explains that Rs. 5000/- is not used for general transactions in the formal sector. It leads to the fact that the demand for Rs. 5000/- note may be attributed to its use for non-productive bustles as well as illegal activities such as hoarding, theft, currency scam (as occurred in past few years), illegal transfer of money and contributes significantly to the size of the informal economy.

Second indicator explaining the same fact that the ratio of per-capita income and highest denomination currency note of Pakistan is extremely low relative to that of developed and developing countries.

Corruption, inflation and tax evasion are not only causing an expansion in the size of the informal economy but also hampering the growth rate of informal economy, thereby adding more to economic uncertainty, income inequality and poverty. According to our estimates, the informal economy constitutes about 30% to 35% of the total economy over the period of analysis. As per the design of the New Tax system and the current economic structure of the country, VAT can only be imposed on the formal sector of the economy.

It can lead to a diversion in the resources as well as generation of wealth from formal sector to informal sector, thereby causing the expansion of the informal sector at the expense of the formal sector. Therefore, it will give an impetus to the growth of tax evasion thus leaving the growth of taxes constant even during the fast growth periods in future as happened in the previous years. In the wake of the recent destruction by water bomb if copped with the current status quo, then it will again lead to the expansion of the informal economy which further adds more to the ongoing conventional characteristic of the national economy.

Table 2: Comparative Real GDP Growth Rates (%) 2009 to 2014

Region/Country	2009	2010	2011	2012	2013	2014 (P)
World GDP	-0.6	5.2	4.0	3.2	3.3	4.0
Euro Area	-4.4	2.0	1.4	-0.6	-0.3	1.1
United States	-3.1	2.4	1.8	2.2	1.9	3.0
Japan	-5.5	4.7	-0.6	2.0	1.6	1.4
Germany	-5.1	4.0	3.1	0.9	0.6	1.5
Canada	-2.8	3.2	2.6	1.8	1.5	2.4
Developing Countries	6.9	9.9	8.1	6.6	7.1	7.3
China	9.2	10.4	9.3	7.8	8.0	8.2
Hong Kong SAR	-2.5	6.8	4.9	1.4	3.0	4.4
Korea	0.3	6.3	3.6	2.0	2.8	3.9
Singapore	-0.8	14.8	5.2	1.3	2.0	5.1
Vietnam	5.3	6.8	5.9	5.0	5.2	5.2
ASEAN						
Indonesia	4.6	6.2	6.5	6.2	6.3	6.4
Malaysia	-1.5	7.2	5.1	5.6	5.1	5.2
Thailand	-2.3	7.8	0.1	6.4	5.9	4.2
Philippines	1.1	7.6	3.9	6.6	6.0	5.5
South Asia						
India	5.0	11.2	7.7	4.0	5.7	6.2
Bangladesh	5.9	6.4	6.5	6.1	6.0	6.4
Sri Lanka	3.5	8.0	8.2	6.4	6.3	6.7
Pakistan	0.4	2.6	3.7	4.4	3.6	4.4

Source: Pakistan Economic Survey 2012-13

The social and cultural constraints (including rural life and conventional mentality as major issues) pose a great difficulty to convert the informal economy into formal economy where illiteracy adds more to it.

Informal sector economy regression was computed on the basis of secondary data. Time series data were used from 2001-02 to 2012-13. Regression analysis of the factors affecting is given in Table 3. It shows that in study, there are many factors behind people in Pakistan preferring not to register businesses or declare actual income. At present most of the tax burden is on industries and businesses. Agriculture which accounts for 22 percent of GDP, contributes only one percent in taxes while the Industry which accounts for 25 percent of GDP contributes 63 percent of taxes during 2012-13. Though the taxes practices are positive, but the short tax net had significant effect on the economy. Similarly, the regression coefficient for tax methods was although positive, but statistically non-significant.

Coefficient for the tax method was negative as well as insignificant indicating negative relationship between tax

method and economy. Adjusted R square value for the regression equation was 0.49, implying that factors included in the equation have explained at least 49 percent variation in country's economy given in Table 3.

Table 3. Regression analysis of the factors affecting sunflower yields, 2012-13.

Variable	Reg.	S. E.	t-value
Coefficient			
Expenditures	0.282	0.090	3.73**
Revenues	0.139	0.132	1.08 ^{ns}
Tax method	1.064	1.494	0.181 ^{ns}
Economy (GDP)	-0.689	1.269	-0.543 ^{ns}
Constant	7.174	1.380	-
R-square	0.49	-	
F-ratio	9.088**		

**Highly significant, *Significant, ^{ns} Non-significant ^{GDP} Gross Domestic Production

The above results indicated that the tax net viable and enhanced for higher economy has a positive and significant effect on national/country's economy

CONCLUSION

The use of different approaches in this study provides more accurate and reliable estimates of the size of the informal economy. These estimates are consistent with other locally and internationally published studies on the same topic. These estimates will prove to be helpful for the policy makers to have a clear glimpse of the macroeconomic structure of the economy from a better position. These estimates also provide the basis for adjustment of the underestimated key macro-economic variables which have direct implications at micro level. The difference among the estimates through different approaches enables us to analyze the behavioral as well as structural growth of the informal economy by capturing the impact of its legal and illegal parts, both separately and jointly.

On the basis of labor market approach and electricity consumption approach, the impact of cottage industry and small-scale manufacturing industries (generally not registered) on the growth of informal economy is highlighted. The labor market approach also helps conclude that the role of the informal economy is ambiguous in terms of alleviating poverty. During high inflationary period, it is unable to stop the severity of poverty. It also contributes towards income inequality in real terms through two ways; first; by keeping incomes low, second; stimulating inflation. High instability in the employment and income generation in the informal economy is found on the basis of our analysis.

Through MIMIC approach, corruption and size of the government turn out to be highly significant in explaining the size of the informal economy (as % of GDP). Since the values are quite high for each year than average estimates obtained using other variables. This difference leaves room for further research to capture and analyze the full impact of corruption along with the size of the government on the growth of the informal economy.

On the basis of our analyses and reviewed literature, the main causes/factors of the informal economy include; cultural constraints, high ratio of per-capita income to the highest currency denomination note, low literacy rate, high cost of doing business, devaluation of currency, transfer of money through hundi, low growth rate of public sector development expenditures and their judicious use in the right direction and current structure of financial system both in terms of growth and service delivery. Factors which may add to the potential expansion of the informal economy in future include; recent destruction of water bomb, imposition of new GST/VAT system, decreasing rate of general purchasing power, increasing rate of cross border smuggling, price hike of electricity and petroleum goods, weak law enforcement and increasing corruption.

In our analysis above, certain implications of the informal economy in terms of achieving the goal of stable inclusive growth and development are identified and discussed. Informal economy plays an ambiguous role in poverty alleviation and income inequality. It restricts the effective public policy implementation through its operations. It is also

responsible for keeping the country on one of the last positions in the competition under the age of globalization and free markets.

Under the current system, the informal economy will pose a big constraint on the true implementation of the 7th NFC Award and the 18th Amendment in terms of reaping full benefits through their well-defined objectives. To eliminate this constraint, there is a pressing need of reviewing the criteria of evaluating the public sector development programs both at federal and provincial levels. The criteria must ascertain that the future development programs especially in the flood hit areas will create an opportunity for regular nature of business, where the ownership belongs to the residents and that the business further generates permanent types of jobs and competitive levels of income.

To achieve the objective of tax to GDP ratio up to 15%-20%, the implementation policy of new GST/VAT must incorporate the informal sector through its identification and its operations to collect the taxes to the potential level. In order to eliminate the capital constraints from cottage industry and SMEs, thus bringing them under the umbrella of formal sector, there is a need to revamp the criteria of financial system to extend the loans on the basis of shake-hand rather than on collateral basis. It will certainly lead to significant expansion in the tax net. There is an incessant need to review the education policy and its implementation which should guarantee providing professional as well as technical/vocational education to the needy people, so that they can work in the formal sector and contribute towards the tax toll after getting handsome wages. In order to contrive some of the illegal part of the informal economy, the high denomination currency notes may be reduced from a 5000 rupee note to its initial level of a1000 rupee note.

To achieve our national goal of inclusive growth and socio-economic development, the public policy may be devised with the sole objectives of increasing Tax to GDP ratio through expanding the tax base and plugging the tax leakages. The policy may also ensure a team of competent and honest people which may use those government funds in the most efficient and prudent manner to achieve the maximum social and economic welfare. These ultimate targets can be achieved through three intermediary targets: first, formalizing the informal economy while retaining all its positive impacts and during this, searching for competent and honest people from the grass root levels; second, stopping the generation of informal income from within the formal sector; third, to stop the informal/improper implementation of rules and regulations within the formal sector. These three intermediary targets are explained further.

On the basis of the results and their analyses, it is evident that the informal sector is much faster in generating employment than that of formal sector. However, this employment is generally temporary or seasonal and low paid. So there is a need of policy intervention which assures retaining all the positive facts of the informal economy and in the next stage, it help in formalizing it through institutionalizing its backward and forward linkages with the formal sector on all spheres. Since, Pakistan is a multi-cultural land characterized by different geological features and geographical facts, so the

policy intervention should be made according to the nature of the growth of informal economy in each district of Pakistan.

For example, it is expected that the dominant factor of the informal economy in the bordering areas may be smuggling and in rural areas, dominant factors may be low capital, child labour, and exploitation of labour in those factories or companies working in informal sector. In formal sectors, the policy intervention may revise the regulatory framework with the objective of stopping the generation of informal income in terms of corruption, white-collar Crime and unbridled powers with the higher hierarchy in formal sector. Third one is the proper implementation of rules and regulations within the formal sector. For example, NHA has benefited with the extra amount of billions of rupees from the source of Toll Tax by privatizing them through open bidding in a highly competitive and transparent manner. It explains the simple fact that earlier the implementation of regulations to collect toll tax was either naïve or insufficient to meet the on ground realities and requirements. The policy interventions only in formal sector in the above said two dimensions will enhance double efficiency as well as add significant percentage of the overall GDP to the Tax Toll. The first step in devising such a public policy as explained above may be to conduct applied research to understand the characteristic nature of growth phenomenon of the informal economy and informal generation of wealth within the formal sector at disaggregated levels including socio-geographical locations and different administrative levels (i.e. federal, provincial, district levels etc) respectively.

The above discussion brings us to the conclusion that the public policy may be devised in a manner to focus on the economy at district level with the sole objectives of increasing maximum tax from that district and searching for a team of competent and honest people through achieving intermediary targets, thereby bringing each district to maximum self-sufficiency level and put a positive competition among all districts of Pakistan in terms of socio-economic growth and welfare, which is the true essence of fiscal federalism and empowering the provinces in the perspective of two historic breakthroughs (i.e. 18th Amendment and 7th NFC Award) in the history of Pakistan.

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