

Review of: "Contribution of Indirect Taxes on Goods to Economic Growth of Pakistan (1972-2022)"

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Potential competing interests: No potential competing interests to declare.

The paper claims to identify the empirical relationship between indirect taxes – i.e., federal sales tax, federal excise duty, and customs duty – and the economic growth of Pakistan. The objective of the study is to evidence the long-run and short-run relationships of federal sales tax, federal excise duty, and customs duty with economic growth.

The results of the study show that there are two cointegrating equations among variables. GDP Lag5, GDP Lag6, ST Lag1, ST Lag5, and FE Lag4 possess a positive impact on the economic growth of Pakistan. However, GDP Lag2, FE Lag6, and CD Lag7 have a negative impact on the economic growth of Pakistan. Previous years' deviations from long-run equilibrium are corrected in the current year at an adjustment speed of 33% and 18% for GDP and ST, respectively.

The article concludes that since the sales tax has a positive impact on economic growth, whereas federal excise duty and customs duty have a negative relation, it is advisable to form policies that contribute to economic growth instead of restricting it. As of the published statistical records of 2018, sales tax, federal excise duty, and customs duty contribute 65 per cent, 9 per cent, and 26 per cent, respectively, to the total indirect taxes. This collection structure is required to be rationalized to boost economic growth.

I am afraid that estimates are highly spurious as the paper lacks theoretical economic foundations and rests on the linearity assumptions which are too strong to be warranted for future applicability of the methodology adopted in this paper and the results. Economic growth cannot merely depend on indirect taxes, especially ignoring the factors responsible for economic growth in the growth theories in literature makes the predictions questionable. The authors neither provide a justification in the form of an out of sample evidence nor show that their results are robust when the assumptions are relaxed. The estimation results and the significance of estimated parameters are based on the standard errors about the type of which paper is completely silent, although authors should have shown various types of standard errors and the robustness of their results regarding those standard errors. Normality of residuals has not been checked. The paper contributes little to the literature due to limited applicability of the methodology and the results.