INTRODUCTION

The Review of Politics and Public Policy in Emerging Economies (ROPE) is a peer-reviewed research journal published bi-annually by CSRC Publishing, Center for Sustainability Research and Consultancy Pakistan. There is a variety of journals in the area of public policy and governance but most of them publish primarily the Western discourse on political, public policy, governance and strategic studies while the perspective from emerging and developing economies rarely gets a place in academic debates. The goal of ROPE is to publish autonomous, objective and innovative research carrying a profound impact in political, public policy, governance and strategic studies around the world in general and for the emerging economies in particular. It aims to project policy-oriented research based on standard academic research methodology.

ROPE aims to publish studies that provide substantive empirical support and/or logically sound arguments and new insights into the limitations of previous work. ROPE is interested in papers that are constructive in nature and suggest how issues from political and strategic perspectives can be adopted to offer fresh outlooks and insights on newly emerging international phenomena. The subject coverage of ROPE is in the areas: International Relations; Strategic Studies; Public Policy and Public Management; Governance; Peace Studies; Conflict Resolution; Arms Control, Nonproliferation & Disarmament; War Studies; Nuclear Studies; and Terrorism with focus on emerging and developing economies. The journal will serve as a platform for academics, professionals, govt officials, NGOs personnel to bridge the public policy and governance with sustainable development issues through scientific research and policy discourse.

SCOPE AND MISSION

ROPE seeks to publish manuscripts that break new ground and makes an original contribution to the existing public policy, governance and strategic studies. Manuscripts should address policy impacting developments, phenomena and issues with a distinct standpoint. ROPE is particularly interested in publishing innovative policy research papers bearing a multi-disciplinary approach. Manuscripts should provide a brief overview or literature review of existing perspectives but often challenging the traditional mainstream views, wherever possible.

Submissions that qualify as having substantial political and strategic affairs content will be potentially suitable for ROPE, where at least one of the sub-domains listed above is a primary focus of attention within the main line of argument being developed in the paper. ROPE is a methodologically pluralistic journal. Both the Quantitative and Qualitative research methodologies are encouraged, as long as the studies are rigorously researched. Conceptual and theory-development empirical hypothesis-testing papers and case-based studies are welcome.
EDITORIAL BOARD

Patron
- Prof Dr Hayat Muhammad Awan, President, Center of Sustainability and Research Center

Editor
- Dr. Syed Shahid Hussain Bukhari, Associate Professor, Department of International Relations, Bahauddin Zakariya University, Multan Pakistan

Associate Editors
- Dr. Safdar Hussain, Assistant Professor, Department of Political Science, The Islamia University of Bahawalpur Pakistan
- Dr. Shahrukh Hashmi, Assistant Professor, Department of International Relations, IBA Sukkur University Sukkur Pakistan

Editorial Advisory Board
- Prof. Dr. Dale Walton, Center for International and Global Studies, Lindenwood University, St. Charles, MO 63301, USA
- Dr. Shakeel Ahmad, Research Fellow, Mc Gill University, Canada
- Dr. Tahir Mahmood Azad, Research Fellow, Centre for Science and Security Studies (CSSS), War Studies Department, King’s College London.
- Dr. Syed Mussawar Hussain Bukhari, Associate Professor, Chairman, Department of Political Science, The Islamia University of Bahawalpur Pakistan
- Dr. Yasmin Roofi, Associate Professor, Department of Political Science, The Islamia University of Bahawalpur Pakistan

Publishing and Technical Manager
Sadia Zulfiqar
Research and IT Executive
sadia@globalsrc.org
INDEXING AND ABSTRACTING

The journal Review of Politics and Public Policy in Emerging Economies is indexed and abstracted by following institutions. The publishing manager and editorial team are committed to enhance quality and outreach of the journal by expanding the indexing and abstracting of its content further.

- SocioRepec
- EconPapers
- SUNCAT
- Google Scholar
- Crossref
- Scilit
- OAI-PMH Compliant Repositories
- RePEc
- Copac
- EDRIC
- IDEAS
## TABLE OF CONTENTS

Vol. 2, Issue 2, December 2020

<table>
<thead>
<tr>
<th>Title</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>How Does Debt Financing Affect Financial Performance? A Study of</td>
<td>75 - 84</td>
</tr>
<tr>
<td>Transport Companies Listed in Pakistan</td>
<td></td>
</tr>
<tr>
<td>Ulfat Abbas, Sohail Aziz, Samina Khan</td>
<td></td>
</tr>
<tr>
<td>Women’s Political Empowerment: A Historical Overview in Pakistan</td>
<td>85 - 96</td>
</tr>
<tr>
<td>Sara Gul</td>
<td></td>
</tr>
<tr>
<td>Ramsey Taxation in the Solow-Uzawa Growth Model with Public Goods</td>
<td>97 - 110</td>
</tr>
<tr>
<td>Wei-Bin Zhang</td>
<td></td>
</tr>
<tr>
<td>The Political Class as a Threat to Democracy in Nigeria's Fourth</td>
<td>111 - 117</td>
</tr>
<tr>
<td>Republic</td>
<td></td>
</tr>
<tr>
<td>Patrick Innocent Alfa, Otaida Eikojonwa, Isah Ibn-Mohammed</td>
<td></td>
</tr>
<tr>
<td>Effect of Career Fulfilment on Employee Performance in Federal</td>
<td>119 - 129</td>
</tr>
<tr>
<td>Civil Service Commission, Abuja-Nigeria</td>
<td></td>
</tr>
<tr>
<td>Mohammed Nuhu, Turner Itari, Abdullahi Ndag</td>
<td></td>
</tr>
<tr>
<td>Informal Economy Enabling Tax Evasion and Money Laundering in</td>
<td>131 - 138</td>
</tr>
<tr>
<td>Pakistan: An Analytical Study</td>
<td></td>
</tr>
<tr>
<td>Amir Khan, Naureen Akhtar, Muhammad Danyal Khan, Rao Imran Habib</td>
<td></td>
</tr>
</tbody>
</table>
How does Debt Financing affect Financial Performance? A Study of Transport Companies listed in Pakistan

*Ulfat Abbas, Lecturer, Institute of Southern Punjab Multan
Sohail Aziz, Lecturer, Institute of Southern Punjab Multan
Samina Khan, Lecturer, Institute of Southern Punjab Multan

*Corresponding author’s email: ulfat.abbas@iub.edu.pk

ARTICLE DETAILS

ABSTRACT

**Purpose:** The purpose of this paper investigates the impact of debt financing on airline’s (transport) sector performance of Pakistan.

**Design/Methodology/Approach:** We gathered the data from secondary sources. In this study, we used a data sample of 11 years from 2008-2018 by using companies annual reports. Due to unavailability of data, only 3 transport companies have been taken for analysis. The software which we used in analysis is SPSS (Statistical Package for Social Science).

**Findings:** The findings of the study suggests that there is opposite relationship between debt financing and financial performance of airlines. Debt is measured from three ratios, short term debt to total assets, long term debt to total assets and total debt to total assets ratio. For the measurement of performance, we used return on assets and earnings per share. We concluded on the basis of findings that the companies should focus on retained earnings which is cheaper source of finance and use less level of debt. As the more level of debt use by the companies, the performance of companies’ decrease.

**Implications/Originality/Value:** There is only one study is available in Pakistan which used transport sector in Pakistan in debt financing context.

© 2020 The authors, under a Creative Commons Attribution-Non Commercial 4.0


**Introduction**

The decisions about capital structure plays a very important for every type of business. Each type of organization usually involved in determining the appropriate capital structure where there is minimum cost. It consists of debt and equity mixture. This is management decision whether to take the equity from shareholders or take the debt from third party. Each industry characteristics are different from other industry and change the capital structure according to the industry requirement. Optimal equity and debt mixture increase the value of company (Damodaran, 2001).
Airlines industry plays an important role for economic development and providing employment opportunities. This industry includes the services of cargo and passengers. As compare to cargo services, passenger transportation provides the major income to airlines industry (Bratlie, 2012). Airlines industry is considered the largest industry of the world. The importance of this industry has increased due to its globalization. There is need of huge investment for this industry and also need to comply strict rules and regulation. So this industry is capital intensive because large investment needed for purchase of aircrafts. Generally the performance of airline industry is not good due to high cost and revenues are not sufficient to cover the cost. Pakistan airlines industry is also in loss. Due to debt obligations companies have to bear a lot of interest cost and ultimately deteriorating the performance of airline industry. If a country has no proper transport system then that state cannot develop and faces a lot of problems of transportation.

Airline industry provides the opportunity to the people to travel such places which are thought as impossible. This industry is energy intensive industry due to high fuel consumption. Due to higher competition cause the airline industry to focus on the lowering the costs and increase the productivity. So to take the benefit of economies of scale, there were a lot of acquisitions and mergers in airline industry.

The purpose of the company is to uplift the shareholder value and it will only increase when management takes such decisions in which cost of debt and equity minimum. The source of finance of a company can be equity financing and debt financing. Capital structure is most significant for organizations because these are affecting the risk and return of shareholders (Pandey, 2010). According to the research of Tomoiga (2014) mostly company’s capital structure consists of 40% equity and 60% debt. The financial crises of 2007-2008 also affected the airlines industry performance and also mixture of debt and equity affect the performance (Bjelicic, 2012). So there is a need to consider the optimal capital structure. The companies prefer to raise capital by internal sources than to use the debt or equity which are costly as compare to retained earnings.

This study investigates the debt financing impact on airlines industry performance in Pakistan and there is no any study conducted relating to debt financing impact on performance of airlines industry in Pakistan. So there is a need to analyze the connection between debt and financial performance in this sector in Pakistan. This paper will help in taking decisions relating to the investment in airlines industry. The findings of this study will be very helpful for managers of this industry relating to decisions about debt financing and also beneficial for shareholders to invest in this industry.

Following are the objectives of the study:
- To explore the association between short-term debt financing and financial performance of Airlines (transport) sector
- To investigate the association between long term debt financing and financial performance.
- To examine the relationship between total debt financing and financial performance.
- To suggest recommendations on the basis of findings.

**Literature Review**

In literature review we study the previous studies relating to the debt financing and performance of transport companies.

Khazaaleh (2017) analyzed the association between debt and the financial performance of airlines in Dubai. This covers the period 2010-2015. Data has been taken from secondary sources and
annual company reports have been used. The study variables were utility, growth, development and style. The regression analysis of the Study Panel was used to verify the relationship between the variables. This study concluded that there is positive association between debt financing and profitability of firms.

Tomoiaga (2014) investigated the value of airline and capital structure. This study covers the entire world airline industry. The sample include in this study was 111 companies. In this study, they used multivariate analysis in transport sector. This concluded that there was association between company size and company value which is positive.

Bratlie and Jotne (2012) examined the causes which affect the capital structure of airline industry. 39 companies have been taken as sample. The econometric approach has been used. The study covered the period from 2000 to 2010. Variables used in study were debts, leverage and sizes. The author recommended that there is opposite association between leverage and profitability of companies and there is positive significant association between firm size and leverage of transport sector.

Alahyari (2014) examined the connection between profitability and its’ determinants in Turkish airlines. This study takes the data from 1994 to 2013. Data have been taken from secondary sources which is Datastream Software. Profitability has been taken as dependent variable while company size, growth opportunities, leverage, liquidity and tangibility of assets have been taken as explanatory variables. This study used panel data stream for data analysis. The findings suggested that there is negative but significant relationship among growth, liquidity and tangibility with financial performance. There is negative association among size and leverage with profitability of Turkish airlines. The study recommended that there is a need to decrease the tangibility and liquidity level in order to increase the profitability. The study can be extend by consider other independent variables and taking long period of time.

Capital structure are traditional theories by Miller and Modigliani, agency theory and pecking order theory.

In traditional theory tax factor has been ignored. At low level of debt, the return of equity holders is low and due to this WACC has decreased but as the level of debt has been increased then returns of shareholders increased and it will cause the increase in WACC. So the companies should choose the optimal capital structure where company’s value is maximum and minimum cost of capital.

Figure 1: Capital Theories (Traditional Perspective): Cost Minimum Case
Ke is measure of cost of equity in cost of capital while Kd is measure of cost of debt in cost of capital Ko which is indicated by weighted average cost of capital which is shortly used WACC
In the above figure at point X cost is minimum and company value is maximum.

Figure 2: Capital Structure Theory (Traditional Perspective): Regarding Firm’s Value

In the above figure at point X cost is minimum and company value is maximum. Modigliani and Miller demonstrated in 1958, companies financial structure have no influence on the company value. This theory is irrelevant theory because debt structure of company has no influence on the value of company and ignore the tax effect. In this scenario, both levered and unlevered firm’s values are same.

\[ V_U = V_L \]

Modigliani and Miller revised the theory in 1963 and consider the tax factor. This theory recognized that interest payments cause the tax benefits and reduce the cost of debt. This theory tells that as the company increase the level of debt the WACC has been decreased.

In 1961 Donaldson introduced the theory of pecking order which tells the least cost method of fund raising. The pattern of fund raising is as follows:

- Retained earnings
- Debt
- Equity

So the companies should firstly choose the retained earnings as a source of finance which is cheapest source as compare to debt and equity.

**Hypotheses**

Based on above theories discussed earlier and literature review, we develop these hypotheses.

H1: There is negative connection between financial performance and short term debt.
H2: There is negative association between financial performance and long term debt.

In the earlier studies of (Gaud et al. 2005, Daskalakis & Psillaki, 2008; Titman & Wessels, 1988) found the opposite association between debt and financial performance. Trade off theory states that financial distress has been reduced due to high profitability and companies increase the level of debt due to tax deductibility on payment of interest. So positive relationship between debt and profits (Frank and Goyal, 2009).

**Methodology**

**Model Specification**
The model shows the relationship between performance and the debt. The following are the models.

Model 1: STD to TA and firm performance
\[ EPS_{it} = \beta_0 + \beta_1 STDTA_{it} + \beta_2 FS_{it} + e_{it} \]

Model 2: LTD to TA and firm performance
\[ EPS_{it} = \beta_0 + \beta_1 LTDTA_{it} + \beta_2 FS_{it} + e_{it} \]

Model 3: TD to TA and firm performance
\[ EPS_{it} = \beta_0 + \beta_1 TDTA_{it} + \beta_2 FS_{it} + e_{it} \]

Model 4: Short term debt ratio with financial performance
\[ ROA_{it} = \beta_0 + \beta_1 STDTA_{it} + \beta_2 FS_{it} + e_{it} \]

Model 5: LTD to TA with financial performance
\[ ROA_{it} = \beta_0 + \beta_1 LTDTA_{it} + \beta_2 FS_{it} + e_{it} \]

Model 6: TD to TA with financial performance
\[ ROA_{it} = \beta_0 + \beta_1 TDTA_{it} + \beta_2 FS_{it} + e_{it} \]

Where

Earnings per share= EPS
Return on Assets = ROA
Short term debt to total assets = STDTA
Long term debt to total assets= LTDTA
Total debt to Total Assets= TDTA

<table>
<thead>
<tr>
<th>Variable</th>
<th>Proxy</th>
<th>Measurements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings per share</td>
<td>EPS</td>
<td>Net income to no. of shares</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>ROA</td>
<td>Net income to total assets</td>
</tr>
<tr>
<td>Short term debt ratio</td>
<td>STDTA</td>
<td>Short term debt to total assets</td>
</tr>
<tr>
<td>Long term debt ratio</td>
<td>LTDTA</td>
<td>Long term debt to total assets</td>
</tr>
<tr>
<td>Total debt ratio</td>
<td>TDTA</td>
<td>Total debt to total assets</td>
</tr>
<tr>
<td>Firm size</td>
<td>FS</td>
<td>Natural log of total assets</td>
</tr>
</tbody>
</table>

Data: Source and Sample
For the collection of data, annual reports are used which published by airline industry. The data of this study has been taken from 2008 to 2017. Due to unavailability of data there are only 3 companies of transport industry used in this analysis.

Measurement of Variables
The performance of companies is taken as dependent variable and is measured from ROA and EPS while STDTA, LTDTA and TDTA are taken as independent variables. Firm size is control variable which is measure from natural log of total assets.

Results and Findings
This section discusses the results and findings of the study.

Descriptive Statistics
The description of the variable data is shown in Table 1. The mean of EPS is 7.09 and -18.67 and 25.63 are minimum and maximum values. The standard deviation of the EPS is 12.95. The mean value of ROA is 0.11 and the minimum and maximum value are -0.30 and 0.70. The standard deviation of ROA is 0.25. STDTA means value is 0.43 and the minimum and maximum values are 0.07 and 1.18. The standard deviation of STDTA is 0.36.

LTDTA mean value is 0.36 and the minimum and maximum values are 0.00 and 0.87, while the standard deviation is 0.27. TDTA mean value is 0.78 and 0.08 and 2.02 are minimum and
maximum values, while the standard deviation of TDAT is 0.58. The mean value of firm size is 17.21 and the standard deviation is 1.45.

### Table 1: Descriptive Statistics of Key Variables

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>32</td>
<td>-18.67</td>
<td>25.63</td>
<td>7.09</td>
<td>12.95</td>
</tr>
<tr>
<td>ROA</td>
<td>32</td>
<td>-.30</td>
<td>.70</td>
<td>.11</td>
<td>.25</td>
</tr>
<tr>
<td>STDTA</td>
<td>32</td>
<td>.07</td>
<td>1.18</td>
<td>.43</td>
<td>.36</td>
</tr>
<tr>
<td>LTDTA</td>
<td>32</td>
<td>.00</td>
<td>.87</td>
<td>.36</td>
<td>.27</td>
</tr>
<tr>
<td>TDTA</td>
<td>32</td>
<td>.08</td>
<td>2.02</td>
<td>.78</td>
<td>.58</td>
</tr>
<tr>
<td>FS</td>
<td>32</td>
<td>15.24</td>
<td>19.21</td>
<td>17.21</td>
<td>1.45</td>
</tr>
</tbody>
</table>

### Correlation Matrix

Correlation analysis used to check the association and strength between variables. Table 2 shows the association between variables.

### Table 2: Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>EPS</th>
<th>ROA</th>
<th>STDTA</th>
<th>LTDTA</th>
<th>TDTA</th>
<th>FS</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td></td>
<td>.716**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STDTA</td>
<td></td>
<td></td>
<td>-.638**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTDTA</td>
<td></td>
<td></td>
<td></td>
<td>-.789**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TDTA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-.768**</td>
<td></td>
</tr>
<tr>
<td>FS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.833**</td>
</tr>
</tbody>
</table>

There is inverse association between EPS and STDTA and the association is significant. The association between LTDTA and EPS is significant and inverse. There is significant and inverse association between TDTA and EPS. ROA is inversely insignificant related to the STDTA. The association between ROA and LTDTA is inverse and significant. TDTA is also inversely related to the ROA and association is significant. The association between ROE and STDTA is inverse and insignificant but ROE is positively related to the LTDTA and TDTA and association is insignificant in both cases. Firm size is inversely related to the EPS and ROA and association is significant. The association between firm size and ROE is positive and insignificant. The association of firm size with STDTA, LTDTA and TDTA is positive and significant.

### Regression Results

This section is related with the hypothesis testing on the basis of two variables relationship and
find the cause and effect between variables.

Model
In table 3 EPS is dependent variable while STDTA is an independent variable and firm size is control variable. There is inverse relationship between EPS and STDTA and the relationship is significant. There is also negative and significant relationship between firm size and EPS. R square of this model is 0.723 it means STDTA and firm size explained 72.3% to financial performance of transport sector.

Table 3: Results of Short Term Debt and Firm Size on Performance (EPS)

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>118.843</td>
<td>17.838</td>
</tr>
<tr>
<td></td>
<td>STDTA</td>
<td>-7.708</td>
<td>4.398</td>
</tr>
<tr>
<td></td>
<td>FS</td>
<td>-6.303</td>
<td>1.096</td>
</tr>
</tbody>
</table>

Model 2
In table 4 LTDTA is independent variable, firm size is control variable while EPS is dependent variable. There is negative relationship between FS and EPS and this relationship is significant. There is also adverse but significant relationship between EPS and LTDTA. R square of this model is 0.789 it means LTDTA and firm size explained 78.9% to financial performance of transport sector.

Table 4: Results of long term debt and firm size on performance (EPS)

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>99.294</td>
<td>16.531</td>
</tr>
<tr>
<td></td>
<td>FS</td>
<td>-4.942</td>
<td>1.032</td>
</tr>
<tr>
<td></td>
<td>LTDTA</td>
<td>-20.157</td>
<td>5.558</td>
</tr>
</tbody>
</table>

Model 3
In table 5 TDTA is independent variable. TDTA is negatively related to the EPS and relationship is significant. Similarly there are negative but statistical significant relationships between firm size and performance. R square of this model is 0.764 it means TDTA and firm size explained 76.4% to financial performance of transport sector.

Table 5: Results of total debt and firm size on performance (EPS).
Table 6: Results of short term debt and firm size on performance (ROA).

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>102.680</td>
<td>17.802</td>
</tr>
<tr>
<td></td>
<td>FS</td>
<td>-5.177</td>
<td>1.116</td>
</tr>
<tr>
<td></td>
<td>TDTA</td>
<td>-8.303</td>
<td>2.808</td>
</tr>
</tbody>
</table>

Table 7: Results of long term debt and firm size on performance (ROA).

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>2.621</td>
<td>.440</td>
</tr>
<tr>
<td></td>
<td>FS</td>
<td>-.150</td>
<td>.027</td>
</tr>
<tr>
<td></td>
<td>LTDTA</td>
<td>.142</td>
<td>.109</td>
</tr>
</tbody>
</table>

Model 4
In table 6 dependent variable is ROA while FS is control variable and TDTA is independent variable. ROA and firm size relationship is significant and negative but the positive and insignificant relationship between ROA and TDTA. R square of this model is 0.560 it means TDTA and firm size explained 56% to financial performance by return on total assets of transport sector.

Table 8: Results of short term debt and firm size on performance (ROA).

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>2.174</td>
<td>.479</td>
</tr>
<tr>
<td></td>
<td>FS</td>
<td>-.119</td>
<td>.030</td>
</tr>
<tr>
<td></td>
<td>LTDTA</td>
<td>-.078</td>
<td>.161</td>
</tr>
</tbody>
</table>

Model 5
In the table 7 Firm size and ROA relationship is significant and negative. LTDTA is also negatively related to the ROA and insignificant relationship. R square of this model is 0.538 it means LTDTA and firm size explained 53.8% to financial performance of transport sector.

Model 6
Table 8 shows the results that the connection between SIZE and ROA is significant but negative while the ROA is positively linked with the TDTA and relationship is insignificant. R square of this model is 0.541 it means TDTA and firm size explained 54.1% to financial performance of transport sector.
Table 8: Results of Total Debt and Firm Size on Performance (ROA).

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>( (Constant) )</th>
<th>FS</th>
<th>TDTA</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>B</td>
<td>2.513</td>
<td>-.142</td>
<td>.050</td>
<td>.541</td>
<td>.509</td>
<td>.1778</td>
</tr>
<tr>
<td></td>
<td>Std. Error</td>
<td>.487</td>
<td>.031</td>
<td>.077</td>
<td>.541</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>t</td>
<td>5.162</td>
<td>-4.654</td>
<td>.657</td>
<td>.1778</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig.</td>
<td>.000</td>
<td>.000</td>
<td>.516</td>
<td>.1778</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Discussion
In this section we will discuss the model fitness and check the overall significance of model. In model 1 EPS is dependent variable and STDTA is explanatory variable and FS is control variable. This model is good fit because R square is 0.723 and 71% variations in dependent variable (EPS) is explained by the independent variable (STDTA). LTDTA is independent variable in second model and it is also good fit model. R square is 0.789 which tells that 79% variations in EPS are due to explanatory variable and model is also overall significant. Similarly model with TDTA is also good fit and overall significant.

In model 4 ROA is dependent variable and R square is only 56% but the model is overall significant. Only 56% variations in ROA is explained by STDTA. LTDTA has been taken as explanatory variable in model 5 and \( R^2 \) is only 54% and significant model. Model 6 is also overall significant but R square is only 0.54. The results of the study show that there is negative and significant relationship between EPS and all types of debt. There is also negative and significant relationship between firm size and EPS. The relationship between ROA and short term debt and total debt is positive and insignificant but with long term debt relationship is negative and insignificant. The relationship between firm size and ROA is negative and significant. Our study results matched with (Bratlie and Jotne, 2012) and Alahyari (2014) which also found inverse relationship between debt and profit. This study is very helpful for managers regarding taking decisions of debt financing and know about whether debt has increase the performance or not. This study is also useful for shareholders for their decisions regarding investment in airline industry.

Conclusion of the Study
The purpose of this study is to evaluate the relationship between debt financing and the profitability of transport companies. This study covers the period 2008 to 2018 and financial statements of companies used as a secondary source for data collection. Only 3 companies have been taken for analysis due to unavailability of data. Descriptive statistics show that 44% of short-term debt has been used to finance assets and 38% of long-term debt has been used to finance assets. So a lot of debt has been used for assets financing. The companies’ major source of finance is banks which charge high rate of interest and demand the collateral and there is no market of long term debt in Pakistan. So inverse relationship between the performance of transport companies and debt. Higher the level of debt that causes the decline in the performance of the transportation industry. Companies must focus on the internal source of financing, which is the lowest cost option. Decisions related to the capital structure play an important role in improving the performance of companies in the transport industry.

Policy Recommendations
The recommendations of the study are as follows;
- Companies should focus on internal source of finance due to least cost and reliable
source of finance.

- There is a need to consider the optimal debt level in capital because as the level of debt increases the risk factor of insolvency increases.
- There is no need to increase the size of firms because it negatively affects the performance of companies in transport sector.

Limitations and Future Research Direction
There are some limitations in the study. Only three companies have been taken for analysis due to data unavailability and time period is only ten years. Most accurate results can be obtained by taking long period of time and taking more companies in the sample. But some airlines companies are not listed in stock exchange. In this research, only debt is used as independent variable but there are also other variables which can affect the performance of airline industry so these other independent variables also consider for future research. So future research can be conducted on this topic by considering the other variables and by increasing the time span and achieve the more reliable results. This research can be extended by comparing the transport industry of two countries.

References
Women’s Political Empowerment: A Historical Overview in Pakistan

*Sara Gul, Department of Pakistan Studies, Islamia University Bahawalpur, Rahim Yar Khan Campus, Pakistan

*Corresponding author’s email: saragul11@yahoo.com

ARTICLE DETAILS

ABSTRACT

Purpose: The present study is a historical overview of the process of women’s political Empowerment in Pakistan. It is true that in Pakistan women are completely allowed political rights but practically they have to face number of socio-cultural and political hurdles that have presented challenges to participate in the political system.

Design/Methodology/Approach: According to the nature of study the article is based upon secondary information following evolutionary perspective with regard to socio-political growth, changes and development. For the source of data collection library method has been used.

Findings: The study concludes that the trends towards the political participation and political empowerment of women all through pre and post-independence of Pakistan and especially over the last ten general elections; it was very difficult for women to enjoy their equal political rights as compared to men in the mainstream politics. Initially only few seats were reserved for them but after introducing quota system their ratio of membership in parliament is enhanced which is still not satisfactory. Although after 1999 the majority of women come into politics however their role in the perspective of change for the political empowerment of women was very limited.

Implications/Originality/Value: So it is concluded that roots of different movements about the empowerment of women have same source but its time of occurrence is different because some areas these types of movements had happened centuries ago whereas in others it is recently happen. So it is proved from the above discussion concerning about women’s political empowerment that in intimation about women’s rights had been emerged earlier before the creation of Pakistan; while after independence different forces are creating hurdles but with the passage of time it will overcome by positive thinking.

© 2020 The authors, under a Creative Commons Attribution-Non Commercial 4.0

Introduction
To understand the concept of women’s political empowerment in Pakistan we will have to visit the process of social transformation during the colonial period and chain of development which progressively provided somewhat open space for Muslim women in their domestic and public lives. The enhancement of awareness level among the Indian Muslim women and various movements for their emancipation were not an outcome of any accident of chance rather than it was planned, calculated and sustained process while through different stages; hence it is difficult to examine the nature of Muslim society in general and Muslim women in particular without understanding the said chains of development. In that context the response of Muslim society and Muslim women vis-à-vis these changes and challenges in the period preceding the creation of Pakistan.

Social Transformation and Political Empowerment of Women during Colonial Period
The second half of the 19th century witnesses some positive change accruing in the Indian society when several Hindu and Muslim reformists started speaking about women’s rights especially related to issues of woman “infanticide, polygamy, child marriage, sati, veil (Purdah) and restrictions on the women education”. They believe that social change cannot be affected unless women are provided equal opportunities to participate (Forbes & Forbes, 1999:18). The enactment prohibiting the exaction of sati in 1829 and passage of Widow Remarriage Act (WRA) in 1856 giving them the legal rights to remarriage while they outcome of various campaigns launched by these reformists (Sen, 2000:13) The period between 1869 to 1892 was quite significant in the context of women’s rights. In response to the women’s struggle against the old traditions restricting women’s empowerment. The British government introduced various customary laws Related to Indian culture and civilization like the “Divorce Act”, “Female Infanticide Act”, the “Special Marriage Act”, the “Married Women’s Property Act”, the “Guardians and Wards Act and the Marriage Validation Act” of 1869, 1870, 1872, 1876, 1890 and 1892 respectively (Mumtaz & Shaheed, 1987:37-39), whereas in 1885 a school “Anjuman-e-Himayate Islam” (A Society for the promotion of Islam) became established in Lahore; the main objective of this school was not only the protection of Muslim tradition but also gave the concept that education is more essential for Muslim women, this school played a vital role in the educational development of women (Patel, 2010:9).

Transformation Period 1886-1917
The period from 1886 to 1917 was considered as the most transformational for Muslim women because those women who belong to elite class or well families were not only getting modern education but also gradually taking part in politics and raised their voices for socio-political quality of women. Although during this period a strong position against this change came from some conservative and traditional Muslims elements nevertheless for the protection of women’s right a great number of different schools and organizations were established in sub-continent (Khan, 1999:42). Sir Syed Ahmad khan was the only one who convinced the Muslims that the way of success and prosperity laid through acquiring western/modern education, surely bringing the advantage of employment in government and other professions and ultimate continued access to political power. On the other side Hindus were very clever they immediately adopted modern culture and education for the good-well of British Government. But initially Sir Syed Ahmad khan also did not take attention to women’s related issues including education, because at that time he might have believed that education for women was not important. Nevertheless, the transformative movement of this century gave a new vision of thought that an educated women may want to play a positive role in social awakening and economic development of sub-continent. That’s why in 1886 at Lahore during Mohammadan Educational Congress (MEC) first time a resolution was presented by Sheikh Abdullah on the issue of Muslim women’s education (Saigol, 2016:4)
In 1891 the annual meeting of Mohammadan Educational Congress (MEC) was held in Aligarh, again a voice was raised about the issue of women education, at last in December 1896, due to the countless efforts of Sheikh Abdullah a separate women wing was made in Mohammadan Educational Congress (MEC), and within three years women teacher training institute was also opened in Calcutta. Although gradually a social change occurred in sub-continent with the help of education but its speed was very slow (Salahuddin, 2005:58). With the start of 20th century, the concept of “new women” emerged in the sub-continent, which gave a new vision of thought especially to Muslim women; to connect with each other at outside of their houses, sharing their ideas, experiences and constraints, majority of them started speaking English which made possible for them to get rid of language barriers, to enhance the socio-political status of Muslim women lots of different English medium schools and organizations were established in sub-continent. In 1903 during the annual meeting of Mohammadan Educational Congress (MEC) in Bombay a Parsi women read an article titled “Importance of Education for Women” on the behalf of Chand Begum who belonged to Madras. In 1906 Sheikh Abdullah with the help of his wife Ala Bi opened first English medium school for Muslim girls; both husband and wife had to face criticism from traditional Muslims who intensely opposed this change.

In 1905 during All India Muslim Educational Conference (AIMEC) Maulana Altaf Hussian Hali paid a tribute to Muslim women by reading his rhyme “Chup ki dad” (A salient Appreciation) (Asghar, 2000:6). A quick change was also happened when a large number of Muslim women started out writing in different magazines and newspapers because at that time newspapers and magazines were considered as right way for the promotion and success of any movement.

In 1896, Syed Mumtaz Ali published a weekly magazine Tehzeeb-e-Niswan (Culture of women), in 1904 Sheikh Abdullah published a journal namely Khatoon (woman), Moulvi Syed Ahmad published Akhbar-e-Niswan (Woman Newspaper) from Lahore Moulvi Mehboob Alam published “Sharif Bibi” from Hyderabad Moulvi Muheeb-ul-Hussian published Moalam-e-Niswan (Teacher of women) and from Delhi Rashid-ul-Khari published a famous magazine Asmat (Honor/Respect)” in all these and many more also started writing in these magazines. Their writings were mostly to highlight about social issues i.e. dowry, false-beliefs or extravagance (Shaheed & Mumtaz, 1981:40-41). To work for the religious betterment of Muslim women Sir Muhammad Shafi established a society “Anjuman-e-Khawateen-e-Islam” (Muslim Women Organization) in 1908; it had two main objectives i.e. firstly to motive the woman of his own family to take part for the socio-political awareness of women about how to get their rights and secondly he raised his voice against two social evils like dowry and share of women in inherent property. Initially its members met mostly in each other’s houses but gradually these minor gatherings converted into large organizations and became the centers of women vision and opinion (Minault, 1998:59)

In 1913, a turning point came in the political history of the Indian Muslim women, when a “Women Conference” was held in Aligarh under the president ship of Begum of Bhopal, thousands of women were taking part from different cities of all India like Delhi, Mirth, Lucknow, Lahore and Muradabad and conference to be a political platform for women (Mirza, 1969:22-30). In 1920s many Muslim women give up observance of veil (Purdha) and practically performing their duties in different fields of life like school teachers, lecturers and doctors. Their literacy rate was also increased, in 1911 there was only 2 women were educated out of 1000 but in next ten years in 1924 the ratio was increased into 0.4% and in 1924 total literate Muslim women were 1,37,800 out of which 3,940 means 3% women got higher education (Sultana, 2008: 24).

After the enactment of Montagu-Chelmsford Reforms in 1919 a campaign for Indian women’s suffrage was launched so that women may play affective role in the politics, steps towards attainment of gender equality; consequently leading them to self-perception and encouraging
them to determine their destiny in personal and collective lives including their interests and activities providing them public reforms to influence the government and polity parties to support their cause. As noted by Indian Statutory Commission of 1930, it led to realization that India could not achieve its aspired position in the world unless the women were allow to play their respective role as educated citizens (Indian Statutory Commission, 1930:58).

**Women’s Organizations**

During 1915 to 1927, to enhance the concept of women’s political empowerment in sub-continent three organizations were made by British women i.e. “Women’s Indian Association” (WIA) 1915 by Queen Margaret’s Cousin, “The National Council of Women in India” (NCWI) 1925 by Lady Tata and “All India Women’s Conference” (AIWC) 1927 also made by Queen Margaret’s Cousin (Basu & Ray, 1990). In 1925 women were granted the right to vote except in Orissa and Bihar but a special condition was also made by the government that only those men and women would use their right of vote who have their own property. In the first session of round table conference in 1930-1931, a resolution was presented by Mrs. Jehanara Shah Nawaz. She demanded socio-political rights for all Indian women without any discrimination of belief, color, class, and gender; in 1932 All India Muslim League also expressed its support on this issue and the problem was solved by the Government of India Act 1935, in both the houses i.e. “Council of State” (6 out of 150) and the “Federal Assembly” (9 out of 250) seats were reserved for women and almost sixty million women were given right to vote (Lateef, 1990:71).

**Muslim Personal Law 1937**

On 10th September 1937, “Muslim Personal Law” (MPL) was passed; it was another great achievement because through this law Muslim women get their right of share in inheritance (Asghar. 2000:147). Although this act was highly criticized by different schools of thought and said that the so called customary law was unacceptable; whereas on the other side this act was highly appreciated by Indian Muslim women because the act provided them with a light of hope for enhancing their social as well as the political status. This gradual and constant process of change which began with the right to education, increasing consciousness and after facing hardships was then converted into a fight for getting women’s political rights in sub-continent (Serajuddin, 2011:14). In the elections of 1946, the All India Muslim League (AIML) gave tickets to Begum Salma Tassaduque Hussian and Mrs. Jehanara Shah Nawaz to contest elections; although All India Muslim League won the elections with historic victory but British government did not allow forming the government, at that time five hundred women launched a protest rally against this act in Lahore; but when the level of activity increased and a large number of Muslim women were arrested including Begum Salma Tassaduque Hussian, Begum Kamal-ud-din Ahmad from N.W.F.P (now Khyber Pushtoon Khawa) and Mrs. Jehanara Shah Nawaz, after that British government also banned the political activities of Muslim League Women Nation Guard. So it can be said that all these legal reforms were the step forward to create a sense of awareness for the socio-political transformation and empowerment of Indian women in general and Muslim women particular (Naheed, 2008:283).

The Indian freedom movement brought opportunities for women that they could play the collective role for achieving independence which definitely paid the way towards pave the way social, economic and political empowerment: hence Jinnah became the first supporter of women’s empowerment when in 1944 he said that “no nation can rise to the height of glory unless their women are side by side with them, we are victims of evil customs. It is crime against humanity that our women are confined within the four walls of the houses as prisoners. There isn't any sanction anywhere for the deplorable condition in which our women have to live; you want to take your women along with you as comrades in every sphere of life” (Mumtaz &Shaheed, 1987:7).
Political Empowerment of Women in Pakistan 1947-1999

After the creation of Pakistan, the history of women’s political participation may be divided into two stages i.e. 1947-1999 and 1999 onwards. The first period started from independence of the country in the year of 1947 until the year 1999. During this period women representation in political forums remained marginal and did not progress much till elections in year 1997 (Mumtaz, 1998:319-369) while the second period started with the year 2001 to continuous till 2009.

Women in Politics during 1947 to 1969

In 1947, the first constituent assembly had only 2 women out of 79 members namely Shaista Ikram Ullah and Jahanara Shah Nawaz, nevertheless there was a demand for at least 3% seats should be reserved for women in both the National as well as the Provincial assemblies. After the desolation of first constitutional assembly in 1954 and the second assembly was indirectly elected which as no representation of women; hence no female member could participate in the deliberation about in 1956 constitution (Mirza, 1977:87). But after imposing first martial law by General Ayub khan in 1958 and under his 1962 constitution he declared that women might be elected through indirect elections because of this restriction only 6 women were elected within the assemblies; whereas the 1964 presidential election, which is regarded as the most significant event in the history of women’s empowerment in Pakistan because Miss Fatima Jinnah, the sister of the Quaid-e-Azam contested of the presidency against an all-powerful army general Muhammad Ayub Khan (Ali, 1986:24).

Women in First General Elections 1970

The political history of Pakistan for 1947 to 1970 reveals that whereas the first constituent assembly of Pakistan was constituted from within the Indian legislature elected in 1946 elections whereas after its dissolution the second assembly came into being at the result of indirect election; nevertheless at provincial level elections on the bases of adult franchise were held in East Bengal (after word East-Pakistan and now Bangladesh), Punjab, Sindh and NWFP (now Khyber Pushtoon Khawa) in 1954,1951, 1951 and 1953 respectable. It was only in 1970 when after imposition of martial law 1969 General Agha Muhammad Yahya khan held election for national and provincial assemblies on the bases of adult franchise which were contested by 9 women as an independent candidates but all of them lost; however it was the first time that the women actively participated in the politics (Patel, 1979: 17-79).

Since 1970 elections, a total of 107 women took part in general seats but only 24 women candidates succeeded. They not only participated but also showed their trust on Pakistan People’s Party (PPP) because Mr. Zulfiqar Ali Bhutto also raised his voice for the political empowerment of women and particularly for the poorer women of Punjab and Sindh. His slogan Roti, Kapra aur Makan made the women think that under Bhutto’s leadership they could develop themselves as respectable human beings in their own lives hence became fairly fascinated (Burki, 1980: 51-130). It was for the first time in the electoral history of Pakistan, majority of women voted for the candidates of their own choice irrespective of their husband’s desires. It turned into a big step for the political empowerment of women at the grassroots level. As for as women’s representation was concerned no women could manage to be elected, however 6 of them were elected against the served seats in Wet-Pakistan (Mumtaz & Shaheed, 1987: 38)

Women in Politics after 1971 to 1988

After the separation of East Pakistan, Zulfiqar Ali Bhutto took over as chief Martial law administrator on 20th December 1971; he gave top priority to reverting to parliamentary form of government and drafting a new constitution which was promulgated on 14th August 1973. It is very important to comment that three women members, “Mrs. Nasim Jahan”, “Mrs. Qazi” and “Mrs. Ashraf Abbasi” contributed in the drafting of the 1973 Constitution as the same role that
“Begum Jahan Ara Shahnawaz” and “Begum Shaista Ikram Ullah” had played in 1956. It was largely due to the efforts of these women that the number of reserved seats for women was fixed at 10 in National assembly and 5 for each provincial assembly (Syed, 1982:68). During Zulfiqar Ali Bhutto’s era, women gained chances to push for more progressive measures, “Miss. Kaneez Yousaf” was appointed as Vice Chancellor of the Quaid-e-Azam University; while “Begum Rana Liaquat Ali Khan” turned into appointed as the Governor of Sindh (Safdar, 1990:805-920).

The first election under the constitution of 1973 was held in 1977, and for the first time Mrs. Nasim Wali Khan managed to win from two constituencies of N.W.F.P. (now Khyber Pushtoon Khawa) as general candidate. Although it was a great achievement for women, but the women reserved seats were not filled. The assembly could not run and an agitation was started against the government by opposition, PNA’s (Pakistan National Alliance) claiming elections were rigged; hence on July 5, 1977 the assemblies were dissolved by general Zia-ul-Haq who imposed third martial law in Pakistan which continued till 1985 (Waddy, 1980:88-100). After assuming power Zia promised to hold elections within 90 days; but he never fulfilled his promise, and declared on 2nd February 1979 that the elections would be further delayed. To legitimize his era he took used religion and introduced Islamization with the help of two political parties, the Muslim League and the Jamate-e-Islami and tried to Islamize the society as a pre-condition to return to democracy. Whereas, his period is reflected the most complex era for women because under his government the so called Shariah laws marked a period of reversal for the political empowerment of women (Mumtaz & Shaheed, 1987:71). As some 40 women i.e. 15 for National Assembly, 10 for provincial assembly of Punjab, 13 for Sindh and 2 for N.W.F.P (now Khyber Pushtoon Khawa) contested the elections whereas only 1 of them could reach National Assembly and 2 were elected to the Punjab Assembly nevertheless 1 more succeed to win National Assembly seat in by-elections. But in 1985 the assemblies were dissolved in exercise of Presidential power under article 58-2(b) by Zia-ul-Haq, and elections were initially announced on non-party basis, but due to Zia’s sudden demise on 17th August 1988.

Women in Politics after 1988 to 1999

The situation changed and elections were held in October 1988, but before conducting elections almost all political parties challenged the announced non-part election in a supreme court. It became a direct contest between two important political parties i.e. Pakistan People’s Party (PPP) led by way of Benazir Bhutto and Pakistan Muslim League led by Nawaz Sharif who joined hands with other parties to form the Islami Jamhoori Ittehad (IJI) participated in it. These elections have been important because it brought the new leadership to the fore that was to lead the political scene as much as the present. During this period the political parties had to make very extensive struggled for revival of the representative government; which was only in 1988 when “Benazir Bhutto” became the first woman prime minister of Pakistan and after she assumes the office, it was expected that she could prove to be custodian of women’s rights and a liberal society. Being daughter of Zulfiqar Ali Bhutto it was also expected by the women that she would revise such polices which would bring radical change for enhancement of women status and also will do away with discriminatory laws including those ordinances conflicted upon them during Zia’s regime (Syed, 1995:53, Mumtaz & Shaheed, 1987:109-110, Zafar, 1991:38). Women participation during in these elections recorded slightly decreased to 38 which were 40 in 1977 elections. Of the 38, 17 were for national assembly seats and 13, 5, 2, 1 for Punjab, Sindh, NWFP (now Khyber Pushtoon Khawa) and Baluchistan assemblies respectively. Of the 6 seats won, 4 for National assembly, 1 Punjab assembly and 1 N.W.F.P. (now Khyber Pushtoon Khawa) assembly (National Commission on the Status of Women, 2010).

In 1990 and 1993 Pakistan became the part of two important international organizations “Vienna Declaration” and “The Forward Looking Strategies for the Advancement of Women”. To improve the social status of women some important steps were taken i.e. appointed female
judges, set up separate women police stations and the first women bank; whereas in some public universities, women’s study centers were also established. (FLSAW) (PILAT, 2004); nevertheless the government did not have the required majority to amend any of the draconian laws which was passed by general Zia. In 1990 Benazir Bhutto’s first government was dissolved by President Ghulam Ishaq Khan while exercising his powers under controversial article 58-2(b) of the 1973 constitution and announced to hold the elections throughout the country within 90 days (Syed, 1995:254).

The 1993 assemblies again was sent home through the use of article 58-2(b) for the third time. Even though the Supreme Court over ruled President’s decision but Prime Minister Nawaz Sharif left his office and new elections were held. In the context of women representation, the 1993 elections observed a minor increase in numbers of general seats contested and won by women; total 41 women contested elections and only 7 out of 16 were succeed in national assembly, whereas 4 seats as well as 1 seat each of Punjab, Sindh, and N.W.F.P. (now Khyber Pakhtun Khawa) assemblies out of 8, 12 and 2 seats that were contested in those assemblies respectively (Mumtaz & Shaheed, 1987:103). In 1994, when Pakistan government was doing homework to submitting its national report in 1995 Beijing conference, a commission was established to review such laws which have been discriminatory barren the women to turn out to be identical citizens of Pakistan. The commission had Ulemas, Judges of the Supreme Court, journalists and women representatives on it who has those deal with issues like “family laws”, “economic rights”, “criminal laws”, “Hudood Ordinance (1979)”, “Law of Evidence (1984) and “law about violence against women”. The report made for public in 1997. It was appreciated by women because the report contained comprehensive recommendations to enhance the social status of women and to remove all that misconception about Islam which confines women inside the house, provides inferior position, and restrains them from getting employment or running their own business. It is completely opposing to fact; the commission also suggested that all laws which are not according with the sprit of Islam ought to be abolished so that the real and fair concept of Islam may be introduced before the world (Asia Watch & WR project, 1992:60).

Benazir Bhutto’s second term came to an end when her own party’s stalwart President Farooq Laghari used article 58-2(b) of the constitution 1973, dissolved the assemblies and dismissed her government. The consequent general elections held in 1997, an impressive member of women contested for the elections which went up to 56: nevertheless the increase in the member of successful contestant went up by only 1. Out of 217 seats of National Assembly 7 women were elected, whereas only 1 female candidate could reach in the N.W.F.P. (now Khyber Pushtoon Khawa) assembly. In 1997 election 9 women contested as independent candidates while Pakistan People’s Party, Pakistan Muslim League, Shaheed Bhutto Group (SBP), Pakistan Muslim League Junjo Group (PML-J), Awami National Party, and Khaksar Tehreek issued party tickets to 9, 9, 7, 7, 1 and 1 women respectively. However, the provision about women representation became ineffective in 1990; hence from 1990 to 1997 there were no women representatives in the elective bodies because no seats have been allocated for women in 1990, 1993, and in 1997 elected assemblies, neither at the provincial nor the national level; as a result of that women’s representation became minimum i.e. 0.9% in 1990 and 1.8% in 1993 whereas it slightly increased to 2.8% in 1997 (Mumtaz, 1998:365). While at provincial level 18 women were contested elections (Punjab 7, Sindh 6, NWFP 4, and Balochistan 1). Out of these 18, 10 were independents and 11 had party tickets. A significant rise in the number of women candidates for the National Assembly that is 34 was quite encouraging from the perspective of their representation. As compared to that the provincial assemblies offered a very discouraging picture where number of female contestants and successful candidates fell down. Because of non-availability of the reserve seats, the assemblies from 1988 to 2001 had quite insignificant number of women representatives (Sibylla, (ed.), 2014).
In 1996 the name of “Ministry of Women Development” (MOWD) was modified and became “Ministry of Women Development Social Welfare and Special Education”; through this platform, steps had been taken for the development of women; however no legal reform turned into made towards the protection of rights and empowerment of women.

In Pakistan women have always been under-registered; hence the percentage of registered women is much lower than men. In 1950s, 1970s, 1988 and 1990s, the gap between men and women voter registration was 20%, 12%, and 8%, respectively, nevertheless 10% increase could be seen in between 1993-1997. The situation in FATA (Federally Administrative Tribal Areas) was even worse where the male-female ratio of voter registration was 75 and 25 whereas on all Pakistan level it was 55 and 45, because the women are excluded from public life even to the extent that they are not allowed to interact with men outside their home and cast their votes. In 2000 a survey was conducted by Asian Development Bank, during the 50 years span i.e. from 1947 to 1997, 113 women were elected to numerous national legislatures which includes the nominated Majlis-e-Shoora; whereas from the 1970 election till 1997 was 15 which comes to an average of 3 women in each election. In 1988 election 4 women reached the Nation Assembly which was the ever highest number of women representatives. However, the percentage of successful women contesting in the by election came down from 4% to 2% in 1988, 1% in 1990, which increased to 2% in the 1993 elections. This inconsistent rise and fall indicates that the factors barring women representation in the elected bodies at remained almost the same since the establishment of Pakistan (Country Briefing Paper, July, 2000:14).

Political Empowerment of Women in Pakistan 1999 to 2008

The military government of General Musharraf from 1999 to 2008 was encouraging for women’s political empowerment. As compared to the previous governments, his government took a few important measures for the active participation of women in all the socio-cultural and political sphere of life and his regime proved to be a political boom for the women. For empowering women he set up a National Commission in July 2000 by the presidential ordinance, with an objective to review all laws, rules and regulations which were affecting women’s status and rights (Saiyid, 2001:7). Under the Musharraf government, the 1st national policy for the development and empowerment of women was announced on March 2002, with the intension to enhance the level of social, political and economic empowerment among the women (Weiss, 2012:5).

For women’s uplifting at the national and local levels in 2000, he introduced a devolution plan; the local government ordinance 2000 provided 33% representation of women in all the tiers of local administration. Consequently a substantial number of women became members of union, town, tehsil and district councils (Yazdani, 2004:7).

During Musharraf regime i.e. from August 2001 to 2002, elections for local bodies were held in 5 phases. The first phase came to an end on December 31, 2000 with the election of 4857 women belonging to 956 union councils of 18 districts: which was unprecedented in the history of Pakistan because women were provided opportunity to contest district elections from joint electorates. They were given 33% representation on all levels i.e. the union, sub-divisional and district councils; moreover 16 women were elected as Nazims/Naib Nazims in 2000 elections (Ministry of Law, Justice and Human Rights, Periodic Report, 76). Though for the 2005 election, women seats in the union council were decreased i.e. 21 to 13 nevertheless over all quota of 33% was retained. In 2005 election, the number (36,000 in 2002) of women councilors dropped to 24,000 albeit the space for women participation at local politics was enlarged (Tabassum & Tabassum, 2015: 17-18). In Punjab, Sindh, NWFP (now Khyber Pashtoon Khawa) and Baluchistan, 20007 out of 20718, 5878 out of 6498, 5878, out of 3963 out of 5742, 2374 out of 3108 women were elected respectively. On August 21st, 2002, the Legal Framework Order (LFO) was promulgated by means of Pervez Musharraf which raised the status of women in political participation. In 2002 elections out of 1170 seats of legislators an overall women’s
representation came to 19.8% against the prescribed quota i.e. 33%. 74 against 342 (21.3%), 18 against 100 (18%), 73 against 371 (19.7%), 33 against 168 (19.6%), 23 against 124 (18.5%) 12 against 65 (18.5%), women were elected for the National Assembly, Senate, Punjab Assembly, Sindh Assembly, N.W.F.P (now Khyber Pashtun Khawa) Assembly and Balochistan Assembly respectively (Year Book, MOWD, 2003-2004: 29).

For the election of National Assembly, minimum and maximum number of votes was polled by Ms. Zubeida Jalal (NA-272) and Dr. Azra Afzal (NA-213) i.e. 43,670 and 74,461 respectively. At the Provincial level this ratio ranged in between 10,254 (Nasreen Rehman-PB-17) and N 37,326 (Maria Tariq, 113). One woman each was elected on general seat for the Balochistan and NWFP (now Khyber Pashtoon Khawa) Provincial Assemblies; whereas in the Sindh Provincial Assembly, a woman was elected for the office of Deputy Speaker. Moreover 2 women contestants each i.e. against 20 and 67 could make their way for the election of National and Provincial Assemblies respectively. This uplift i.e. women’s nomination and election towards general seats in General Elections 2002 was neither total outcome of the efforts made by Government or Civil Society nor it was on Gender or personality based rather it heavily dependent on the political background of their families as well. As far as the 4 provincial assemblies are concerned, 140 women stood elected as independent or nominated contestants. Overall 12 i.e. 2 independents and 10 nominated women got elected against general seats. The number of minimum and maximum votes ranged between 10,254 and 37,326 as polled via Ms. Nasreen Rehman of Balochistan an independent candidate and Maria Tariq from Punjab of PML-Q, respectively. To begin with the Cabinet constituted on the bases of 2002 elections had only 1 lady minister and 1 advisor, while, by the end of the Parliamentary tenure the number rose to 6 i.e. 2 Federal ministers and 4 ministers of State. Moreover 6 (18%), 2 (5%), 3 (12%), females were appointed as parliamentary secretaries, Chairpersons of Standing Committees in National Assembly and Chairpersons of Standing Committees respectively. At the provincial level i.e. Sindh and Punjab, 1 out of 17 ministers was a woman (for population planning and women development), 6 out of 41 ministers and 1 was appointed as advisor to Chief Minister. However, there were no female ministers in either N.W.F.P (now Khyber Pushtoon Khawa) or Balochistan. Deputy Speaker in Sindh, which indicates that elected women had made a remarkable improvement for sharing post-election activates (Year book, MOWD, 2003-04:35).

The next general elections have been held on February 18, 2008, in national and provincial assemblies about 233 out of 1170 women were contested elections; however, the results show some fluctuating traits, out of these 233 contestants, 205 had been elected on general seats, 1 on non-Muslim and 27 on reserved seats (The News, 2008); whereas 63 out of 72 won for National Assembly, 113 out of 120 in all four provincial assemblies, majority of them belong to Punjab i.e. 46 out of 49, Sindh 12 out of 15, N.W.F.P. (now Khyber Pushtoon Khawa) and Baluchistan have 3 each and a 2 for Islamabad.

In 2008, 34 women candidates were nominated by their political parties to contest election. Whereas the election of “Dr. Fahmida Mirza” as the first woman speaker of the National Assembly and “Shahla Raza” as Deputy Speaker of Sindh Assembly become a massive accomplishment in terms of women empowerment in Pakistan (http://www.na.gov.pk/ministeries.htm, Accessed on 25 January 2014). Initially, in the federal cabinet of 2008 only 2 women were added out of 15 members; Ms. Sherry Rehman was awarded with a portfolio of “Information and Broadcasting Ministry” and also gave the an additional portfolio of the “Ministry of Women’s Development, Health and Culture”, after that two more women i.e. “Dr. Firdous Ashiq Awan” and “Samina Khalid Ghurki” were awarded with the ministry of “Population & Social Welfare” and “Special Education”; whereas “Mehreen Anwar Raja” (for parliamentary affairs) and “Shagufta Jarmani” (for spiritual affairs) had been appointed as ministers for a state, along with “Shahnaz Wazir Ali” and “Hina Rabbani Khar” they have been appointed as special assistants to the Prime Minister.
While in Punjab only 1 out of 41 members, (Ms. Neelum Jabbar was awarded with the ministry of Population Welfare); in Sindh 5 women i.e. “Shazia Marri” (for Information), “Sassi Palijo” (for culture and tourism), “Tauqueer Fatima” (for ladies development), “Nargis N.D. Khan” (for Social Welfare) and “Nadya Gabol” (for information era); in Baluchistan 5 out of 44 ministers, “Rubina Irfan” (for law and Parliamentary Affairs), “Ghazala Gola” (for women’s development), “Raheela Durrani” (for prosecution), “Ruqayya Hashmi” (for inter-provincial coordination), “Nasreen Rehman Khan Khetran” (for information technology) and “Shama Parveen” (for provincial coordination on NGOs Program National/ International & Universities); and in N.W.F.P. (now Khyber Pushtoon Khawa) 2 out of 44, “Uzma Piraliizai” (guide to the Chief Minister on Education, Health & Social Welfare) and “Sitara Ayaz” (for Minister for Social Welfare and Women Development). Whereas several ladies were appointed as ambassadors to different countries, these formidable and fine steps provided a new direction inside the political participation of women in Pakistan (Zia, 2010:6).

Conclusion
It may be concluded that a process of social transformation has been observed in the socio-political status of women during the colonial period and chain of development which progressively provided somewhat open space for Muslim women in their domestic and public lives. It is true that different movements for their emancipation and political empowerment were not an outcome of any accident of chance rather than it was planned and sustained process which passes through different stages. Similarly the present study also provides a comparative analysis after the creation of pakistan focusing on the different democratic and representative governments since 1947; where it can be seen a development in Ayub khan’s regime, Z.A, Bhutto’s democracy, Gen. Zia-ul-Haq’s period and four democratic tenure Benazir and Nawaz Sharif and lastly some valuable work for the political empowerment of women during Parvez Musharraf’s military and democracy made in later period of 2000; different organizations were made for enhancing socio-political and education level of women. Whereas women were given rights to take decisions about change in constitution, with the help of such steps government empowered the women and many other women also inspired by them. So it can be said that Musharraf’s Era was one of the most successful regime for women’s political empowerment because his decisions about women’s empowerment was more liberal as compare to previous governments. And lastly it can be concluded that roots of different movements about the empowerment of women have same source but its time of occurrence is different because some areas these types of movements had happened centuries ago whereas in others it is recently happen. So it is proved from the above discussion concerning about women’s political empowerment that in intimation about women’s rights had been emerged earlier before the creation of Pakistan; while after independence different forces are creating hurdles but with the passage of time it will overcome by positive thinking.

References
Country Briefing Paper, (July, 2000) Women in Pakistan, Asian Development Bank programs Department (West) and Office of Environment and Social Development


Ramsey Taxation and Public Goods in the Solow-Uzawa Growth Model

*Wei-Bin Zhang, Ritsumeikan Asia Pacific University, Japan

*Corresponding author’s email: wbz1@apu.ac.jp

ARTICLE DETAILS

History
Revised format: Nov 2020
Available Online: Dec 2020

Keywords
Uzawa’s model, Ramsey taxation, optimal tax rates, Solow model, public good

JEL Classification
H2, H71

ABSTRACT

Purpose: This paper examines issues related to optimal taxation similar for those addressed by Ramsey in his celebrated 1927 paper. This model determines optimal taxation to maximize utility with revenue as endogenous variable. Optimal taxation is re-examined within theoretical neoclassical growth framework. We re-construct the Solow-Uzawa two-sector model with optimal taxation. The economy is built with an economic structure of the public, capital goods and consumer goods sectors. Public goods enter the utility function. The government receives tax revenue from consumption of consumer goods and capital goods. The government revenue is epnt on the public sector.

Methodology: Comparative analysis is conducted to analyze how the tax rates and other economic variables are endogenously changed owing to exogenous changes in some parameters.

Findings: We find out the optimal taxation rule in the national economy. The model describes nonlinear dynamic interactions between economic structural change, macroeconomic growth, capital accumulation, and optimal tax rates with perfect competition in input and private goods markets.

Implications: The topic is also practically important as governments in many market economies have made extensive public inventions after WWII. This new trend has caused economists to theoretically and empirically analyze taxation in various economic systems.

© 2020 The authors, under a Creative Commons Attribution-Non Commercial 4.0


Introduction

In his paper on evaluating Ramsey’s contribution to economics, Stiglitz (2015: 235) makes the following judgement: “Frank Ramsey’s brilliant 1927 paper, modestly entitled, ‘A contribution to the theory of taxation’, is a landmark in the economics of public finance. Nearly a half century later, through the work of Diamond and Mirrlees (1971) and Mirrless (1971), his paper can be thought of...
as launching the field of optimal taxation and revolutionizing public finance.” Ramsey (1927:47) states what he is concerned about in his seminal paper: “a given revenue is to be raised by proportionate taxes on some or all uses of income, the taxes on different uses being possible at different rates; how should these rates be adjusted in order that the decrement of utility may be minimum?” Like Ramsey, this paper is also concerned with optimal taxation in an economy with a homogeneous population and a source of the government’s taxes solely on commodities. But we deviate from Ramsey’s approach in multiple ways. In our approach optimal taxation is determined not with fixed revenue, but to maximize the representative household’s utility. The tax income or revenue is an endogenous variable in our model. Different from the Ramsey model, our model is developed within neoclassical framework. It is especially framed with the Solow-Uzawa growth model of wealth accumulation.

Since Ramsey’s 1927 pioneering work on optimal taxation, the topic has caused attention of many researchers in different fields of economics. There appear many formal analytical works on optimal taxation under different institutions. The topic is also practically important as governments in many market economies have made extensive public inventions after WWII. This new trend has caused economists to theoretically and empirically analyze taxation in various economic systems. In the literature of optimal tax theory, one finds various feasible taxes and their different implications for different households. The government has various objectives when taxation is made (e.g., Diamond and Mirrlees, 1971, 1971a; Wildasin, 1988; Slemrod, 1990; and Wilson and Gordon, 2003). Tax configurations have close relations to their operational efficiencies and welfare implications (e.g., Auerbach, 1985; Zodrow and Mieszkowski, 1986; Stiglitz, 1987; and Lai, 2019). Researchers have made great efforts in analyzing optimal taxation. Nevertheless, there is a main limitation in most of these studies. Analytical works are mostly conducted within static equilibrium frameworks. It is apparently imperative to determine optimal taxation within a dynamic theory. The study is carried out on the basis of the well-known Solow-Uzawa two-sector neoclassical growth model by applying Zhang’s alternative approach to behavior of household (Zhang, 2005, 2008, 2020).

Rather than determining taxes on commodities to minimize the decrement of utility with fixed revenue as in the Ramsey approach, we determine optimal taxation to maximize utility with revenue as endogenous variable. Optimal taxation is determined for an economy described by neoclassical growth theory. The main economic structure is framed by the Solow-Uzawa two-sector model. A public sector is integrated into the model. The economy consists of the capital goods, public, and consumer goods sectors. The utility function is directly affected by public goods. The government’s revenue comes from taxing consumption of consumer goods and capital goods. The revenue is used up for supporting the public sector. We find the optimal taxation rule for the national economy. The model describes nonlinear dynamic interactions between macroeconomic growth, accumulation of wealth/capital, economic structural change, and optimal tax rates. The rest paper is constructed with 4 sections. Section 2 develops the dynamic framework for analyzing endogenous public goods with optimal taxes on capital goods and consumer goods. Section 3 finds a computational procedure to simulate the dynamics and identifies the economic equilibrium point. Section 4 studies comparative analysis with regards to a few of the coefficients. Section 5 concludes the study. The Appendix establishes the main results of Section 3.

The Solow-Uzawa Growth Model with Taxes on Consumption of two Goods

The model is framed on the basic structure of the Solow-Uzawa two-sector neoclassical model (Solow, 1956; and Uzawa, 1961) and the Ramsey model with taxaction (Ramsey, 1927). It also integrates an alternative approach to the public sector and the public goods (Zhang, 2016). This paper generalizes Zhang’s approach in that tax rates are considered endogenous variables like in the Ramsey model. We follow Ramsey (1927:47): “I propose to neglect altogether questions of distribution and considerations arising from differences in the marginal utility of money to different people; and I shall deal only with a purely competitive system with no foreign trade.” The economy
thus has three sectors. Two private sectors are perfectly competitive and are framed as in the
traditional two - consumer goods and capital goods - sectors growth model. The other sector is the
public sector. The government’s tax revenue is spent on the public sector. Capital and labor are
mobile between the sectors. Assets are owned by the households. There is constant and
homogeneous population. Let subscript index, $p, s,$ and $i$ stand for the public goods sector, the
consumer goods sector, and the capital goods sector. We use $K_j(t)$ and $N_j(t)$ to represent the inputs
of capital stocks and labor force by sector $j$. Let $F_j(t)$ mean the output level of sector $j$.

The Capital Goods Sector

The sector’s production function is:

$$F_i(t) = A_i K_i^{\alpha_i}(t) N_i^{\beta_i}(t), \quad \alpha_i, \beta_i > 0, \quad \alpha_i + \beta_i = 1, \quad (1)$$

where $A_i$, $\alpha_i$, and $\beta_i$ are parameters. Variables $w(t)$ and $r(t)$ are respectively the wage rate and
interest rate. We use $\delta_k$ to denote depreciation rate of capital goods. The profit is:

$$\pi_i(t) = F_i(t) - (r(t) + \delta_k)r(t) - w(t)N_i(t).$$

We maximize the profit and get the marginal conditions:

$$r_\delta(t) = \frac{\alpha_i F_i(t)}{K_i(t)}, \quad w(t) = \frac{\beta_i F_i(t)}{N_i(t)}, \quad (2)$$

where $r_\delta(t) \equiv r(t) + \delta_k$.

The consumer goods sector

The consumer goods sector’s production function is:

$$F_s(t) = A_s K_s^{\alpha_s}(t) N_s^{\beta_s}(t), \quad \alpha_s, \beta_s > 0, \quad \alpha_s + \beta_s = 1, \quad (3)$$

where $\alpha_s$ and $\beta_s$ are parameters. The marginal conditions are:

$$r_\delta(t) = \frac{\alpha_s p(t) F_s(t)}{K_s(t)}, \quad w(t) = \frac{\beta_s p(t) F_s(t)}{N_s(t)}. \quad (4)$$

The Public Sector

We follow Ramsey’s assumption that the government raises revenue through taxing only on
commodities. This strict assumption is obviously limited as contemporary governments in capitalist
economies try to tax any taxable sources which they can find and justify. We construct the public
sector which is financially supported by the government’s tax income. The public sector pays the
capital stocks and workers the equal rates to those in the capital and labor markets. The
government utilizes the two input factors in efficiency. The sector uses the government’s support
to maximize public services. The public sector supplies services by using capital $K_p(t)$ and labor
force $N_p(t)$ with the following supply function:

$$F_p(t) = A_p K_p^{\alpha_{op}}(t) N_p^{\beta_{op}}(t), \quad \alpha_{op}, \beta_{op}, A_p > 0.\quad (5)$$

The budget constraint of the public sector is:

$$w(t)N_p(t) + r_\delta(t)K_p(t) = Y_p(t).$$
Maximizing $F_p(t)$ under (5) yields:

$$r_p(t) K_p(t) = \alpha_p Y_p(t), \quad w(t) N_p(t) = \beta_p Y_p(t), \quad (6)$$

in which

$$\alpha_p \equiv \frac{\alpha_{op}}{\alpha_{op} + \beta_{op}}, \quad \beta_p \equiv \frac{\beta_{op}}{\alpha_{op} + \beta_{op}}.$$ 

**Behavior of the Household**

This study applies Zhang’s utility approach for modeling consumers’ behavior. The approach is discussed at length by Zhang (2005, 2008, 2020). Let $\bar{k}(t)$ the representative household’s value of wealth. Let $h$ stand for human capital. The current income is the wage and interest incomes:

$$y(t) = r(t) \bar{k}(t) + hw(t). \quad (7)$$

The sum of the value of the household’s wealth and the current income is called disposable income:

$$\hat{y}(t) = y(t) + \bar{k}(t). \quad (8)$$

The disposable income is divided between consumption and saving. Substituting (8) into (9) yields:

$$\hat{y}(t) \equiv R(t)\bar{k}(t) + hw(t), \quad (9)$$

where $R(t) \equiv 1 + r(t)$. The household distributes the disposable income between consumer goods $c_s(t)$, capital goods $c_i(t)$, and saving $s(t)$. We use $\tau_i(t)$ and $\tau_s(t)$ to stand for tax rates on consumption of capital goods and consumer goods and introduce $\bar{\tau}_x(t) \equiv 1 + \tau_x(t)$. The budget constraint implies:

$$\bar{\tau}_s(t) p(t) c_s(t) + \bar{\tau}_i(t) c_i(t) + s(t) = \hat{y}(t). \quad (10)$$

Utility level $U(t)$ of the representative household is related to the public goods $F_p(t)$, $c_s(t)$, $c_i(t)$ and $s(t)$ as follows:

$$U(t) = \theta F_p^{d_0}(t) s^{c_0}(t) \left( c_s^{\xi_0}(t) + \xi c_i^{\xi_0}(t) \right)^{1/\xi_0}, \quad d_0, \gamma_0, \xi, \lambda_0 > 0, \quad (11)$$

where the power coefficients are the utility elasticities of the variables of the representative household. The household makes the decision, taking the tax rates as given. As shown in Appendix A.1, maximizing $U(t)$ subject to (11) yields:

$$s(t) = \frac{\lambda_0 \hat{y}(t)}{1 + \lambda_0}, \quad c_i(t) = \frac{\xi \hat{y}(t)}{(1 + \lambda_0) \left( P^{\xi_0}(t) + \xi \right) \bar{\tau}_i(t)}, \quad c_s(t) = \frac{\xi P(t) \hat{y}(t)}{(1 + \lambda_0) \left( P^{\xi_0}(t) + \xi \right) \bar{\tau}_i(t)}, \quad (12)$$

where
\[ P(t) \equiv \left( \frac{\xi \bar{t}_s(t) p(t)}{\bar{t}_i(t)} \right)^{\xi_4}, \quad \xi_4 \equiv \frac{1}{\xi_0 - 1}. \]

The change of wealth minus the saving is the dissaving. The definition of \( s(t) \) yields the following wealth accumulation equation for the representative household:

\[ \dot{k}(t) = s(t) - \dot{k}(t). \quad (13) \]

**The Government’s Tax Income and Planned Expenditure**

The government’s tax income is from taxing consumption of two goods. We have the following government revenue:

\[ T_p(t) = \tau_i(t) c_i(t) \bar{N} + \tau_s(t) p(t) c_s(t) \bar{N}. \quad (14) \]

**Endogenous Tax Rates for Maximizing Welfare**

It is assumed that the government optimizes the tax rates to maximize the utility function. By (11) and (12):

\[ U(t) = \frac{\xi \theta}{1 + \lambda_0} \left( \frac{\lambda_0}{1 + \lambda_0} \right) \frac{\lambda_0}{\tau_0(t)} \frac{p^{d_0}(t) f^{1+\lambda_0}(t)}{\bar{t}_i(t)} \left( p^{c_0}(t) + \xi \right)^{\xi_1}, \quad (15) \]

where \( \xi_1 \equiv (1 - \xi_0)/\xi_0 \). From (9) and (7), we have:

\[ F_p(t) = A_p \left( \frac{\alpha_p}{r_0(t)} \right)^{\alpha_{op}} \left( \frac{\beta_p}{w(t)} \right)^{\beta_{op}} \frac{\lambda_0}{1 + \lambda_0} \left( \frac{\lambda_0}{1 + \lambda_0} \right) \dot{y}^{1+\lambda_0}(t). \quad (16) \]

Insert (17) in (18):

\[ U(t) = \frac{u(t)}{\bar{t}_i(t)} \left( p^{c_0}(t) + \xi \right)^{\xi_1} f_p^{d_0}(t), \quad (17) \]

where \( d \equiv (\alpha_{op} + \beta_{op}) d_0 \) and

\[ u(t) \equiv A_p^{d_0} \left( \frac{\alpha_p}{r_0(t)} \right)^{\alpha_{op} d_0} \left( \frac{\beta_p}{w(t)} \right)^{\beta_{op} d_0} \frac{\lambda_0}{1 + \lambda_0} \left( \frac{\lambda_0}{1 + \lambda_0} \right) \dot{y}^{1+\lambda_0}(t). \]

As the government’s tax income is equal to the costs of the public sector, we have:

\[ Y_p(t) = T_p(t) = \tau_i(t) c_i(t) \bar{N} + \tau_s(t) p(t) c_s(t) \bar{N}. \quad (18) \]

By (10) and (19), \( U(t) \) is represented as a function of \( \tau_s(t) \) and \( \tau_i(t) \):

\[ U(t) = \frac{u(t)}{\bar{t}_i(t)} \left( p^{c_0}(t) + \xi \right)^{(1-\xi_0)/\xi_0} N \left( \tau_i(t) c_i(t) + \tau_s(t) p(t) c_s(t) \right)^d. \quad (19) \]

The government makes the decision, taking the levels of consumption as given. Maximizing \( U(t) \) with \( \tau_i(t) \) and \( \tau_s(t) \) as variables. The first-order conditions imply:
From (20), we have:

$$
\frac{c_s(t)}{c_l(t)} = P(t).
$$

We solve the above equation

$$
\frac{\bar{\tau}_s(t)}{\bar{\tau}_l(t)} = f(c_l(t), c_s(t), p(t)) \equiv \left( \frac{c_s(t)}{c_l(t)} \right)^{\xi_0-1} \frac{1}{\xi \cdot p(t)}. \quad (21)
$$

It should be noted that as shown by Ramsey (1927; see also Mas-Colell, et al. 1995) the optimal taxes lead to every good to get the same proportional reduction in compensated demand. This is what the so-called Ramsey rule implies. From (20) and (22) we solve:

$$
\tau_s(t) = \left( \left( \frac{1}{f(t)} - 1 \right) p^{\xi_0-1}(t) - (p^{\xi_0}(t) + \xi) \frac{d}{p(t)} \right) \bar{\tau}(t),
$$

$$
\tau_l(t) = \frac{1 + \tau_s(t)}{f(t)} - 1. \quad (22)
$$

where we also use

$$
\bar{\tau}\left( (c_l(t), c_s(t), p(t)) \right) \equiv \left( ((d - 1) p^{\xi_0}(t) + d \cdot \xi) \cdot p(t) - \frac{p^{\xi_0-1}(t)}{f(t)} \right)^{-1}.
$$

**Equilibrium of the two Goods**

Consumer goods market in equilibrium satisfies:

$$
c_s(t)\bar{N} = F_s(t). \quad (23)
$$

The equilibrium condition in capital goods market implies:

$$
c_l(t)\bar{N} + s(t)\bar{N} + \delta_k K(t) = F_l(t) + K(t). \quad (24)
$$

We mean that in equilibrium the capital stock change and capital goods consumed is equal to capital goods produced minus the capital depreciated.

**Capital and Labor being Fully Employed**

The national capital stock $K(t)$ is fully employed by the three sectors. Labor and capital are fully employed:

$$
K_l(t) + K_s(t) + K_p(t) = K(t), \quad (25)
$$
\[ N_l(t) + N_s(t) + N_p(t) = h \bar{N}. \quad (26) \]

The wealth is held by the households. We thus have:

\[ K(t) = \bar{k}(t) \bar{N}. \quad (27) \]

The construction of the dynamic growth model is completed.

**The Economic Dynamics**

The Appendix gives a computational procedure about how to follow the motion of the economic system starting from a single differential equation. The variable \( z(t) \) of the equation is \( z(t) \equiv w(t)/(r(t) + \delta_k) \). The equation and procedure are summarized in the following lemma.

**Lemma**

The motion of \( z(t) \) follows the following differential equation:

\[ \dot{z}(t) = H(z(t)), \quad (28) \]

in which \( H(t) \) is given in the Appendix. All the other variables are given as functions of \( z(t) \) by the following procedure: \( \bar{k}(t) \) by (A2.14) \( \rightarrow \) \( r(t) \) and \( w(t) \) by (A2.2) \( \rightarrow \) \( r_\delta(t) = r(t) - \delta_k \) \( \rightarrow \) \( p(t) \) by (A2.3) \( \rightarrow \) \( c_s(t) \) and \( c_l(t) \) by (A2.13) \( \rightarrow \) \( r_s(t) \) by (22) \( \rightarrow \) \( \tau_i(t) \) by (22) \( \rightarrow \) \( \tilde{y}(t) \) by (10) \( \rightarrow \) \( K_p(t) \) by (A2.10) \( \rightarrow \) \( K_s(t) \) by (A2.7) \( \rightarrow \) \( K(t) = \bar{k}(t)\bar{N} \rightarrow K_i(t) \) by (A2.6) \( \rightarrow \) \( N_j(t), j = i, s, p \rightarrow F_j(t) \) by the defined functions \( \rightarrow \) \( U(t) \) by (19) \( \rightarrow \) \( Y_p(t) \) by (5) \( \rightarrow \) \( T_p(t) = Y_p(t) \).

The expressions are very tedious. The rest of the study is limited to the equilibrium economic structure. To simulate the economic equilibrium structure, we choose the parameter values:

\[ \bar{N} = 50, \quad A_i = 1, \quad A_s = 2.5, \quad A_p = 0.9, \quad \alpha_i = 0.32, \quad \alpha_s = 0.34, \quad \alpha_{0p} = 0.2, \]

\[
\begin{align*}
\beta_{0p} & = 0.5, \\
\lambda_0 & = 4, \\
\xi_0 & = 0.55, \\
\xi & = 2, \\
\theta & = 1, \\
\omega & = 1, \\
\rho & = 3, \\
\delta_k & = 0.04. \quad (29)
\end{align*}
\]

The population is 50. The propensity to save \( \lambda_0 \) is 4. The propensity to consume the aggregated goods \( \xi_0 \) is 0.1. The share of capital goods is 2, while the share of consumer goods is 1. The depreciation rate is chosen at 4 percent. The choice of the parameter values is not based on a special economy. This will not affect the basic purpose to give some insights into how different parameter values affect the tax rates and economic equilibrium.

Following the lemma, we straightforwardly have the equilibrium values of the variables:

\[
\begin{align*}
\tau_i & = 0.097, \quad \tau_s = 0.302, \quad Y = 268.6, \quad Y_p = 32.4, \quad K = 926.2, \\
F_i & = 172.6, \quad F_s = 165, \quad F_p = 9.86, \quad N_i = 96.5, \quad N_s = 34.5, \quad N_p = 19, \\
K_i & = 594, \quad K_s = 232.6, \quad K_p = 99.6, \quad r = 0.053, \quad p = 1.22, \quad w = 0.39,
\end{align*}
\]
\[ \hat{y} = 23.15, \hat{k} = 18.5, c_l = 2.71, c_s = 3.3, U = 3978180. \quad (30) \]

The tax rate on consumer goods is higher than the tax rate on capital goods. Most of the labor force and capital stock are employed by the capital goods sector. In (30), the variable \( Y(t) \) measures the national income:

\[ Y(t) = (r(t) + \delta_k) K(t) + w(t) h \bar{N}. \]

We now analyze effects of exogenous changes on the system.

**The Impact of Exogenous Changes in Some Parameters**

The previous section identified an equilibrium point. This implies that we can easily analyze how exogenous changes in parameters have effects on the equilibrium tax rates and equilibrium economic structure. We use \( \Delta x \) express the variable \( x \)’s change rate the in percentage caused by due to some exogenous changes in parameter. For convenience of expression, we call consumer goods as good 1, capital goods as good 2, and public goods as good 3.

**A Change in Good 3’s Utility Elasticity**

Consider a rise of the good 3’s utility elasticity: \( d_0 = 0.2 \) to 0.205. The simulation result is listed in (31). As the utility elasticity for good 3 is increased, the tax rates on good 1 and good 2 are enhanced. The public sector is expanded. More public services are provided. The public sector’s uses of capital and labor force are increased. The consumer consumes less good 1 and good 2. The interest rate and wage rate are slightly reduced. The national income and wealth are almost not changed. The two private sectors are shrunked. They produce less and use less inputs. The price of good 1 is slightly increased. The utility level is enhanced. We see that if the society “appreciates” more good 3 and public sector is effectively operated, the government will make more intervention, enhancing the people’s welfare, even though the GDP is slightly affected.

\[
\begin{align*}
\Delta \tau_l &= 4.61, \quad \Delta \tau_s = 1.76, \quad \Delta Y \approx 0, \quad \Delta Y_p = 2.5, \quad \Delta K \approx 0, \quad \Delta F_l = -0.32, \\
\Delta F_s &= -0.41, \quad \Delta F_p = 1.74, \quad \Delta N_l = -0.34, \quad \Delta N_s = -0.43, \quad \Delta N_p = 2.48, \\
\Delta K_l &= -0.28, \quad \Delta K_s = -0.37, \quad \Delta K_p = 2.54, \quad \Delta r = -0.07, \quad \Delta p = 0.02, \\
\Delta w &= -0.001, \quad \Delta \hat{y} \approx 0, \quad \Delta k \approx 0, \quad \Delta c_l = -0.41, \quad \Delta c_s = -0.41, \quad \Delta U = 1.1. \quad (31)
\end{align*}
\]

**The Output Elasticity of Labor Force in Good 3 Supply being Increased**

We now examine how the system is affected if \( \alpha_{op} = 0.2 \) to 0.205. We get the simulation result in (32). The tax rates on good 1 and good 2 are enhanced. The public sector is expanded. The public sector’s inputs are enhanced. The consumer consumes less good 1 and good 2. The interest rate and wage rate are slightly reduced. The national income and wealth are almost not changed. The two private sectors are shrunked. They produce less and use less inputs. The price of good 1 is slightly increased. The utility level is enhanced. We see that a more effective use of physical capital has directionally a similar impact on the economic system when the utility elasticity for good 3 is increased as discussed above.

\[
\begin{align*}
\Delta \tau_l &= 1.33, \quad \Delta \tau_s = 0.49, \quad \Delta Y = 0.003, \quad \Delta Y_p = 0.71, \quad \Delta K = 0.0003, \\
\Delta F_l &= -0.09, \quad \Delta F_s = -0.12, \quad \Delta F_p = 2.9, \quad \Delta N_l = -0.3, \quad \Delta N_s = -0.3, \quad \Delta N_p = 2.3, \\
\Delta K_l &= -0.01, \quad \Delta K_s = -0.03, \quad \Delta K_p = 0.09, \quad \Delta r = 0.32, \quad \Delta p = -0.09, \quad \Delta w = 0.005, \\
\Delta \hat{y} &= \Delta k = 0.0003, \quad \Delta c_l = -0.12, \quad \Delta c_s = -0.12, \quad \Delta U = 0.45. \quad (32)
\end{align*}
\]
The Saving Propensity is Increased
Let us study the impact of the following change: \( \lambda_0 = 4 \) to 4.1. We get the simulation result in (33). The tax rate on good 2 is reduced in association in the rise in the saving propensity. The tax rate on good 1 is augmented. The public sector gets more income. More good 3 is provided. The public sector employs more capital but less labor force. Consumption levels of good 1 and consumer good 2 are enhanced. The interest rate and wage rate fall. The price of good 1 rises. The national income and wealth are increased. The two private sectors produce more. The consumer goods sector employs less labor force but more capital. The household has more disposable income and wealth. The utility level is enhanced.

\[
\begin{align*}
\Delta \tau_i &= -0.23, \quad \Delta \tau_s = 0.18, \quad \Delta Y = 1, \quad \Delta Y_p = 0.65, \quad \Delta K = 3.2, \\
\Delta F_i &= 1.21, \quad \Delta F_s = 0.68, \quad \Delta F_p = 0.39, \quad \Delta N_i = 0.21, \quad \Delta N_s = -0.39, \\
\Delta N_p &= -0.34, \quad \Delta K_i = 3.4, \quad \Delta K_s = 2.8, \quad \Delta K_p = 2.8, \quad \Delta r = -3.7, \\
\Delta p &= 1, \quad \Delta w = -0.06, \quad \Delta \hat{Y} = 2.7, \quad \Delta \hat{k} = 3.2, \quad \Delta c_i = \Delta c_s = 0.68, \quad \Delta U = 53.4. \quad (33)
\end{align*}
\]

The Productivity of Good 2 Sector being Increased
The total factor productivity of the capital goods sector is enhanced: \( A_i = 1 \) to 1.05. We get the simulation result in (34). The tax rate on good 2 becomes higher but the tax rate on good 1 becomes lower. The public sector gets more tax income. The national income and national wealth are enhanced. More public services are provided. The public sector increases labor force and capital. The consumer consumes more good 1 and good 2. The household has more disposable income and wealth. The wage rate and interest rate are enhanced. The two private sectors are expanded. The price of good 1 is increased. The utility level is enhanced.

\[
\begin{align*}
\Delta \tau_i &= 17.5, \quad \Delta \tau_s = -13.6, \quad \Delta Y = \Delta Y_p = \Delta K = 7.44, \\
\Delta F_i &= 6.2, \quad \Delta F_s = 5.8, \quad \Delta F_p = 1.45, \quad \Delta N_i = -1.18, \quad \Delta N_s = 3.3, \quad \Delta N_p = 0.02, \\
\Delta K_i &= 6.1, \quad \Delta K_s = 10.9, \quad \Delta K_p = 7.4, \quad \Delta r = 0.08, \quad \Delta p = 7.4, \quad \Delta w = 4.85, \\
\Delta \hat{Y} &= \Delta \hat{k} = 7.44, \quad \Delta c_i = \Delta c_s = 5.8, \quad \Delta U = 41.4. \quad (34)
\end{align*}
\]

The Consumer Goods Sector Increases its Productivity
Let us study a rise in the total factor productivity of the consumer goods sector: \( A_s = 2.5 \) to 2.6. We get the simulation result in (35). The tax rate on good 2 is reduced but the tax rate on good 1 is enhanced. There is no impact on the public sector’s tax income. The national income and wealth are almost not affected. Good 3 is slightly reduced. The consumer consumes more consumer goods and capital goods. The household has almost the same disposable income and wealth. The wage rate and interest rate are reduced. The two private sectors are expanded. The capital sector employs more labor force and capital. The consumer goods sector employs less labor force and capital. The price of good 1 is increased. The utility level is enhanced.

\[
\begin{align*}
\Delta \tau_i &= -13.88, \quad \Delta \tau_s = 11.7, \quad \Delta Y = \Delta Y_p = \Delta K \approx 0, \quad \Delta F_i = 0.98, \quad \Delta F_s = 1.24, \\
\Delta F_p &= -0.001, \quad \Delta N_i = 0.96, \quad \Delta N_s = -2.7, \quad \Delta N_p = -0.02, \quad \Delta K_i = 1.01, \\
\Delta K_s &= -2.6, \quad \Delta K_p = 0.04, \quad \Delta r = -0.07, \quad \Delta p = 0.02, \quad \Delta w = -3.85, \quad \Delta \hat{Y} = \Delta \hat{k} \approx 0, \\
\Delta c_i &= \Delta c_s = 1.24, \quad \Delta U = 1.24. \quad (35)
\end{align*}
\]

We also analyzed the impact of exogenous changes in other parameters. We made the following change: \( \xi_0 = 0.55 \) to 0.56. The utility level is reduced. The rest variables are not affected. We also made the following change: \( \xi = 2 \) to 2.1. The tax rate on capital goods is enhanced. The tax rate on the consumer goods is enhanced. The utility level is increased. The rest variables are not affected. Make a rise in \( A_p \). The good 3 supply and utility level are enhanced. The rest variables are not changed. We changed the population. The macroeconomic real variables are proportionally...
increased, while the rest variables are not affected. We increased the population. The macroeconomic and microeconomic real variables and utility level are increased. The tax rates and the prices are not affected.

**Conclusions**

This paper examined some issues related to optimal taxation similar to those addressed by Ramsey in his celebrated 1927 paper. Rather than determining taxes on commodities to minimize the decrement of utility with given revenue in the Ramsey approach, we determine optimal taxation to maximize utility with revenue as endogenous variable. We analyzed optimal taxation in an alternative framework. It integrated a few well-developed approaches in economic growth theory. Zhang’s public sector was introduced to the Solow-Uzawa model. The economy consists of the public sector, consumer goods sector, and consumer goods sector. Public goods directly enter the utility function. The government gets revenue from taxing consumption of capital goods and consumer goods. The government supports the public sector with the revenue. We got the optimal taxation rule for the national economy. We carried out comparative statics analysis with regards to exogenous changes in a few coefficients. It should be remarked that there is a large amount of the literature on optimal taxation. We also have many studies on spatial tax competition (e.g., Wilson, 1986; Baldwin and Krugman, 2004; and Ihori and Yang, 2009). We can further pursue the research on basis of the literature on neoclassical growth theory and interdependence between fiscal policy (Barro, 1990; Turnovsky, 2004; Gómez, 2008).

**Appendix**

**A1: Solving the Consumer Problem**

We now optimize utility (12) subject to (11). We form the Lagrangian function as follows:

\[ L = \theta p^d_s \lambda_0 \left( \frac{c_s^\xi_0 + \xi c_i^\xi_0}{\xi} \right)^{1/\xi_0} + b \left( \bar{y} - \bar{r}_s p c_s - \bar{r}_i c_i - s \right). \]  

Maximizing \( L \), we get

\[
\frac{\partial L}{\partial c_s} = \frac{c_s^{\xi_0-1} - \bar{r}_s p b}{c_s^\xi_0 + \xi c_i^\xi_0} = 0, \quad j = 1, 2, \quad (A1.2)
\]

\[
\frac{\partial L}{\partial c_i} = \frac{\xi c_i^{\xi_0-1} - \bar{r}_i b}{c_s^\xi_0 + \xi c_i^\xi_0} = 0, \quad (A1.3)
\]

\[
\frac{\partial L}{\partial \lambda_0} = \frac{\lambda_0 b}{U} - b = 0, \quad (A1.4)
\]

\[
\frac{\partial L}{\partial b} = \left( \bar{y} - \bar{r}_s p c_s - \bar{r}_i c_i - s \right) = 0. \quad (A1.5)
\]

From (A1.2) and (A1.3) we have

\[
\frac{c_s}{c_i} = P \equiv \left( \frac{\xi \bar{r}_s p}{\bar{r}_i} \right)^{\xi_4}, \quad (A1.6)
\]

where \( \xi_4 \equiv 1/(\xi_0 - 1) \).

Insert (A1.6) in (A1.3)

\[
\frac{U}{b} = \frac{c_i \bar{r}_i}{\xi} \left( p \xi_0 + \xi \right). \quad (A1.7)
\]

From (A1.4)-(A1.7) we solve:
From (A1.8) and (A1.4), we have:

\[ s = \frac{\lambda_0 \hat{y}}{1 + \lambda_0}, \quad (A1.9) \]

\[ c_i = \frac{\xi \hat{y}}{(1 + \lambda_0) (P\xi_0 + \xi) \hat{t}_i}, \quad (A1.10) \]

\[ c_s = \frac{\xi P \hat{y}}{(1 + \lambda_0) (P\xi_0 + \xi) \hat{t}_i}. \quad (A1.11) \]

**Appendix A2: Verifying the Lemma**

From (3) and (17) we get

\[ z \equiv \frac{r + \delta_k}{w} = \frac{\tilde{\beta}_x N_x}{K_x}, \quad x = i, s, p, \quad (A2.1) \]

where \(\tilde{\beta}_x \equiv \alpha_x / \beta_x\). By (2) we have:

\[ r(z) = \alpha_i A_i \left( \frac{z}{\bar{\beta}_i} \right)^{\beta_i} - \delta_k. \quad (A2.2) \]

From (A2.1), we have:

\[ w = \frac{r + \delta_k}{z}. \quad (A2.3) \]

With (A1) and (4), we get:

\[ p = \frac{w}{\beta_s A_s} \left( \frac{z}{\bar{\beta}_s} \right)^{\alpha_s}. \quad (A2.4) \]

Substitute (A2.1) into (26):

\[ K_i + \frac{\tilde{\beta}_i K_s}{\bar{\beta}_s} + \frac{\tilde{\beta}_i K_p}{\bar{\beta}_p} = \frac{\tilde{\beta}_i h}{z}. \quad (A2.5) \]

From (A2.5) and \(K_i = K - K_s - K_p\), we have:

\[ K_p = \frac{\alpha_x \tilde{\beta}_i h}{z} - \alpha_x K - \alpha_{x1} K_s, \]

\[ K_i = K - K_s - K_p, \quad (A2.6) \]

where

\[ \alpha_x \equiv \left( \frac{\tilde{\beta}_i}{\bar{\beta}_p} - 1 \right)^{-1}, \quad \alpha_{x1} \equiv \left( \frac{\tilde{\beta}_i}{\bar{\beta}_s} - 1 \right) \alpha_x. \]

From (12) and (23), we have:

\[ K_s = \tilde{f}_0 \hat{y}, \quad (A2.7) \]

where
\[ f_0(z, \tau_s, \tau_i) \equiv \frac{\xi P \bar{N}}{(1 + \lambda_0) (P\xi_0 + \xi) \bar{\tau}_i (\bar{\beta}_s)^{\beta_s}}. \]

By (6) and (19), we have:
\[ \left( \frac{w z}{\beta_p} + r_\delta \right) \frac{K_p}{\bar{N}} = \tau_i c_i + \tau_s p c_s, \quad (A2.8) \]

where we use (A2.1). By (10) and (12), we have
\[ \tau_s p c_s + \tau_i c_i = \left( 1 - \frac{\xi (1 + p P)}{(p\xi_0 + \xi) \bar{\tau}_i} \right) \frac{\hat{y}}{1 + \lambda_0}. \quad (A2.9) \]

Insert (A2.9) in (A2.8)
\[ K_p = \bar{f} \hat{y}, \quad (A2.10) \]

where
\[ \bar{f}(z,c_s,c_i) \equiv \left( 1 - \frac{\xi (1 + p P)}{(p\xi_0 + \xi) \bar{\tau}_i} \right) \left( \frac{w z}{\beta_p} + r_\delta \right)^{-1} \frac{\bar{N}}{1 + \lambda_0}. \]

Insert (A2.10) and (A2.7) in (A2.6)
\[ \left( \bar{f} + \alpha_{x1} \bar{f}_0 \right) \hat{y} = \frac{\alpha_x \bar{\beta}_i h \bar{N}}{z} - \alpha_x K. \quad (A2.11) \]

Insert (27) and (9) in (A11)
\[ \tilde{k}(z, c_s, c_i) = \left( \frac{\alpha_x \bar{\beta}_i h \bar{N}}{z} - \left( \bar{f} + \alpha_{x1} \bar{f}_0 \right) h w \right) \left( \left( \bar{f} + \alpha_{x1} \bar{f}_0 \right) R + \alpha_x \bar{N} \right)^{-1}. \quad (A2.12) \]

From (12) and the other equations, we get
\[ c_i = H_1(z, c_s, c_i) \equiv \frac{\xi \hat{y}}{(1 + \lambda_0) (P\xi_0 + \xi) \bar{\tau}_i}, \]
\[ c_s = H_2(z, c_s, c_i) \equiv \frac{\xi P \hat{y}}{(1 + \lambda_0) (P\xi_0 + \xi) \bar{\tau}_i}. \quad (A2.13) \]

Suppose that we can solve (A13) with \( c_i \) and \( c_s \) as functions of \( z \). Insert the obtained equations in (A2.12):
\[ \tilde{k} = H(z). \quad (A2.14) \]

We thus obtain the following procedure as in the lemma: \( \bar{k} \) by (A2.14) \( \rightarrow \) \( r \) and \( w \) by (A2.2) \( \rightarrow \) \( r_\delta = r - \delta_k \rightarrow p \) by (A2.3) \( \rightarrow \) \( c_s \) and \( c_i \) by (A2.13) \( \rightarrow \) \( \tau_z \) by (22) \( \rightarrow \) \( \tau_i \) by (22) \( \rightarrow \) \( \hat{y} \) by (10) \( \rightarrow K_p \) by (A2.10) \( \rightarrow K_s \) by (A2.7) \( \rightarrow \) \( K = \tilde{k}N \rightarrow K_i \) by (A2.6) \( \rightarrow N_j \), \( j = i,s,p \rightarrow F_j \) by the defined functions \( \rightarrow U \) by (19) \( \rightarrow Y_p \) by (5) \( \rightarrow T_p = Y_p \). By (14) and this procedure, we have
\[ \dot{k} = \bar{\Phi}(z) \equiv s - \ddot{k}. \quad (A2.15) \]

Taking derivatives of (A2.14) in time, we have:
\[ \ddot{k} = \frac{\partial H}{\partial z} \ddot{z}. \quad (A2.16) \]

From (A2.15) and (A2.16), we have:
\[ \dot{z} = \bar{\Phi} \left( \frac{\partial H}{\partial z} \right)^{-1} \]  

(A2.17)

We thus proved the Lemma.

References


The Political Class as a Threat to Democracy in Nigeria’s Fourth Republic

*Alfa Patrick Innocent*, Department of Social Science and Humanities, The Federal Polytechnic, Idah, Kogi State, Nigeria  
*Otaida Eikojonwa*, Department of Political Science, Federal University Dutse Ma, Katsina State, Nigeria  
*Isah Ibn-Mohammed*, Department of Social Science and Humanities, The Federal Polytechnic, Idah, Kogi State, Nigeria

*Corresponding author’s email: alfaintellectual@gmail.com*

**ARTICLE DETAILS**

**ABSTRACT**

The quest by Nigeria to make appreciable progress in her democratic journey has been a herculean task. This is due to the antidemocratic actions of the political class. This article aims at identifying how actions of the political class act as a backward clog to democratic growth in the country. Crucial among the causative factors is the fact that its political class decelerates the country’s democracy by their abysmal display of undemocratic tendencies. They perpetrate these through several ways which include godfathers, succession crises and abuse of incumbency, electoral malpractices, electoral violence, and political alienation, travesty of justice, recourse to primordial cleavages, corruption and inconsistent policy inconsistency, human rights abuse, to mention but some. This article is qualitative. It argues that there is need to make reform in the Electoral Act and strengthen the anti-corruption crusade in order to check the excesses of the political class and record fundamental gains in Nigeria’s democratic experience.

© 2020 The authors, under a Creative Commons Attribution-Non Commercial 4.0


**Introduction**

The political class play critical roles in the establishment and consolidation of democracy. However, rather than fostering the unity that would create national integration and consolidate its democracy, Nigeria's political class engages in political actions and rivalry that weaken national unity and democratic stability. This is inherent in the operations of political parties and the antidemocratic actions of the political class.

It is instructive to note that the three major political parties of the First Republic were regionally based. The Northern Peoples' Congress was a northern-based party and got its support from...
people of northern stock majorly, those who make up the north-east, north-west and the folk of people who make up north-central Nigeria today. The National Council of Nigerian Citizens, NCNC drew overwhelming support from Eastern Nigeria while the Action Group was dominated by those of Western extraction (Akubo & Yakubu, 2014).

Deliberate attempts were made to ensure that the Second Republic's political parties did not assume the character of the banned political parties and as soon as the transition time-table of the Second Republic was made public, there was a criterion that parties must have national spread with widespread ethnic representation. This was incorporated in the fundamental objectives of the new constitutional arrangements which placed emphasis on the need for the country to encourage the formation of political associations that would have national character (Diamond, 1997).

An important feature of the structure of the cleavage could be deduced from the character of the five political parties that emerged, the parties of the first republic, the second republican parties had strong ethnic bases. The National Party of Nigeria (N.P.N) was an offshoot of the old Northern Peoples' Congress (N.P.C) with its base in the North. The Unity Party of Nigeria (U.P.N) was Action Group in disguise and had its stronghold in the Yoruba area of the West and was led by Chief Obafemi Awolowo (Dode 2010, Innocent, Yusoff & Rajanthiran, 2017).

The Nigerian Peoples Party (N.P.P) was a rebirth of the defunct N.C.NC with membership drawn mainly from the East under Dr Nnamdi Azikiwe. The Peoples Redemption Party (P.R.P) was an offshoot of the radical Hausa party, the Northern Elements Progressive Union (N.E.P.U) led by Mallam Aminu Kano. And even the Great Nigeria Peoples Party (G.N.P.P) under Waziri Ibrahim was stronger in his home state and could rightly be compared to the Borno Youth Movement (Diamond 1997).

The aborted Third Republic was characterised by undemocratic developments such as control of the party machinery by affluent members of the two political parties created by Babangida, the Social Democratic Party (SDP) and the National Republican Convention (NRC). As time went on, the two parties experienced both intra party and inter-party violence and factionalism and, as such, it could be said, without mincing words, that despite the massive investment made by the government, its political expectations remained largely unrealised. The two parties remained parochial, fragile and weak like their counterparts in the First and Second Republics (Oyediran & Agbaje, 1991).

The Fourth Republic political parties have been replete with several antidemocratic tendencies which negate their ability to contribute to the deepening of democratic governance. These are perpetrated by the political elites and their cronies. Without malice to the crop of genuine patriots involved in the battle to save Nigeria from the hands of those wishing to pocket the state, political parties in the fourth republic have proven to be the most unpatriotic of the generations of political parties and classes the Nigerian state has known, their actions are counterproductive, antidemocratic, greedy and enveloped in clouts of corruption, they have demonstrated the aforementioned with godfatherism, electoral fraud, electoral violence, ethnicity, among others (TMG 2007 & Omotola 2010).

**Conceptual Review and Theoretical Framework**

**Literature Review**

**The Political Class**

Mosca (cited in Bottomore, 1964) asserted that, two distinct classes of people exist in every society, a class that rules and a class that is ruled. The ruling class is always the less numerous, performs all political functions, monopolizes power and enjoys the advantages that power brings, while the ruled is the more numerous class but always at the capricious whims of ruling class.
Mosca maintained that the rule of the minority over the majority is such that the former is organized the dominion of an organized minority, obeying a single impulse, over the unorganized majority is inevitable. The power of any minority is irresistible as against each single individual in the majority, who stands alone before the totality of the organized minority. At the same time, the minority is organized for the very reason that it is a minority and also by the fact that the minority is usually composed of superior individuals, members of the ruling minority regularly have some attribute, real or apparent, which is apparent, which is highly esteemed and highly influential in the society in which they live (Mosca cited in Bottomore, 1964).

If democracy is truly a political organization, it may well be argued, as many have done, that it is government by the people. The significance of political democracy is primarily that the positions of power in society are open in principle to everyone, that there is competition for power, and that the holders of power at any time are accountable to the electorate. Schumpeter presented such a view of democracy, which has since been widely accepted when he defined the democratic methods as that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote.

**Democracy**

There is no doubt that democracy implies different things to different people. However, there are certain indices upon which scholarly definitional assumptions could be based. Strictly speaking, democracy refers to a governmental arrangement in which political power is widely spread, where power to some extent resides with the people (Makinda, 1996). Democracy, therefore has a correlation with political equality (Arblaster, 2002).

In a democracy, citizens are guaranteed of rights and the state ensures that excessive material and poverty as well as social and economic inequalities are forestalled. A liberal democracy could be said to have become deepened if the extent of participation, competition and fundamental liberties have been expanded (O'Donnell and Schmitter 1986; Sorensen 1998).

Schedler (1998a, 1998b) attempted to describe several usages and what democratic consolidation implies. In view of this, one of the alternatives of democratic consolidation is the deepening of liberal democracy and tilting it towards advanced democracy.

**Methodology**

This paper is based entirely on qualitative sources of data. These sources include relevant textbooks, journals, articles and online materials on the African politics. Conclusion will emerge from content analysis

**The Crux**

It is pertinent at this point to discuss the nature and character of the Nigerian ruling and governing class which constitute threats to democracy and democratic consolidation in Nigeria. These attributes are not limited to but include the following:

Godfatherism: Political parties are populated by godfathers, moneybags and ex-military leaders and party primaries are mere manipulations (Adeyemi, 2012). The conduct of godfathers in political parties makes the parties ineffective in the cause of performing their roles. This practice weakens democratic governance by circumscribing citizens participation in politics. In ways antithetical to democratic ethos, political class impose candidates at all levels that they surrender the state resources to them if they win the election and take over the reins of government (Omotola, 2007). This makes the gains of democracy to remain unrealistic to the electorates and threatens democratic governance (ICG, 2007b).
Succession Crises/ Abuse of incumbency: Power succession implies the transfer of political power from one group to another. The extent of orderliness with which the transfer is carried out is viewed as an indication of maturity of the state or society concerned and is accepted globally as a criterion for measuring the level at which democracy is consolidated.

What has been established that the party in power is always more involved in this act than opposition parties during elections in Nigeria (Onapajo, 2014). This is not to completely vindicate the opposition parties. For instance, the 2007 elections were obviously characterised by colossal violence (TMG, 2007).

Electoral Malpractices: More often than not, political parties, particularly the ruling ones, rely on electoral fraud instead of popularity among the electorates to assume and retain power. Elections are not only defective but perverted (Adeyemi, 2012) As a result, the political significance of parties is no longer due to popular support but through devious activities. To that extent, therefore, parties’ channel massive resources to discipline members, accusing them of antiparty misdemeanour. Nigerian political parties and the political class have a plethora of tactics to exclude popular contestants from party primaries (Ibrahim, 2006).

Electoral Violence: Since the commencement of the Fourth Republic, general elections have been conducted in 1999, 2003, 2007, 2011, 2015 and 2019. These elections have been marred by some level of violence. There were cases of manipulation and killing of perceived political enemies accused of antiparty activities being perpetrated by the then ruling party, the People’s Democratic Party (PDP) in its desperation to cling to power.

The 2011 general elections were assessed by several domestic and foreign observers as the most transparent poll conducted by the Independent National Electoral Commission (INEC) since the return to democracy (Agbambu & Ajayi, 2011; EU, 2011). Nevertheless, some violence took place (EU, EOM, 2015; Gordon, 2015).

Political Alienation: Pre-election violence often create a general atmosphere of fear in the electorates and reduces the rate of voter turnout during the general elections (Bratton, 2008). This affects the results of the elections (Igbuzor, 2010). While the acts of violence by the incumbents provoke reprisals by the opposition elements, the connivance of the incumbents with security agencies give them an edge in suppressing the opposition and its supporters (EU, EOM, 2007). The incumbents often perceive the state as a political heritage that must be forcefully captured using the state apparatus and instruments of coercion to crush any opponent.

Travesty of Justice. Ideally, the judiciary is adjudged to be the last hope of the common man. When politicians feel short changed in the electoral contest, they seek justice in tribunals and courts. Courts have been used to redeem election mandates in Nigeria's Fourth Republic (Unobe, 1990, Omotola, 2010). However, the political class have formed the habit of getting court orders, even when they know the cases are not plausible. These baseless litigation struggles constitute roadblocks to the electoral process. This has brought the judiciary to unsavoury reputation in the Fourth Republic, posing abysmal threat to democracy.

Recourse to Primordial Cleavages: In the Fourth Republic, the political class, like their predecessors always resort to primordial sentiment to pitch the citizens against one another and overheat the polity (Omotola 2010, Innocent, Yusoff & Rajanthiran, 2017). The introduction of Sharia in the early years of the Fourth Republic sparked a lot of violence in some northern states and reprisals in the south. Occasionally, especially during electioneering campaigns and build up to elections, politicians, especially in states that are have different ethnic groups and religious
affinities, appeal to ethnic and religious considerations for political support and allegiance (Jinadu, 2011).

Corrupt Practices: Since independence, remains an agonizing thorn in the flesh of the country's democratic progress and development and the Fourth Republic is not an exception. Political and public officers have made corruption a hobby and this has posed gross nuisance to the country's beleaguered democracy. Abundant evidence abounds in corruption cases involving high profile personalities, some of whom have even been convicted. For instance, former Governors Jolly Nyame of Taraba State and Joshua Dariye of Plateau State are serving various jail terms for allegedly misappropriating billions of naira meant for their states. Others having corruption charges are former National Security Adviser, Sambo Dasuki, a former Petroleum minister, Deziani Madueke to mention a few. These acts of corruption is not limited to politicians alone, but they do it in connivance with public officers or civil servants to milk the nation dry, retard its development and truncate its democratic governance.


Human Rights Abuse: Fundamental human rights and citizens liberty is one of the essential hallmarks of democracy (Rudra, 2005; Omotola, 2015). However, the political class infringe on the fundamental rights of citizens. The narrow-mindedness of the political class to criticisms is manifested by their current quest to enact and pass social media bill to enable them truncate criticisms generated by their colossal misrule (Okolo, 2014).

**Conclusion**

It is a universal notion that democracy is the form of government that offers the citizens the opportunity to actualize their goals. Sadly, this has remained largely nominal in the country. The contributions of Nigeria's political class to the growth of its democratic governance have remained at a lowest ebb. They contribute to democratic deceleration rather than democratic consolidation.

In order to redress the ugly scenario painted above, there is need for the government to sign the Electoral Act into law and restore credibility in all facets of the electoral process. The rule of law and due process must be adhered in both the political and public administration. Citizens liberty must be observed, irrespective of their political leaning, ethnic background or religious leaning. There should be stakeholder’s participation in policy formulation and implementation. The anti-corruption fight of the current government should be all-encompassing to avoid allegations of unevenness and political prejudice. Efficient citizenship education should be carried out to educate citizens of their rights in a democratic society to enable them hold leaders accountable for their actions. These suggestions could forestall the challenges besetting Nigerian democracy.
References


Bratton, M (2008), Vote Buying and Violence in Nigerian Election Campaigns, in: Electoral Studies, 27, 621-632


116

Effect of Career Fulfillment on Employee Performance in Federal Civil Service Commission, Abuja-Nigeria

*Mohammed Nuhu,* Department of Business Management, Baze University, Abuja, Nigeria  
*Turner Itari,* Department of Business Management, Baze University, Abuja, Nigeria  
*Abdullahi Ndagi,* Department of Business Administration Ibrahim Badamasi Babangida University, Lapai, Nigeria

*Corresponding author’s email: mohammed.nuhu12@yahoo.com*

**ARTICLE DETAILS**

**ABSTRACT**

**Purpose:** The study on the effect of career fulfillment practices on employee performance is still scanty in the human resource management domain. The main objective of this paper is to investigate the effect of career fulfillment practices on the employee performance in the Federal Civil Service Commission (FCSC), Abuja-Nigeria.

**Design/Methodology/Approach:** The paper is a cross-sectional survey. Hence, researchers adopted the primary data approach of data collection. The population of the study is 400 (FCSC, 2021). Using Krijcie and Morgan (1970), the sample size is 196. The researchers increased the sample size by 50% based on Sal kind’s (1997) suggestion. Thus, the final sample size of the study is 294 using the stratified random sampling technique. The study administered 294 copies of the questionnaires and was used for the analysis. The returned questionnaires were inputted, coded, and screened with the help of Statistical Package for the Social Science (SPSS) version 22 software. Analysis was carried out using Partial Least Square Structural Equation Modeling (PLS-SEM).

**Findings:** The findings showed that career fulfillment practices have a positive and significant effect on employee performance in FCSC, Abuja-Nigeria.

**Implications/Originality/Value:** The paper recommended that FCSC, government, labor Unions and policymakers should promote career fulfillment practices that will improve employee performance in FCSC, Abuja.

© 2020 The authors, under a Creative Commons Attribution-Non Commercial 4.0

Introduction
The issue of employee performance is both paramount and contention both in public and private sectors in a developing economy like Nigeria. Hiring good employees in this covid-19 pandemic era has become very expensive both in terms of logical, logistics, time, money and processes carried out to effectively and efficiently in the appoint every employee who fits the right job (Nuhu, Rogo & Mohammed, 2018). Many firms exist in their operations not because of their wish to be benevolent, but to also achieve the employee and firm goals (Nuhu & Ahmed, 2017). Therefore, it has become necessary to plan strategically both in terms of the short-term, medium-term and long-term strategies for the growth of every employee and organization at large.

Employees is individuals who possess their own competencies, perspectives, skills, values and characteristics that benefit organizations. In return, it’s very important for every organization to fulfill employee dreams. The development of every staff, their skills, competencies, education and the process of career fulfillment have become the main concern of human resource management department (Mullins, 2012; Nuhu & Hussaini, 2017).

Thus, it is very important that firms are encouraged to fulfill individuals with the qualities essential for continued accomplishment in this competitive global village. Several previous studies have argued that employee goals are undertaken in order to reduce a direct employee costs and to improve effectiveness and efficiency by implementing compliance with the specific rules, principles, procedures, process and rewards on measurable output (Mullins, 2012).

Several empirical studies done in the area of human resources to fulfill employee performance locally and globally have focused on analyzing either the indirect effect of personnel practices on the performance, or the correlation between employee motivation and firm performance (Arthur, 1994; Rodriguez & Ventura, 2003; Nuhu & Ahmed, 2017). Other studies debated direct effects of human resource on the organizational performance with a view to explain the process through which systems of human resource practices lead to firm performance, but the results are incomplete with several mixed findings (Gorondutse & Nuhu, 2019).

Although studies on career fulfillment in both the public and private sectors in Nigeria have been seldom undertaken, it is important to note that the neglected variable could be a veritable icon of employees’ performance. More so, considering that the research mixed findings obtained in the public and private sector locally and globally has limited generalizability. Hence, this study investigates the effect of career fulfillment practices on employee performance in federal civil service commission, Abuja.

Literature Review
Human resource management practice is considered as the growth and development of every employee. Career fulfillment practices as a proxy in this study, is treated as only one way route for firms penetrating for prospective and employee satisfaction (Chang et al, 2012). Every successful employee begins with proper human resource department, training, planning and forecasting (Chang et al, 2012). Thus, the success of a human resource department process is the strategy every firm is prepared to employ identify and select the best applicants for its developing pool to satisfy employee goals (Ifill & Moreland, 2014; Mulabe, 2013). The employee performance is vital to the survival of every firm been it private or public sectors. Hence, the next sub-section is a review of employee performance.

Employee Performance
For the purpose of this study, employee performance refers to the ability of a firm to attain goals and objectives through effectiveness, efficiency, profits, quality, market share, and financial viability. Even though in the literature, performance has been severally used by the researchers as

Other studies argued that, organizational performance is measured through financial and non-financial performance (Chang et al, 2012; Mullins, 2012). While financial measures are Profit before Tax (PBT), turnover or revenue and that of non-financial measures are customers’ satisfaction, transfer period and employee result. Furthermore, non-financial performance in some cases is vital indicators for the financial performance measurements (Kaplan Nolan, & Norton 2018; Yalico, Ortíz, Larco, Gallegos, & Antonini, 2020). Hence, this study focused on actual employee performance against standard, responsibility, commitment, time management, effectiveness and efficiency. The next sub-head are the reviews of career fulfillment as an independent variable.

Career Fulfillment
For the purpose of this study, career fulfillment refers to employee outcomes. Career fulfillment is the immediate goal and future objective of every employee to attain. The study conceives that whereas HRM practices serve to attract, retain, motivate, develop and use HR in a firm in a way to strategically configured and effectively employed or combine the appropriate organizational factor(s) that generate and sustain the employee fulfillment (Becker & Gerhart, 2016). Thus, studies of the workplace have identified satisfaction and commitment as intermediate outcomes of HRM systems, most public firms continue to experience increased dissatisfaction and low levels of commitment, which impact negatively on firm performance (Kamoche, 2012; Guest & Conway, 1997).

Huselid (2005) argued that employees are the most important asset for every firm performance, be it public or private sector. Hence, appropriate mechanisms that affect employee job fulfillment through the skills, motivation, training, structures and programmers must be put in place. The next sub-section is the review of previous empirical studies on the link between career fulfillment and employee performance.

Career Fulfillment and Employee Performance
Based on the researchers’ knowledge on previous studies on the link between career fulfillment and employee performance is too scanty. Hence, many prior studies (Conway & Coyle-Shapiro, 2006; Guest, 1987; Lee, Liu, Rousseau, Hui, & Chen, 2011) relying majorly on the connection between human resource and organization performance and ignored other sensitive human resource proxies that affect employee directly (Mohammed & Nuhu, 2021).

Prior researchers, allied to the human relations school of thought, job satisfaction is a collection of immediate perceptions that employees hold towards specific aspects of their job, which allows the fulfillment of one’s important job values. Job satisfaction is the primary goal of organizations (Lee et al, 2011). Employees are satisfied when their abilities and competencies are put to use and reward is perceived to be fair and based on abilities and competencies. The satisfied employees have more or better mental, physical health, stable memories, productive, spirit to learn a new job or related tasks, and have fewer on-the-job accidents (Bernal, Castel, Navarro & Torres, 2015; Conway & Coyle-Shapiro, 2006).

Conversely, dissatisfied employees may search for other opportunities, ease where and quit. But
when these opportunities are not forthcoming, they can emotionally or mentally withdraw from the organization, or engage in undesirable behaviours such as absenteeism, picketing and turnovers. The costs of replacing and training new employees range from 70 to 200 percent of employees’ annual compensation and unscheduled absenteeism (Greenberg & Baron, 2007; Ihsani & Wijayanto, 2020).

Organizational commitment is a psychological, mental and emotional attitude, that slowly affect the employees over time (Fidyah & Setiawati, 2020). Committed employees have more zeal, share common values, focus, beliefs and goals oriented. The employees have strong desire to work, if their fulfillment is met by the employer (Guest, 1987). Long-term commitment between the employer and employees, may give rise to accumulation of firm–specific knowledge and skills, which enhance employee retention and high job performance (Lin & Chang, 2005; Guthrie, 2011).

This study conceives job satisfaction and organizational commitment as desirable work attitudes and behaviors that accrue from employer-employee exchange relationship, via appropriate systems of HRM practices (Lin & Huang, 2020). These desirable employee behaviors and work attitudes can be acquired directly from HRM practices or indirectly from the HRM practices given the influencing role of ‘appropriate’ culture and/or leadership. High levels of job satisfaction and organizational commitment is expected influence the employees to perform. That is to say, employees who are happy and feel that the work and the working environment is meaningful; that they have the skills necessary to do the work; that they have a voice that impacts on firm decisions; that their jobs have security of tenure; that they are rewarded fairly are expected to project higher levels of effectiveness, efficiency and reliability, which explains corporate performance.

Thus, the literature show that employee performance are intermediate product of HR practices (Akbari, Bagheri, Fathollahi, & Darvish, 2020; Dziuba, Ingaldi, & Zhuravskaya, 2020), other stream of scholars allude that employee fulfilment resulted to other HR practices and other mediating/moderating variables that affect the entire firm performance (Dziuba, Ingaldi, & Zhuravskaya, 2020; Kidombo & Dean, 2018). More importantly, most of the recent researchers argued that the study on employee outcomes have been carried out in the many private firms with a mixed results (Kidombo & Dean, 2018; Haddad, Sanders, & Bausch, 2019). The subsequent chapter reviews literature on the link between each of these two factors of employee outcomes namely job satisfaction and organizational commitment and firm performance.

Researchers on job satisfaction and firm performance have established that if the employee are satisfied the better they become more productive (Dziuba et al., 2020). This results in positive cumulative outcomes for the firm.

Forthcoming, they may emotionally or mentally “withdraw” from the organization and/or even engage in destructive and undesirable work-related behaviors such as absenteeism, picketing, and grievances, which can be costly to the firm (Kidombo & Dean, 2018). Akbari et al (2020) found strong correlations between job satisfactions with turnover. Greenberg, Warier, Allison, and Baron-Cohen, (2018) estimated the costs of replacing and training new employees to range from 70 to 200 percent of employee annual compensation and unscheduled absenteeism. This can impact negatively on firm performance. Perhaps this is the reason why some psychologists, especially those aligned to the ‘human relation’ school of thought see job satisfaction as the primary goal of organizations (Akbari et al, 2020; Mohammed & Nuhu, 2021).

Superior performance can therefore be attributed to satisfied employees given the immediate outcomes of satisfaction enumerated above. Similarly, individuals who feel satisfied are driven
by the need to remain so and would therefore not want to engage in behaviors that can jeopardize their satisfaction. Dziuba et al., (2020) found that individuals engage in a consistent line of activity, based on the recognition of the lost side bets with a discontinuity of the activity, therefore enhancing their performance behavior. Although dissatisfied employees may be a cost center, which can impact negatively on overall firm performance (Greenberg et al, 2018) posit that it has never been proven that satisfied workers are necessarily more productive.

From the above critiques, the empirical review shows conflicting findings. In line with the recommendations by KP & Murthy (2015) & Hunt & Jones (2015) that the future studies should focus their attention on other HRM processes of recruitment and selection in an emerging economy particularly African. They further stated that the firm should direct their attention employees fulfillment. The firm should use new technologies to hire competitiveness approach to employ competent employees (Mohammed & Nuhu, 2021).

Therefore, this study filled the existing gaps pointed out by KP & Murthy (2015) & Hunt & Jones (2015) that the researchers should focus their attention to determine how other HRM processes influence recruitment and selection practices that affect the organizational performance. From the above, empirical literature reviews show many mixed findings. Therefore, this paper filled the existing gaps recommended by Gahlawat & Kundu, (2019); Nuhu, Mohammed & Ahmed, (2018) and Lai et al (2017). Hence, this study determines the effect of career fulfillment on employee performance in FCSC, Abuja which is the first of its kind going by the literatures reviewed. Hence, the following hypothesis was developed:

There is no significant effect of career fulfillment on employee performance in Federal Civil Service Commission, Abuja-Nigeria.

**Theoretical Framework**

The rooted theory of this research is Human Capital Theory. Thus, Human capital theory emphasizes that people possess dip innate abilities, personal energy and behaviors (Armstrong, 2012). Hence, it is the knowledge, competencies, skills, education and abilities of individual employees that create value. The focus on attracting, hiring, retaining and developing employees is part of the human capital. Individual employees generates, attract and retain knowledge, skills and intellectual capital (Armstrong, 2010).

**Figure: Research Framework**

**Materials and Methods**

The Federal Civil Service Commission (FCSC) has 400 total employees across all of its locations (FCSC, 2021). The population for this study consist of all the employees of FCSC, Abuja-Nigeria. Hence, the total population of employees as of February 2021 stood at 400 (FCSC, 2021). The study sample size is 196 using Krejcie and Morgan’s (1970) sample size table. Though, an additional of 50% of the sample result was added to the original sample size to avoid a low response rate as suggested by Salkind (1997). Thus, the higher the respondents’ response rate, the better the results (Salkind, 1997). Therefore, 50% of 196 is 98 added to the original sample size of 196 which gives 294 as the final sample size.

The study adopted a stratified sampling technique. The unit of analysis for this study is the individual employees. This study adopted seven (7)Point Likert scale (1 = Strongly Agree; 2 = Agree; 3 = Fairly Agree 4 = Neutral; 5 = Fairly Disagree; 6 = Disagree 7 = Strongly Disagree).The employee performance was measured using six (6) items as adapted from the
studies of Nuhu and Ahmed (2017); Nuhu and Mohammed (2021). While carrier fulfillment were measured using eight (8) items (i.e. job satisfaction, salaries and wages, training and development, healthcare, housing, transportation, workshop and retirement benefits). The study adopted the Partial Least Squares Structural Equation Modeling (PLS-SEM) for the analysis.

**Analysis and Results**

The total of 294 copies of questionnaires was administered to the employees of the Federal Civil Service Commission (FCSC), Abuja-Nigeria. Therefore, the study adopted self-administered approach to distribute the questionnaire to the respondents. Interestingly, the study response rate yielded an outcome of 100%, which is a good response rate as supported by prior studies (Jobber, 1989; Nuhu & Mohammed, 2018). Nasiru, Keat, & Bhatti, (2015), a response rate of 30% and above is sufficient for the survey. Thus, the study response rate of 100% is good enough to continue to run the data for the analysis.

From the respondent’s demographic variables, the FCSC top level was 51(17.35%), while the middle level was 87 (29.59%), and the lower level was 156 (53.06%). This study adopted the Partial Least Squares Structural Equation Modeling (PLS-SEM). Hence, this study adopted a two-step process to evaluate and report the results using PLS-SEM path, as recommended by Henseler, (2012) and Hair (2014). Thus, these two-step processes are: the measurement model, and the structural model (Hair et al., 2014; Hair et al., 2012; Henseler, 2012). The justification for adopting Smart PLS for this study is because PLS-SEM is capable of modeling and expressing in line with the theoretical concepts via constructs by connecting these constructs through a structural model to the study relationships (Hair et al., 2014; Henseler, 2012).

**Analysis of Measurement Model**

The assessment of the measurement model consists of loading, composite reliability and the average variance extracted (Hair et al., 2014; Hair et al., 2011; Henseler, 2012).

<table>
<thead>
<tr>
<th>Constructs and Indicators</th>
<th>Loading</th>
<th>Composite Reliability</th>
<th>Cronbachs Alpha</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Career Fulfilment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CF1</td>
<td>0.900</td>
<td>0.960</td>
<td>0.945</td>
<td>0.858</td>
</tr>
<tr>
<td>CF2</td>
<td>0.943</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CF3</td>
<td>0.963</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CF4</td>
<td>0.898</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Performance</td>
<td></td>
<td>0.955</td>
<td>0.941</td>
<td>0.809</td>
</tr>
<tr>
<td>FP2</td>
<td>0.633</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FP3</td>
<td>0.636</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FP4</td>
<td>0.726</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FP5</td>
<td>0.695</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FP6</td>
<td>0.724</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From table 1 above, the value of the average variance extracted range from 0.858 to 0.809. All the loading is above 0.5 thresholds. The Composite Reliability and Cranach’s Alpha are also above 0.7 which are all acceptable values (Hair 2014).
Analysis of Structural Model
As recommended, this study applied 5000 bootstrapping standard procedure to examine the significance of the path coefficients (Hairetal, 2014).
### Hypotheses

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Relationship</th>
<th>Beta</th>
<th>SE</th>
<th>t-value</th>
<th>p-value</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>CF &gt; EP</td>
<td></td>
<td>0.763</td>
<td>0.028</td>
<td>27.674</td>
<td>0.000**</td>
<td>Supported</td>
</tr>
</tbody>
</table>

P. value significant at 1% ** (one tailed)
CR = Career Fulfillment
EP = Employee Performance

### Discussion and Recommendations

In line with the objectives of the study, the results showed that the study hypothesis raised is line with the expected findings. The study hypothesis was supported. The result showed that there is a positive and significant effect of career fulfillment on employee performance in FCSC, Abuja-Nigeria ($\beta = 0.763; t = 27.674; p < 0.000$). Hence, the R square is 0.582. This result is consistent with the findings of prior studies (Nuhu & Mohammed, 2021; Mullins, 2012; Nuhu, Mohammed & Ahmed, 2018; Papa et al, 2018).

Thus, this study recommends that FCSC, Abuja-Nigeria, government, labor Unions and policy makers should promote career fulfillment that will improve employee performance in FCSC, Abuja. The study also recommends the future researchers should adopt or adapt other dimensions of human resource management. The study further recommends that, the future studies should adopt or adapt the use of a moderator and mediated variables which African and Nigerian researchers avoid.

### References

Facility-Environment, 2(1).


Lawal¹, B., & Nuhu, M. Board Diversity or Tokenism: A Case for Social Inclusion and an Efficiency Model.


Informal Economy Enabling Tax Evasion and Money Laundering in Pakistan: An Analytical Study

Aamir Khan, Advocate at High Court Bahawalpur, Pakistan
*Naureen Akhtar, University Gillani Law College, Bahuddin Zakariya University, Multan, Pakistan
Muhammad Danyal Khan, University Gillani Law College, Bahuddin Zakariya University, Multan, Pakistan
Rao Imran Habib, University Gillani Law College, Bahuddin Zakariya University, Multan, Pakistan

*Corresponding author’s email: naureen.akhtar@bzu.edu.pk

ARTICLE DETAILS

<table>
<thead>
<tr>
<th>History</th>
<th>Revised format: Nov 2020</th>
<th>Available Online: Dec 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keywords</td>
<td>Informal Economy; Tax Evasion and Money Laundering, Pakistan</td>
<td></td>
</tr>
<tr>
<td>JEL Classification</td>
<td>H20, H26</td>
<td></td>
</tr>
</tbody>
</table>

ABSTRACT

Purpose: The primary objective of this article is to conduct an in-depth analysis of the informal economy in Pakistan enabling money laundering and tax evasion in Pakistan. Furthermore, it also looks into the informal economy’s implications for the economic growth of Pakistan. Finally, this article recommends potential reforms for formalization of economy of Pakistan for prevention of such crimes.

Methodology: A review regarding informal economy in Pakistan enabling money laundering and tax evasion with the help of prior studies has been conducted.

Findings: The formalization of the informal sector, according to this article, is important not only for raising tax revenues, but also for digital, skilled-based improvement of business activities, ramping up the operations and maintenance size of small businesses, increasing and diversifying production, and enhancing the lot of low-wage earners.

Implications: Lawmakers should focus on the implications of informal financial channels like hawala and hundi, which continue to operate beneath the radar of the informal sector. In order to identify money laundering, the Pakistani government must focus on strengthening and encouraging the digitization of the economy. The digitization of the economy is critical to the formalization of Pakistan's economy.

© 2020 The authors, under a Creative Commons Attribution-NonCommercial 4.0

Introduction
Pakistan's economy has been gradually growing for the past two decades. Due to discrepancies in macroeconomic policy and a reliance on foreign investment capital and the export industry to support economic growth, average yearly growth has been just 2% in recent years, less than 1/2 that of Asia. (Bank, 2021). Pakistan now has a mixed economy, with state-owned businesses accounting for a major share of the gross domestic product, following various economic restructuring initiatives. Throughout its history, the nation has tried a number of business models. Pakistan's economic sector was mostly built on private industry at initially, but important sectors such as financial services, production, and transport were taken under national custody in the early 1970s (Burki, 2021).

Pakistan is dealing with a massive problem of informal economy, in addition to other economic issues. Alternative phrases for "informal economy" include "black economy," "shadow economy," and "underground economy." However, a precise definition of the phrase "informal economy" is difficult to come across. Commercial activity that takes place outside of the regular labor market are referred to as the informal economy. The official and irregular labor markets are usually described as "legal" and "unlawful," "market" and "non-market," "paid" and "unpaid". The informal economy is sometimes known as the "hidden" or "criminal" economy (Hub, 2021).

Long shifts, low wages and poor working conditions, poor job protection, and high employee turnover are all challenges that the informal economy produces, but it also presents a tax evasion problem when informal economy attempt to conceal money from tax regulators. Many businesses do not function solely in the formal or informal sectors. Those accused of having a lower level of tax morality are more concerned about corruption in the public sector, high tax rates, useless formalities, distributive inequality, and also what they perceive the government's unfairness. According to several international academics and local corporate executives, tax evasion is mostly caused by Pakistan's complex tax structure, which is compounded by a few other aspects. It has a plethora of taxes and tax collection organizations, some of which perform redundant responsibilities, and a lower-than-average tax take (Bokhari, 2020).

Similarly, Informal economy also enables money laundering. It occurs more frequently in countries where the risk of money laundering is minimal. Money laundering is prevalent in informal economy where there are no laundering restrictions, no system for storing bank or customer details, and financial secrecy is rigorously enforced. Cash outflows and inflows is simple for launderers in the informal economy. The informal economy exacerbates the current and fiscal deficits, as well as inflation, high interest rates, and unemployment. These instability in money demand produced by black money will inevitably have a negative impact on monetary and fiscal policy (Scanner, 2021).

The primary objective of this article is to conduct an in-depth analysis of the informal economy in Pakistan enabling money laundering and tax evasion in Pakistan. Furthermore, it also looks into the informal economy’s implications for the economic growth of Pakistan. Finally, this article recommends potential reforms for formalization of economy of Pakistan for prevention of such crimes.

Understanding the Concept of Informal Economy
"Sir William Arthur Lewis" created the term "informal sector" ("1915-1991"). He was an economist from Saint Lucia who was awarded the "Nobel Memorial Prize in Economics" in 1979. He was talking to work that occurred outside of the official economy or the current industrial sector. "Economic Development with Unlimited Supplies of Labor," Lewis' greatest significant development economics paper, was released in 1954. (Manchester School). He developed the double sector model, sometimes known as the "Lewis model," in this paper. Lewis
created a broad view of the development phase by combining a study of developed nations' collective history with the basic principles of mainstream economists. A "capitalist" sector grows by absorbing labor from a non-capitalist backward "subsistence" section, according to his thesis. So that companies do not increase profitability and employees might be compensated beyond their marginal revenue product, the sustenance industry is controlled by informal systems and cultural norms (Ranis, 2021).

Several academic researchers and institutions have elaborated on the idea of the informal economy. According to the International Monetary Fund, the informal economy is a worldwide phenomenon that consists of activities with market value that would contribute to tax income and gross domestic product if they were documented. On the one hand, people and businesses may opt to stay outside of the formal sector in order to avoid paying taxes and social contributions, as well as complying with norms and compliance issues. This is related to the widely held but incorrect belief that informality is mostly generated by businesses and people “cheating” to avoid taxation. Individuals, on the other hand, may rely on informal operations as a safety net because they lack the knowledge and skills required for formal work or because they are too impoverished to use public or financial institutions (Fund, 2020).

The informal sector, sometimes referred to as the "shadow market," "black economy," "shadow economy," or "gray economy," is a part of a country 's economy that is not recognized as a genuine revenue source. According to the World Bank, informal employment depletes countries' potential tax revenue and hinders regulatory oversight. People who work in the informal economy don't have to declare their earnings and don't have to pay taxes on them. Illicit actions included by this term include drug trafficking, money laundering, and human trafficking. Cleaning car windshields at traffic lights or working on building sites, for instance, are both legal employments. There is no employment security, no worker protection, and no state pensions in the informal sector. This group also includes those who intentionally do not report their earnings in order to avoid paying income tax. (News, 2021).

Furthermore, during the course of the Financial Action Task Force's twenty-five-year history, the list of predicate offenses for the Recommendations has developed and increased. The difficulty posed by this combination of circumstances is to apply processes and procedures established for the regulatory structures of a formal economy (which is typically the dominant economic order seen in industrialized countries) to an informal sector. The disparity between an anti-money laundering (AML) administration's framework and its actual execution outside of the underdeveloped country's economic constrained formal financial sector affects the administration's efficacy in combating money laundering. Shadow economies and irregular banking transactions originate and function outside of the reach of anti-money laundering procedures by definition (Vlcek, 2018).

**Informal Economy and Implications for Economic Growth of Pakistan**

The informal economy has a number of important repercussions for Pakistan's economic progress. The rise of the informal economy complicates policymakers' ability to design economic policies, particularly fiscal and monetary policies. Taxes are one of a government's primary sources of revenue. The informal sector, on the other hand, promotes a culture of tax evasion. Kemal (2007) assessed Pakistan's informal sector and determined that informal economy and tax evasion rose from the 1980s to the 1999s, then slowed until 2003. Tax evasion, on the other hand, is between 5. and 6.6 percent every year, with informal economy reaching 54.7 percent in 2005. He goes on to argue that the tax system should be clear and easy to comprehend since loopholes in a complicated tax system entice individuals to avoid paying taxes that they would otherwise have to pay.
There is a prevalent belief that the informal economy has poor efficiency and hence leads to low country growth. This article points out that informal sector is a cost to the government, particularly in terms of revenue generation in the near term as a result, it restricts regular economic growth by inflating the price of becoming formal that is taxpayers must cover the cost of tax evaders.

The informal economy's expansion has a substantial influence on institutionalization and governance. Numerous studies show that institutions have an impact on the growth of the informal sector. There is a negative correlation between the performance of organizations and the informal sector. The informal sector and corruption have a positive association, whereas the informal sector and the rule of law have a negative relationship. Fiscal policy, on the other side, has a significant influence on the growth of the informal economy. Sectors and tax burden proxies are moving in the same way. States with lower tax rates and fewer tax regulations are more likely to have a small informal economy (Qamar et al., 2021).

In Pakistan, the informal economy has an influence on the rights of the unregistered labor force, particularly women. According to estimates, in Pakistan, “20 million” “home-based employees” are part of informal economy in Pakistan, 12 million are women out of 20 million. In Pakistan, “home-based” employees, are not protected or regulated under any law. "ILO Convention C177 The Home Work Convention", 1996 has yet to be ratified. According to the "Pakistan Labour Force Survey", the country has 4.9 million home-based employees (working at "their own house" and "family or friend's dwelling"). According to a "UN Women" report from 2016, home-based employees contributed over Rs. 400 billion to the economy through their salaries, with women accounting for 65 percent of the total. In 2013-14, this sum was roughly equal to 3.8 percent of total GDP (Khan, 2017).

The informal economy, according to this article, is a diverse range of business activities, companies, employment, and employees that are not governed or regulated by the law. The term was first used to describe self-employment in tiny, unregistered businesses. It has been broadened to cover paid work in non-protected positions.

**Informal Economy enabling Tax Evasion in Pakistan**

The strongest indicator of a country's economic success is its capacity to generate income. Pakistan is a haven for shady lawmakers and dishonest merchants who make clandestine contributions, evade taxes, and loot the government treasury, leaving honest taxpayers and the government's main support base to face the consequences. The current national motto of Pakistan is "drawing the black economy (informal) into the tax net," which has become the rallying cry of the present government. Pakistan is dealing with a corporate tax evasion problem, with many unregistered firms attempting to avoid paying taxes. The issue may be more complicated for wealthier informal sector businesses. They are driven by labor law avoidance, a complex and rigid tax system, and lenient tax authorities who are more than happy to 'settle' through informal payments rather than legal taxes. As a result, most entrepreneurs find the idea that they are exempt from taxation absurd, even though it is challenging for both of them and state authorities to acknowledge the nature of these "taxes" (Ali, 2019).

Many academic scholars believe that one of the primary causes of the growth of the informal economy is the increase in income tax and economic security payment obligations. Taxes influence worker leisurely choices and boost labour market in the informal sector, or the untaxed part of the economy; economists are concerned about the distortions of this decision. The bigger the disparity between the total cost of labor in the formal sector and after-tax earnings, the larger the motivation to labour in the informal sector to cover the gap. This disparity is mostly determined by the social safety system and the total tax burden, both of which are important...
factors in the presence and growth of the informal economy. Even massive tax reforms with large tax rate deductions, however, will not result in a significant reduction in the informal economy (Fogel & Agbi, 2021).

While tax evasion occurs even in countries with strong tax awareness and collection capabilities, Pakistan's incidence of over 50% tax evasion is frightening and unacceptable. In Pakistan, there are three main causes for the high level of evasion. It is important to have a fair tax system. Salaried individuals are regarded to be easy prey for collecting taxes, and as a result, the state has struggled to broaden the revenue base. Due to their political clout, certain types of corporations get away with not paying their fair share of taxes, while ordinary individuals earning a monthly wage are overburdened. The informal economy's labor force does not pay taxes, making them a burden on the genuine and honest tax payer (Mehboob, 2019).

As a result, a growth in the informal economy leads to lower state revenues owing to tax evasion, which reduces the amount and quality of publicly funded goods and services, according to this article. In the end, this might lead to higher tax rates for individuals and businesses in the public sector, which is frequently accompanied with a reduction in quality of essential services.

**Informal Economy Enabling Money Laundering in Pakistan**

For most of us, the term "informal economy" will have distinct connotations. It may bring to mind thoughts of seasonal agricultural labourers in the fields for some. Housework, market stalls, laundering unlawful proceeds of crime, or drug trafficking outside the railway station are all options for others. The informal sector is the polar opposite of the formal economy, which is separated by laws and policy. As governments restrict or ban certain activities, it is possible that they will be pulled out of the formal sector and into the informal sector. If governments choose to delegate or regulate industry, which hasn't happened much in past few decades, it might become lawful, taxable, and integrated into the official economy once more. In addition, the informal sector's expansion is intimately tied to governmental social and economic policies.

According to Ponsaers (2008), the formally and informal sectors are not only interconnected, but they could also blend into one another in respect of their frameworks, methods of functioning, and operations in specific conditions. Because cartels have the greatest ability to enter the official sector where actions get complicated, especially where all of these conditions occur is likely one of the most beneficial crime-reduction initiatives that governments and international bodies might do. These activities may be an integral component of the informal economy, such as money laundering, selling narcotics, selling counterfeit products, owning a brothel, or bribing officials or they may be supplementary services, such as providing cabs for prostitutes.

Similarly, the legal concept of "hawala banking/hundi" ("informal plans to transfer money between different parts of the world") has ignited skepticism that it could be used for illicit practices and money laundering because it continues to operate outside of national and international regulatory structures designed to detect money laundering. "Hawala banking" may be used to facilitate illegal transition (the transfer of criminal proceeds), however it is highly reliant on trust, much like conventional banking. Strong social or ethnic ties may aid in the development of trust, but when hawala banking is used for illicit purposes, reputation and results, as well as the ability to remain anonymous, may be more important (Kagan, 2021).

"Hawala/Hundi", the informal transfers are used for either "money laundering" and terrorism financing, according to the "State Bank of Pakistan" ("SBP"). Unfortunately, Islamic insurgent group, armed resistance from neighboring countries, jihadist wings of political parties, Afghan drug smugglers, non-state actors, and local criminal gangs are proving to be factors of destabilization and bloodshed in Pakistan, with "Hawala/alternative remittance systems" being
deemed the utmost bloodline of financial support for belligerent irrationality (Raza, 2017).

"Hawala and Hundi" are two of the most well-known words in Pakistan's economic environment, according to this article. Simply put, they are informal ways via which money is moved in and out of the nation. Hawala is a system made up of lending institutions and businesses from all over the world. It differs from formal trade channels (such as banks) in that it is based mostly on reputation and trust rather than written agreements. Anonymity, on the other hand, comes at a high cost for nations like Pakistan, since traffickers, drug dealers, and terrorist funders have brutally exploited this feature. It's no surprise that Pakistan is on the FATF's grey list.

**Informal Economy needs to be formalized for Prevention of Tax Evasion and Money Laundering**

The informal sector can be formalized in a variety of ways. Licensing, registration, organization and representation, legal structures, social welfare mechanisms, and commercial incentives/support are only a few of the topics covered. And different groups of the informal labor have varied definitions of formalization (WIEGO, 2021). The tax-to-GDP ratio in Pakistan is around 12%. OECD countries, on the other hand, increase taxes equivalent to approximately 34% of their GDP. Pakistan's ability to support public investment is hampered as a result of this. When it does collect taxes, it mostly does so through regressive taxes on goods and services, that make about 6.3 percent of GDP. Direct taxes, which account for the remaining 4.2 percent of GDP, are mostly collected by firms withholding a proportion of monetary activities for the government (Raza, 2017).

The majority of developing nations' economies are built on informal, cash-based operations, which implies they are not covered by the tax revenue. As a result, they do not rely on people's voluntary tax compliance, which remains exceedingly low. The formalization of the taxing procedure is urgently required. The streamlining of registration processes and progressive registration costs for new tax payers are part of the formalization of licensing and taxation process. To improve the tax ratio and combat tax evasion, the government must integrate large shopping malls, merchants, wholesalers, and shopkeepers within the tax net. (Wani, 2018).

Similarly, money laundering prevention necessitates legislative action. Pakistan's government has taken a number of efforts to prevent the Hawala system from being abused. Because of the negative effects of IVTS, such as money laundering, revenue loss, corruption, and unregulated capital flight, all international IVTS are banned under the "Foreign Exchange Regulation Act Pakistan" 1947. Pakistan's major financial regulators are the "State Bank of Pakistan and the Securities and Exchange Commission of Pakistan" (SECP). They've set up anti-money laundering (AML) divisions to improve banking sector supervision. The same troops are concentrating their efforts on controlling the "Hawala system". SBP has implemented measures in Pakistan to limit the usage of "alternative remittance systems" ("ARS") and increase the use of regular remittance channels. To narrow the alternatives for exploiting ARS, the "State Bank of Pakistan" (2002) concentrated on building exchange firms to integrate informal moneychangers into the mainstream banking system. Businesses must register with the "Securities and Exchange Commission of Pakistan" and then apply to the "SBP" for an authorization to begin operations, as per this instruction. (Raza, 2017).

According to this article, informal banking channels must be regulated, regularized, and integrated into the formal economy. The probable use of the "Hawala system" for laundering money, funding terrorists, and other illicit gains is being monitored by local law enforcement such as the "National Accountability Bureau" ("NAB"), the "Anti-Narcotics Force" ("ANF"), the "Federal Investigative Agency" ("FIA"), and the "Directorate of Customs Intelligence and Investigations" ("CII"). In order to identify any unlawful behavior, these authorities should work
together by exchanging information.

**Conclusion and Recommendations**

The formalization of the informal sector, according to this article, is important not only for raising tax revenues, but also for digital, skilled-based improvement of business activities, ramping up the operations and maintenance size of small businesses, increasing and diversifying production, and enhancing the lot of low-wage earners. To begin, the government should concentrate on integrating informal economic sectors, such as agriculture, into the official economy. Second, the “FBR” takes severe action against unlawful transportation systems and records them with a serial number at both the provincial and federal levels. This action will result in a legitimate income in the form of revenue tax, which will be collected through a suitable route. Regularization of tax rates is also required.

Lawmakers should also focus on the implications of informal financial channels like hawala and hundi, which continue to operate beneath the radar of the informal sector. In order to identify money laundering, the Pakistani government must focus on strengthening and encouraging the digitization of the economy. The digitization of the economy is critical to the formalization of Pakistan's economy.

**References**


