

### **‘Real cause of fiscal imbalances is not the provinces, but the Centre’**

KARACHI: Rejecting the Centre’s demand for upfront share of seven per cent for security under the new National Finance Commission award, senior economist Dr Kaiser Bengali said on Tuesday that the real cause of fiscal imbalances was not the provinces, but the Centre itself that did not fully implement the 18th Amendment and failed to raise its revenue.

Giving a talk on ‘The New NFC Award: issues and challenges’, organised by the Institute of Historical and Social Research, the former adviser, who represented Sindh in the last NFC award, also proposed the formation of provincial finance commission to devise a formula for collection and distribution of revenue between districts and respective provinces to address economic imbalances among districts.

He highlighted the need for including a chapter on local governments in the Constitution that he said was currently silent on their structure, functions and powers.

Economist terms demand for 7pc upfront share for security from provinces unjustified

He said the new NFC award had been due since 2015 and blamed the Pakistan Muslim League-Nawaz government for delaying it on one pretext or another. He said the then finance minister Ishaq Dar was apparently not interested in convening its meeting after a demand came from “somewhere else” for the allocation of seven per cent of gross divisible pool taxes for national security before the distribution of the remaining proceeds between the Centre and the four provinces under the ninth NFC award.

He said there was no justification for the demand of the Centre for upfront share of seven per cent for security on the basis of an argument that the fiscal space for the federal government had shrunk. He said the fiscal imbalances were not caused by the provinces, but the Centre itself that did not fully implement the 18th Amendment and thus remained unable to reduce current expenditures and increase tax collection.

He said the defence and debt servicing spending surged and consumed 12.2 and 12.8 per cent shares of average growth in expenditures while the civil administration spending went up by just 5.9pc with inflation remaining in the range of eight per cent from 2010 to 2017.

He explained that as the shares of provinces once decided under an NFC award could not be reduced under the Constitution, the Centre came up with the demand of upfront share of seven per cent for security. While rejecting the demand, Dr Bengali said the Centre instead of abolishing all the federal ministries devolved to the provinces under the 18th Amendment renamed seven of them. He said the federal government should have reduced its own expenditures and met its revenue collection targets instead of blaming the provinces for it.

After failing to increase its revenue, the federal government’s demand for the allocation of 7pc of gross divisible pool taxes for national security before the distribution of the remaining proceeds between the Centre and the four provinces was unjustified.

He said he had sent to the federal government a proposal that would help it increase its revenue. He called for the removal of personal and corporate income tax from the fold of federal divisible pool (FDP) under the NFC, as it would give an opportunity to the Centre to focus more on bringing the rich into the tax net for overcoming its fiscal woes.

He said the deletion of personal and corporate income tax and allowing the Centre to collect agriculture income tax, which required constitutional amendments, would help evolve an agreement of stakeholders on the NFC award.

In support of his argument, Dr Bengali said the ratio of direct and indirect taxes stood at 12pc and 88pc, respectively, after taking into account collection of withholding taxes as part of indirect taxes.

The indirect taxes, he said, affected the less privileged the most. He said that the privileged segment of society contributed only 10pc of their income (in the shape of direct taxes), while the poorest spent 16pc of their income to pay indirect taxes.

#### 'Regressive' tax system

Terming the structure of the taxation system "regressive", he blamed the Centre for plunging into fiscal imbalances owing to inability to raise its revenue and to slash the current expenditures, and warned that any attempt made to reverse the 18th Amendment or Seventh NFC Award would be disastrous for national cohesion.

When asked how the recent decision of the Supreme Court against the devolution of health institutions to the Sindh government and a recent statement of Prime Minister Imran Khan that there would be no compromise on defence budget was going to impact Sindh's case under the 9th NFC award, Dr Bengali said the decision was made in favour of Centre when the ruling alliance failed to get a two-thirds majority in parliament to reverse the 18th Amendment. About the PM's recent assertion, he said he did not take Mr Khan's statements seriously.

Tracing the history of NFC awards, Dr Jaffar Ahmed earlier said that it was interesting to note that the eighth NFC award did not exist at all as after the seventh award that was approved in 2010 the next government did not take much interest in the matter.

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