

Population as the criterion

By MAH

*Pak. Eco.
Dawn
21-8-03*

THE national finance commission of 1974 was the second commission, which was established under a constitution — this time, the 1973 Constitution. The secretary of the commission continued to function as joint secretary (budget) and additional secretary as a section officer in the finance division. And secretary-general (finance and economic coordination) was nominated as one of the Commission's members.

While acknowledging the essential need for preserving the financial soundness and strength of the federal government, the commission was cognizant of the necessity of making the provinces financially viable units. The commission also recognized the fact that the federal government had far more scope and capacity for raising resources by taxation than the provinces.

The commission came to the conclusion that there was ample justification for a larger allocation of the divisible revenues to the provinces, and recommended that the vertical distribution should be that 80 per cent of the net proceeds of the shareable taxes and duties (export duties on cotton, taxes on sales and purchases; and taxes on income, including corporation tax) was assigned to the provinces and, 20 per cent be left with the federal government.

od; projection of revenue receipts and non-development expenditure of all the governments for 1975-76 to 1979-80; fiscal transfers to the provincial governments from 1970-71 to 1974-75, and their projection for the period 1975-76 to 1979-80; details of locational investments, etc does not have linkage with the basic recommendation, made by the commission.

However, some of the points raised in a couple of meetings of the commission may be highlighted. In one meeting, AGN Kazi reviewed the criteria advanced by other members and said that of all the four bases, namely, population, incidence, relative backwardness and need, population was an element on which there had been greater agreement in the past and was even then accepted as basic ele-

factured or consumed; (iii) export duties on cotton; and (iv) excise duty on tobacco manufactures.

Till October 26, 1988, the commission did not submit its recommendations! A caretaker government had been inducted after the dissolution of the National Assembly and removal of Junejo government. The caretaker government did not consider it proper to take up the issue, as it was not expected to take long-term policy decisions.

The 1990 national finance commission, which was established in late July 1990, did not function as Benazir Bhutto's government was dismissed in the first week of August. After an elected government came into power in November 1990, the composition of the commission was revised but there was no

change in the terms of reference, which among other items, were to make recommendations, as to the distribution between the federation and provinces of the net proceeds of (i) taxes on income, including corporate tax; (ii) taxes on sales and purchases of goods imported, exported, processed, manufactured or consumed; (iii) excise duty on tobacco and tobacco manufactures, and sugar; and (iv) export duties on cotton. The commission was also asked to examine the question whether and in what manner, the net proceeds, collected by the Federal Government (a) of royalties on crude oil, and (b) of surcharge on natural gas be paid to the provinces concerned.

Notwithstanding the enlarged divisible pool (by including excise duty on tobacco

The 1979 commission did not submit a formal report, but it was considered necessary that the results of the 1981 population census be reflected in the distribution of the provincial shares of the federal divisible taxes. A Distribution of Revenues Order 1983 was issued, and made effective from July 1, 1983. The distribution was on the basis of population, the vertical provincial share remaining the same.

ment by most of the members!

As regards the horizontal dis

In the same meeting, B

ment.

As regards the horizontal distribution among the provinces, the commission recommended, "As for inter-se shares of the provinces, the commission, after full examination of the various formulas, held the view that these should be determined on the basis of population. It was felt that this arrangement would be both democratic and equitable, and should cause no controversy. It will put all the provinces on equal footing".

The allocable share of the provinces, the commission recommended, should be distributed in the percentage of their respective population, namely, Punjab — 60.25 per cent; Sindh 22.50 per cent; NWFP — 13.39 per cent; and Balochistan — 3.66 per cent.

The Commission's report was laconic, brief and abrupt: One does not get any idea how "full examination of the various formulas" was carried out by the commission. Leaving aside AGN Kazi, secretary-general finance (who was a member of the commission), if "democrats" like federal finance minister Rana Hanif Khan, Mohammad Hanif Ramay, Ghulam Mustafa Jatoi, Nasrullah Khan Khattak, Sardar Ghaus Baksh Raisani, and Saifullah Khan Paracha "agreed" that the distribution of resources on population basis was "both democratic and equitable", it would mean that all other formulas are/were inequitable and undemocratic.

The abrupt conclusion by the commission that population would be the basis for distribution reminds one of an English saying: "Then might you think I had swelled with the mountains, and brought forth a mouse". All the work done by the federal and provincial governments to produce audited actuals in respect of revenue receipts and non-development revenue expenditure, and capital receipts (along with breakdown of receipts and non-development disbursements) for the years 1970-71 to 1974-75; gross revenue receipts to the federal government (from 1970-71 to 1974-75); revenue receipts (excluding federal payments) for the same period

ment by most of the members!

In the same meeting, P.K. Shahani, a member of the commission (from Sindh) wanted to know if the federal finance secretary (who was not a member of the commission but had been attending the meetings of the commission) was expressing the views of the federal government or those of his own in advancing his formula. The secretary replied that he was discharging his duty as "an expert" called upon to assist the commission! When parties to a cause become judges, such a queer situation would arise.

After five years, the chief martial law administrator (martial law was imposed in 1977) appointed a national finance commission in February 1979, and one of the terms of reference was to make recommendations as to the distribution between the federation and the provinces of the net proceeds of the following taxes: (i) taxes on income, including corporation tax; (ii) taxes on sales and purchases of goods imported, exported, produced, manufactured and consumed; (iii) export duties on cotton; and (iv) excise duty on tobacco and tobacco manufactures.

This commission did not submit a formal report, but it was considered necessary that the results of 1981 population census be reflected in the distribution of the provincial shares of the federal divisible taxes. A Distribution of Revenues Order 1983 was issued, and made effective from July 1, 1983. The distribution was on the basis of population, the vertical provincial share remaining the same. Accordingly, Punjab received 57.97 per cent, Sindh 23.34 per cent, NWFP 13.39 per cent, and Balochistan 5.30 per cent.

After the induction of an elected government in March 1985, the national finance commission was constituted in July 1985 to make recommendations, among other things, as to the distribution between the Federation and the provinces of the net proceeds of (i) taxes on income including corporate tax; (ii) taxes on sales and purchases of goods imported and exported, processed, manu-

factured divisible pool (by including excise duty on tobacco and tobacco manufactures, and sugar; and royalties on crude oil, and surcharge on natural gas), the commission recommended to retain the old formula (of 1975) for the vertical distribution of divisible taxes between the Federation and the provinces, on the basis of 20 per cent for the Federation, and 80 per cent for the provinces. It also recommended that the Provincial shares be distributed to the provinces on the basis of their respective population. The ratios finally adopted were: Punjab 57.88 per cent; Sindh 23.28 per cent; NWFP 13.54 per cent, and Balochistan 5.30 per cent.

Another recommendation was that the net proceeds of development surcharge on natural gas be transferred to the provinces on production basis at well-heads. Similarly, the net amount of royalty from crude oil was to be paid to the provinces according to production in each province.

As stated earlier, the duty of the national finance commission is limited to making recommendations on three subjects, and on any other matter relating to finance, referred to it by the president. This means that the terms of reference of the commission have to be framed by the president, within the framework of the Constitution, and secondly, no other authority can refer any matter to the commission.

It is interesting that the Commission was asked by the council of common interests, on July 12, 1991 whether the net proceeds of hydel power profits due to the provinces concerned, be paid by the federal government or the generating agency. Complying with the request, the commission replied that it should be paid by the agency, but it should be guaranteed by the federal government. This sort of reference to the commission is not covered by the Constitution, and secondly, the subjects of hydel power profits, as excise duty and royalty on natural gas, are not within the jurisdiction of the finance commission. All this was extra-constitutional.

To be concluded