

Balancing books, IMF style?

Down 15.4.02

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THE most abiding feature of Pakistan's federal financial structure is its unitary and highly centralized form. The way this financial system has been crafted, the provinces do not figure in it as generators of revenue but as spenders of scarce resources assiduously collected by Islamabad that it, rather generously, shares with the rest of the 139 million inhabitants of this unfortunate country.

A common complaint of the provincial governments has been about the attitude of the federal government towards their financial plight, the frequent modifications of the rules of the game by the centre, tortuous revisions of legal and related definitions to suit the federal government's version of what constitutes constitutional role, mandates, distribution and scope of taxation domain and powers between different levels of government. These complaints are compounded by their historical experience of the federal government transferring (by withholding information or by misrepresenting facts or simply by arm twisting) expenditure obligations that it had earlier taken upon itself. At times, riding roughshod over the provinces, the federal government has employed tactics that have contravened agreements reached, the latest in this series being its failure to honour its earlier commitment that for abolishing the octroi and zilla tax at its insistence the local governments would be compensated through an increase of 2.5% in the GST, the additional revenues from which were programmed to flow to these governments.

Another example that illustrates this issue is the treatment meted out to the provinces by the federal government on the implementation of the GST on services. Under the Constitution revenues from this source should accrue entirely to the provincial governments and not shared with the federal government. However, activities that under any internationally and rationally accepted definition of the term "services" were, through the use of convoluted, if not bizarre explanations, twisted and stretched beyond the realm of possible meanings to suit Islamabad's objective, to forcibly appropriate for itself a 65.5% share (62.5% share under the divisible pool arrangement plus an additional 3% as collection charges). In federations run in a fairer and more equitable

manner it would be difficult to imagine that activities such as provision of electricity, telecommunications and air travel would be classified as anything other than services. However, such is not the case, when it comes to Islamabad.

It is interesting that such *modus operandi* were not just employed by the federal government when there were different political parties in power in Islamabad and in the provincial capitals they were also used when the same political party ruled the roost at both levels of government. However, by trying to be clever the federal government may have, through accounting manipulation and window dressing, got its own house in order, albeit temporarily. It only succeeded in handing down the problem to a lower formation.

Its accomplice, if not its key adviser on different instruments to be wielded and mecha-

more revenues to meet their expenditure obligations, they should be kept on a tight leash and starved of funds so that they start realizing that they have to fend for themselves. Such are the outcomes of dispensations of the Pakistani variety.

Allow me to illustrate my point with three very recent rather simple examples:

a) Almost nothing from the \$ 600 million (Rs. 36 billion) provided by the US government as a grant for this financial year, ostensibly for education, has been shared with the provincial governments, although education is a provincial subject and all related activities are carried out in the provinces. This move had the express blessings of the Fund.

b) The IMF has proposed that the federal government should meet the fiscal deficit targets by enhancing the petroleum surcharge, because revenues raised from this levy do not form part of the divisible pool of the resources that are shared with the provinces.

c) Instead of levying a 15% GST on services rendered by lawyers, accountants, engineers, transporters, etc., 98% of the collections from which would flow to the provinces (GST on services being a provincial subject under the Constitution) a massive 15% GST was imposed on medicines, 67.5% of the collections from which would be retained by Islamabad.

In any case, who could have instituted such a tax on

nisms to be adopted in the operationalization of such a structure, the related fiscal sharing arrangements and its manipulation to favour Islamabad so that fiscal deficit targets can be met, is the IMF. As far as the Fund is concerned the books of the federal government should balance, the provinces be damned.

In this scheme of things the provinces are a bit of nuisance, unnecessary appendages more than 80% of whose needs are met from the federal largesse. They cannot be trusted with additional resources because they are likely to spend them, being more profligate than Islamabad! It is another matter that all lucrative taxes under the installed fiscal structure fall exclusively within the domain of the federal government. Even sales tax, which, in practically all other federations, is the principal source of revenue for the provincial governments, is, thanks to the IMF, a purely federal levy. Although the dice is loaded against them and their hands and feet are tied, the provinces are lectured, ad nauseum, for not doing enough to mobilize resources. And, since they are not raising

health? Taking the proposed levy to its logical conclusion the higher the proportion of the population becoming ill the better off the government (and, of course, the IMF would be happier still) since tax revenues would go up. Only the comedians from the Fund could have dreamt up such a measure whereby the government would profit if the ill-health and attendant misery of the people were to grow, and preferably at an accelerated pace.

An 'obvious' implication of such a strategy would be that if any year revenues from GST on medicines decline this unacceptable situation to the Fund would have to be corrected by the government ensuring that more people fall sick and more frequently. Better still the unhealthy should not recover fully and consume even larger quantities of medicines (with doctors of government hospitals under strict orders to prescribe the more expensive medicines). However, they should not die, since their doing so would be disastrous for the fiscal deficit and hence objectionable to the Fund!

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