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Shortchanging the south?

15th Finance Commission must help disadvantaged states, this is not a zero sum game

Shaibal Gupta, [The writer is Member Secretary, Asian Development Research Institute (ADRI), Patna]



The Kerala government recently hosted a meeting of the finance ministers of three southern Indian states (Karnataka, Andhra Pradesh and Kerala) and Union Territory of Puducherry at Thiruvanthapuram. The conclave took a unified stand regarding the recently constituted 15th Finance Commission (FC15), mainly on two critical counts. First, its Terms of Reference (ToR), which would entail the use of 2011 Census data for evolving the resource sharing formula; and second, that the southern states have been contributing more to the central exchequer than what they

receive from it through devolution. Incidentally, Tamil Nadu abstained from the conclave, even though it is equally opposed to the ToR of FC15. Telangana did not join the conclave, as the ToR of FC15 are not considered to be disadvantageous to the state.

The Finance Commissions are constituted every five years under Article 280 of the Constitution for ensuring 'equalisation' among the states. On the eve of Independence, not only were social and educational endowments of people very low across the country, there was also wide regional disparity. The Finance Commission was rightly identified as one of the instruments of equalisation. But, unfortunately, that process of equalisation in the past has been very lopsided, the victims being the poorer states, most of them in northern India.

From the point of view of equalisation, the adoption of population figures of 2011 Census as one of the criteria of devolution appears to be justified. Adopting 1971 Census data was not only unrealistic, it also meant a case of a reverse discrimination for the heavily populated states. In contrast, the freezing of Lok Sabha seats on the basis of the 1971 Census until the year 2026 may be logical; otherwise the northern states may get a disproportionate share in the highest law-making institution in the country. But the strategy of political equalisation (through freezing of Lok Sabha seats) should not be extended to the field of economic equalisation, without which it will be extremely difficult for India to remain as a unified political entity.

Most of the southern states had experienced massive social movement in the past, especially in the 20th century, resulting in demographic transition. For example, Kerala experienced a strong literacy movement, thanks to the efforts of the princely state of Travancore-Cochin, Jesuits and communists. Similarly, Tamil Nadu experienced the social (anti-Brahmin) movement, leading to social mobility and emancipation of women. Further, in the pre-Independence period, the expenditure on education and health was much higher in the Madras Presidency than in the Bengal Presidency. Thanks to these

historical factors, the southern states experienced lower fertility rate than the northern ones, most of which are poor.

Even after Independence, the expenditure on social sector had remained comparatively lower in northern states. The 'family planning' programmes were not implemented vigorously there. Even then, the decadal population growth rate in Bihar had declined from 28.8% in 1991-2001 to 25.4% during 2001-11, the decadal decline in the national level being from 21.5% to 17.7%. It should be remembered that no state would promote population growth deliberately, just to get more resources from the Finance Commission. The strategy for population planning not only warrants heightened governance, it also demands adequate resources that poor states obviously lack.

While giving weightage to the 2011 Census may be disadvantageous for some states, its consequences may be forestalled, because Para 7(ii) of the ToR notes that the FC15 may consider progress made towards achieving the replacement level of growth. This will certainly give advantage to the southern states. Indeed, the finance ministry emphasises that "second reference is intended to encourage and incentivise the states which have done well on population control". It is true that central taxes are collected more in the southern and western Indian states, especially in their metropolitan centres. But their tax contribution is not based entirely on economic operation 'within' the state. Most of the corporate houses establish their headquarters in Mumbai, Chennai, Hyderabad or Bengaluru where they pay their income tax, although their operations are pan-India.

For example, Tata flourished from operating out of Jamshedpur for long, but the income tax was paid in Mumbai. Thus, statewise figures of tax collection are not truly reflective of states' 'own' contribution to the tax kitty. The clamour of southern states is possibly justified in terms of the present parameters. But, in the process, they should not ignore history. In the pre-Independence period, under the tutelage of the East India Company, the deficit of Madras and Bombay Presidencies used to be met from the surplus of Bengal Presidency.

In the post-Independence period the 'freight equalisation' introduced by TT Krishnamachari, Union industries minister in the early 50s, spelled doom for the mineral-rich states, most of them in the north. In fact, these northern states subsidised the industrialisation of the entire country. Finally, Finance Commission recommendations imply two categories of states – advantaged ones who contribute more to central kitty, but receive less and the disadvantaged ones that receive more than their contribution. From the perspective of equalisation, this makes sense. But to divide the states into southern and northern states is not a meaningful categorisation.

After all, what southern states 'forego' does not reach Maharashtra, Gujarat, Punjab and Haryana, all in north India. One should indeed judge the recommendations of a Finance Commission in terms of their relative impact on the disadvantaged and advantaged states, not southern and northern states. Any stand by the advantaged states, be they in south or north, to suggest that the Finance Commission should not attempt any equalisation is actually tantamount to a step towards secession of the advantaged states from the Indian union, instead of consolidating the nation. This is wholly undesirable.

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Disquiet and Dissent

Supreme Court is passing through troubled times and reforms are needed

TOI Editorials



The Supreme Court ruling that the Chief Justice of India is the master of the roster and has sole discretion of deciding the composition of benches and assigning cases is unexceptionable in law; it reiterates an earlier judgment by a five judge Constitution Bench which asserted the CJI has this prerogative. But eyebrows have been raised over the CJI himself hearing the matter relating to his official powers when ideally speaking it ought to have gone to a different bench, not allocated by him. Given his high constitutional post the principle of Caesar's wife applies:

not even the slightest hint of inappropriateness should apply to his actions.

It would help greatly if the process of allocation of benches is seen to be entirely transparent, and to be fair to CJI Misra he has rolled out two key measures in this direction: the twin publications of collegium recommendations on judicial appointments and a subject-wise roster for allocation of fresh cases. But the principle of Caesar's wife applies to the Union government – which has been sitting on collegium recommendations for appointment of KM Joseph and Indu Malhotra as SC judges – as well. Government must approve or return the recommendations with reasons for doing so.

Instead its inordinate delay, in a climate where there is a desperate shortage of judges, has set tongues wagging that Joseph's name hasn't found favour because he made an adverse judgment against the Centre on imposing President's Rule in Uttarakhand. Indeed senior SC judge Kurian Joseph set to retire this year has written an anguished letter to the CJI, calling for urgent action to defend the independence of the judiciary.

Another vexed issue that could impact judicial independence is judges taking up government jobs soon after retirement. Two sitting SC judges have rejected post-retirement jobs to reiterate their independence. Shortage of judges, as well as frequent and contentious deliberations between government and collegium on appointments, can be minimised by allowing SC as well as high court judges to serve until 70. It is time to further insulate judges from governments and increase retirement ages, bring pensions on par with last salary drawn, amend statutes to remove requirements for retired judges in tribunals, and create an appointments commission for tribunals that serving judges, lawyers and others can apply to.

नई दुनिया

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सीरिया को लेकर खिंचती तलवारें

महेंद्र वेद , (लेखक वरिष्ठ पत्रकार व स्तंभकार हैं)

प्राचीन दौर अलग था जब दुंदुभि बजाते हुए युद्ध की मुनादी की जाती थी या दुश्मन सेनाओं को चेताया जाता था। आज के तकनीक-प्रधान युग में तो सोशल मीडिया पर एक ट्वीट से प्रतिद्वंद्वी को ललकारा जा सकता है। ट्रंप ट्वीट करते हैं- 'रूस सीरिया की ओर दागी गई हर मिसाइल को गिराना चाहता है। तैयार हो जाओ रूस, क्योंकि वे मिसाइलें आ रही हैं। ये अच्छी, नई और 'स्मार्ट' हैं। सेनाओं की हलचल बढ़े या न बढ़े। मिसाइलें दागी जाएं या न दागी जाएं। लेकिन आक्रोशित आरोप-प्रत्यारोपों या धमकियों का दौर तो चल ही रहा है और यह दुनिया को परमाणु जंग की आशंका से ग्रस्त करने के लिए काफी है।

अमेरिकी राष्ट्रपति डोनाल्ड ट्रंप ने पिछले हफ्ते सीरिया की राजधानी दमिश्क के नजदीक विद्रोहियों के कब्जे वाले शहर में हुए कथित रासायनिक हमले के बाद सैन्य कार्रवाई की चेतावनी दी। बचावकर्मियों व एक्टिविस्टों के मुताबिक इस रासायनिक हमले में 40 से ज्यादा लोग मारे गए, जबकि सीरियाई सरकार व उसके मित्र रूस ने ऐसे किसी हमले से इनकार किया है। बहरहाल, ट्रंप के इस धमकी भरे ट्वीट का जवाब भी आया। रूसी विदेश मंत्रालय की प्रवक्ता मारिया जखारोवा ने कहा कि अमेरिका की ओर से कोई भी मिसाइल हमला सीरिया के डोउमा में कथित रासायनिक हमले के सबूत मिटाने का प्रयास हो सकता है।

गौरतलब है कि सीरियाई संकट के इस दौर में राजधानी दमिश्क के नजदीक स्थित पूर्वी घोटटा क्षेत्र में पिछले कुछ दिनों में काफी हिंसक हमले हुए हैं और बीते शनिवार को हुए कथित रासायनिक हमले में दर्जनों लोगों के मरने की खबर है। यह हमला आए दिन होने वाली हिंसा की एक कड़ी है, जिसे सीरियाई लोग लगातार भुगत रहे हैं। बढ़ती हिंसा के चलते पिछले एक महीने में वहां 1600 से ज्यादा लोग मारे जा चुके हैं और 2000 से ज्यादा घायल हुए। पूर्वी घोटटा क्षेत्र वर्ष 2013 से विद्रोहियों के कब्जे में है। संयुक्त राष्ट्र की रिपोर्ट्स बताती हैं कि पिछले चार हफ्तों में ही एक लाख तीस हजार से ज्यादा सीरियाई अपना घर-बार छोड़कर जा चुके हैं।

सीरिया पर इस वक्त सबकी निगाहें टिकी हैं। ट्रंप ने अचानक अपना लातिन अमेरिका दौरा रद्द कर दिया, वहीं वे पहले ही अपने सैनिकों को मेक्सिकंस से लड़ने के लिए सरहद पर भेज चुके हैं। समझा जा रहा है कि उन्होंने यह दौरा इस वक्त सीरिया पर फोकस करने की वजह से ही रद्द किया है। यह कहना गलत होगा कि शीतयुद्ध का दौर खत्म हो गया। बल्कि अब तो यह पिछली सदी के मुकाबले कहीं ज्यादा तेजी से तनावपूर्ण होता जा रहा है। भले ही इस दौरान खिलाड़ी कुछ बदल गए हों, लेकिन अमेरिका और उसके सहयोगी पश्चिमी देश तो यथावत हैं। हां, रूस अब पहले जैसी महाशक्ति नहीं रहा, लेकिन व्लादिमीर पुतिन जैसे साहसी नेतृत्व के साथ यह अब भी अपना दमखम दिखा रहा है। उसे चीन का भी साथ मिल सकता है, जो तेजी से विश्व की दूसरी महाशक्ति के रूप में उभर रहा है। इस तरह का संयोजन वैश्विक मंच पर भू-राजनीतिक टकराव के लिहाज से घातक कहा जा सकता है।

अमेरिका अब भी दुनिया की सबसे बड़ी महाशक्ति है, लेकिन अस्थिर ट्रंप के धुंधले वैश्विक नजरिए के साथ इसके लक्ष्य रोज बदलते रहते हैं। कभी यह रूस को धमकाता है, कभी ईरान पर निगाहें टेढ़ी करता है, कभी उत्तर कोरिया को निशाने पर लेता है, कभी पाकिस्तान-अफगानिस्तान पर फोकस करता है, कभी मेक्सिको को आंखें दिखाता है तो कभी सीरिया को निशाने पर लेने लगता है। ट्रंप के अस्थिर रवैये का आलम यह है कि राष्ट्रपति का पदभार ग्रहण करने के सवा साल बाद भी वे अब तक अपनी पुख्ता टीम नहीं तैयार कर सके हैं। वे अब तक इतने लोगों को बर्खास्त कर चुके हैं, जितने उनके किसी भी पूर्ववर्ती ने नहीं किए होंगे। वे तो अपनी ही सरकार के भीतर अपने ही लोगों से लड़ रहे हैं। इतना ही नहीं, व्यक्तिगत तौर पर उनका पिछला व मौजूदा रिकॉर्ड भी विवादित है।

ट्रंप रूस पर नरम-गरम होते रहते हैं। कहा जाता है कि रूस ने उनकी पिछले राष्ट्रपति चुनाव में हिलेरी क्लिंटन के खिलाफ जीतने में मदद की थी। हालांकि वे सीरियाई संकट के लिए मॉस्को को जिम्मेदार ठहरा रहे हैं। उनकी यह रणनीति है या छलावा, कोई नहीं कह सकता। अमेरिकी गुस्सा इस वजह से है कि रूस की मदद से सीरिया के शासक बशर अल असद ने न सिर्फ आईएसआईएल को उखाड़ फेंका, बल्कि निहत्थे नागरिकों के खिलाफ इसके हमले भी रोक दिए। कुल मिलाकर यही लगता है कि सीरियाई विवाद कई धड़ों द्वारा लड़ा जा रहा है। एक ओर असद सरकार और रूस की अगुआई वाले इसके अंतरराष्ट्रीय साथी हैं। उनका विरोध सुन्नी अरब विद्रोही समूहों के गठजोड़ (जिसमें मुक्त सीरियाई सेना भी शामिल है), कुर्दिश सीरियाई डेमोक्रेटिक ताकतों (एसडीएफ), सलाफी जेहादी समूह (अल-नुशरा मोर्चा समेत) और इस्लामिक स्टेट ऑफ इराक एंड द लेवांट (आईएसआईएल) द्वारा किया जा रहा है। इसके अलावा इस क्षेत्र में स्थित इराक, तुर्की जैसे देश व बाहरी ताकतें भी या तो सीधे इसमें लिप्त हैं, या फिर किसी न किसी धड़े को समर्थन दे रही हैं।

ईरान, रूस और हिज्बुल्ला असद को सैन्य मदद देते हैं। रूस सितंबर 2015 से असद सरकार की मदद में हवाई ऑपरेशन चला रहा है। दूसरी ओर, वर्ष 2014 में स्थापित अमेरिकी की अगुआई वाला अंतरराष्ट्रीय गठजोड़, जो कथित तौर पर आईएसआईएल को रोकने के लिए बना था, असद और उनके समर्थकों के खिलाफ हवाई हमलों को अंजाम दे चुका है। गौरतलब है कि अमेरिका इराक में आईएसआईएल के खिलाफ लड़ रहा है, लेकिन सीरिया में इसका मददगार है। ओबामा ने इस विरोधाभास पर गौर किया था, लेकिन वे कुछ नहीं कर पाए। हां, सीरिया की विरासत ट्रंप को ओबामा से मिली है, जिन्हें अफगानिस्तान और ईरान की विरासतें जॉर्ज बुश जूनियर से मिली थीं। लेकिन ओबामा बेहतर समझ के साथ क्यूबा और ईरान के साथ तनाव को दूर करने में सफल रहे।

भले ही कुछ पश्चिमी ताकतें सीरिया में अमेरिकी अगुआई वाली मुहिम का हिस्सा हों, लेकिन अबवे थकने लगी हैं। फ्रांस अनमना है। ब्रिटिश प्रधानमंत्री थेरेसा मे भी अस्थिर बहुमत के साथ ब्रिटिश संसद को हल्के में नहीं ले सकतीं। इस तरह ट्रंप अपने रवैये से दुनिया को और उलझनकारी बना रहे हैं। उनके अधिकारी कहते हैं कि रासायनिक हथियारों का इस्तेमाल एक तरह की बर्बरता है और अमेरिका इसे बर्दाश्त नहीं करेगा। लेकिन अमेरिकी विदेश नीति विशेषज्ञों का कहना है कि ट्रंप अब भी ऐसी कोई राह नहीं तलाश सके हैं, जिससे घटनाक्रम में नाटकीय बदलाव लाया जा सके। 'स्मार्ट मिसाइलें दागी जाती हैं या नहीं (हम तो यही चाहेंगे कि न दागी जाएं), लेकिन सीरिया में रह रहे या वहां से पलायन कर यूरोप में अवांछित शरणार्थी की दयनीय जिंदगी जीने को विवश लोगों की दिक्कतों का अंत होता नजर नहीं आता।

Furore Over Funds

Addressing the disquiet over the Finance Commission's terms of reference will require sober negotiation involving all parties

Editorial

IT is difficult to recall any instance of a few states coming together to voice their concern over the terms of reference (ToR) of a finance commission. On Tuesday, finance ministers of Karnataka, Kerala, Andhra Pradesh and Puducherry came together at a conclave in Thiruvananthapuram to point out that the ToR of the 15th Finance Commission violated the principles of federalism. The ministers said using the 2011 Census data for determining the division of taxes between the Centre and the states and the allocation to each state would lead to their governments losing out to their counterparts in the North, which have a larger population. These developments are disquieting.

Finance Minister Arun Jaitley has explained that the ToR rightly balances the “needs” represented by the latest Census and “progress towards population control”. One of the mandates of the 14th Finance Commission was to use the population base of 1971 for determining the devolution of taxes, duties and grants while also taking into account demographic changes that had taken place since 1971. Accordingly, the 14th Finance Commission assigned a weightage of 17.5 per cent to the 1971 Census data and 10 per cent to the 2011 population figures. To insist that the current finance commission use dated data is unfair. Besides, the process of updating the data used had started with the 14th Commission. Also, the challenge of designing performance-based incentives is in line with the commission’s mandate. However, these designs will need to factor in political economy constraints, especially the priorities of state governments, some of which may be deemed populist measures by the commission. It is wise to remember that the incentives and measures the 12th Finance Commission introduced while making allocations did help to enhance fiscal discipline in many states thereafter. However, these are politically fraught issues that the commission and the states need to negotiate.

The framing of the debate in the conclave of southern states comes against the backdrop of a slowdown in growth and revenue buoyancy. The country’s fiscal framework itself has undergone a significant change with the implementation of GST. The charge of bias against the southern states may be unfounded, since rarely has there been a deviation of more than 0.5 per cent from the mean shares across finance commissions. Any finance commission will have to be sensitive to the need to ensure equal treatment to states, in various stages of development and with varied fiscal capacity, while also balancing the need to reward efficiency and the short- and long-term implications for public finances. That has never been easy, even in the best of times.

Building India's talent base

With limited resources and time, it is crucial for States to assess which skills policies will make the biggest impact

Bjorn Lomborg is President of the Copenhagen Consensus Center and Saleema Razvi is Senior Research Adviser for India Consensus

When India found itself at the 103rd position in the recent World Economic Forum ranking of 130 nations on the preparedness of talent, it was just another indication of the skills challenge. In just five years, the government's skill gap analysis report estimates that an extra 40 crore workers need to be skilled, reskilled or upskilled. The current official estimate is that slightly more than half a crore people are being trained annually.

Measuring policy impact

Policymakers are responding swiftly. But with limited resources and time, which skills policies will make the biggest impact? New research commissioned by Tata Trusts and the Copenhagen Consensus Center for the India Consensus projects, 'Andhra Pradesh Priorities' and 'Rajasthan Priorities', helps answer that question for the two States.

No State has the resources to do everything. It is crucial to identify where decision makers can achieve the most good. The Copenhagen Consensus has worked with hundreds of stakeholders to identify the best policies in more than 40 different areas for each State, ranging from education and child marriage to agricultural performance and disaster management. Economists from India and around the globe are now analysing the costs, benefits and impacts of these policies.

In its totality, the new research will highlight for each State which policies can make the biggest difference for every rupee spent. But already the research casts a bright light on what can be done within a specific policy area. For example, three authors from the Sunay Policy Advisory have undertaken an analysis of three skills policies.

In Andhra Pradesh, the skills challenge is clear: more than 97% of the 21 lakh individuals expected to join the workforce between now and 2022 will be totally or partially unskilled according to the National Skill Development Corporation. To meet demand, Andhra Pradesh needs to skill about half its workforce (or 10.5 lakh people) entering the labour market by 2022. Andhra Pradesh has also undertaken an integrated skilling initiative, and the Andhra Pradesh State Skill Development Corporation (APSSDC) has been established as a public-private partnership with the hope of skilling two crore people in 15 years.

The new research can help policymakers by focussing on one important question: What is achieved with each additional rupee spent by A.P. on each skills policy?

SME loans

The first policy examined is the provision of loan assistance to small- and medium-enterprises (SMEs) to encourage expansion and job creation. This may seem a roundabout route to up-skilling, but as a powerhouse of SMEs (like many Indian States), Andhra Pradesh can create jobs by supporting their

growth and development. Research suggests that every rupee of loan will increase SME profit by about ₹0.89. Factoring borrowing costs, administration fees and default rates, it costs ₹16 for every ₹100 loaned. The researchers conclude that each rupee would generate benefits to the economy worth ₹5.6 — a solid return on investment.

But to compete on a global stage, Andhra Pradesh needs direct upskilling policies. One approach studied is apprenticeship schemes that combine vocational education with work-based learning. For the employer, the cost is ₹1.5 lakh, including salary, supervision, training and administration. The government spends another ₹0.2 lakh reimbursing employers and on marketing. The individual misses out on about ₹0.16 lakh in income during the apprenticeship. The total cost to everyone involved for one apprenticeship is approximately ₹1.9 lakh.

The employee receives a substantial income increase over her working life, worth about ₹11.2 lakh. The employer benefits to the tune of ₹2.2 lakh, by having a more productive and job-ready workforce, increased revenue, and savings from having to recruit. Total benefits are ₹13.4 lakh. Therefore, every rupee spent on a year-long apprenticeship programme is worth ₹7.2 to the A.P. economy. This is even stronger than supporting SMEs in generating societal benefits.

Finally, the authors look at expanding the current vocational training programme to incentivise more people to join. This is job-specific, technical and hands-on. A similar analysis is undertaken: this time, the cost for each apprenticeship, both public and private, is about ₹0.46 lakh. The results are marked: an individual will earn ₹7.2 lakh more over her lifetime. This accounts for expected income growth as well as changing workforce participation and unemployment. The analysis reveals that benefits to society are 16 times higher than the costs. Spending ₹1 to generate ₹16 in benefits to society is a very compelling investment.

Demographics and economic realities differ for each State in India: research conducted for Rajasthan found that while skilling is broadly a good investment, the pay-offs are different. Vocational training, for example, has less of an impact than in A.P. This research highlights the strong case for A.P. to invest more in expanding access vocational training programmes and the need to study the costs and benefits of skills policy options across India.

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Heed the federal framework

The Finance Commission must respect principles of equity and fairness in allocating resources between Centre, States

Pinarayi Vijayan is the Chief Minister of Kerala

Most federations in the world have arrangements for the mobilisation and devolution of resources. In India, the Constitution provides for the appointment of a Finance Commission every five years to recommend methodology to share resources such that the fiscal space of the constituents, especially the States, is well protected.

The terms of reference of the 15th Finance Commission are thus a matter of utmost importance to the resources available to the States of India. The terms of reference of this Commission have created apprehension among States about principles of fairness and equity in the distribution of public resources for development. This article deals with some general matters of principle in this regard.

Vital for unity

First, Article 1 of the Constitution of India recognises India as a Union of States. The unity of India can be preserved only if there is real fairness and equity in the matter of devolution of powers and resources to the States by the Central government. The foremost objective of the Finance Commission is an equitable distribution of financial resources between the two units of the Union.

Even a cursory glance at the State List in the Seventh Schedule of the Constitution shows that in the allocation of duties between the Centre and the States, fundamental tasks of enhancing human development, income growth, livelihoods, and protecting and sustaining the environment are entrusted to the States. However, although these major tasks of nation-building are the duty of the States, the resources to finance them are substantially controlled by the Centre.

I emphasise this point: the States in India today neither have the resources to fulfil their tasks as laid down in the Constitution, nor do they have the right to raise such resources. The present situation is not because of the action or inaction of the States but is directly the consequence of Central government policy.

There is thus a great asymmetry in India's federal system. The Centre's capacity to mobilise resources is far greater than that of the States, but the latter are required to undertake development expenditures that far exceed their revenue generating capabilities. The Constitution of India entrusts the Finance Commission with the responsibility of addressing this anomaly. So the basic mandate of the Finance Commission should be seen as that of deciding an appropriate quantum of unconditional devolution of resources from the Centre to the States, combined with more specific grants.

The devolution of resources by the 15th Finance Commission assumes further significance in the current environment, in which the finances of States have received a double blow in the form of demonetisation and the Goods and Services Tax (GST). The freedom of States to raise resources has been restricted by the introduction of the GST. They now have hardly any major tax left with them to make a difference to State resources.

Demographic differences

Second, using the population data of 2011 as the base for tax devolution should not reduce the allocation of resources to States that have successfully reduced their rate of population growth. These States have incurred huge fiscal costs in order to achieve a lower population growth and healthy demographic indicators. They have made substantial investments on education, health and directly on family welfare programmes. Bringing down the rate of growth of population does not mean less expenditure for States. On the contrary, it creates new commitments by the States to those in the labour force and to senior citizens.

Many States of India today have achieved a replacement rate of growth of population or have gone below that rate in a short span of time. An immediate effect of this is a sharp rise in the proportion of elderly in

the population. The care of the elderly is the responsibility of State governments. The enhanced costs of such care must be considered by the Commission in making its awards and in deciding the population criterion to be used.

Third, the current terms of reference go far beyond the constitutional mandate of the Finance Commission. Indeed, they intensify efforts to use the Finance Commission as an instrument of fiscal consolidation and to impose the ideological and economic agenda of the Central government on the States. It is not the task of a Finance Commission to recommend “road maps for fiscal management” or to impose its perception of what policies are good for the people of the States. That is for democratically elected State governments to decide.

Fourth, this blatant interventionism finds further and dangerous expression in a statement that should not find a place in any list of terms of reference, that is: “the Commission may also examine whether revenue deficit grants be provided at all.” Revenue deficits are offshoots of the path of development followed by States and cannot be brought down in the short term. For instance, Kerala’s human development achievements are built on its investments in the people – in social sectors, health and education in particular. Public expenditure on them is a large part of the government spending and it has not been easy to bring down revenue deficits despite higher tax efforts. To discontinue post-tax devolution of revenue deficit grants would go against the principle of cooperative federalism.

Fifth, the terms of reference explicitly privilege the “committed expenditures” of the Centre. We should request the Commission to affirm its constitutional status and responsibility by upholding federalism and fiscal autonomy of the States. The Finance Commission should not take a “residual approach” to the question of vertical devolution. The approach should not be that of distributing what is left over after providing for the requirements of the Centre.

Ideological agenda

Sixth, the terms of reference are unprecedented in asking the 15th Finance Commission to consider proposing performance-based incentives beyond those relating to fiscal responsibility, population and devolution to local bodies. This reflects the viewpoint and ideological inclinations of the Central government and is an attempt to micro-manage the fiscal domain of the State governments. Let us not forget that in many spheres of activity, States have set the agenda for development. These sectors include health, education, forest management, public distribution of food, agricultural production — the list goes on. Such development was not because the concerned States received Central incentives. Best practices were created on their own initiative.

Thus, for the Finance Commission to propose “measurable performance-based-incentives” is nothing short of an attack on the federal structure mandated by the Constitution. It is not the duty of the Finance Commission to venture into the realm of day-to-day governance. The elected governments of States will decide what policies are appropriate for our people.

It is also not for the Finance Commission to declare this or that policy as “populist”. Any measure, from welfare pensions for the poor and weaker sections of the society to food assistance, can be termed as “populist” and recommended to be curtailed. This strikes at the root of a democratic polity in which State governments are free to implement welfare measures, albeit within conditions of fiscal responsibility.

The fiscal argument

Seventh, it is not correct that the fiscal space available to the Centre has shrunk following the 14th Finance Commission recommendations. The argument today that an increase in devolution from 32% to 42% led to a reduction of the fiscal space available to the Union government is not borne out by the evidence. In practice, when implementing the award of the 14th Finance Commission, the Union government cut allocations to several Centrally Sponsored Schemes in 2015-16. The cutback was almost equal to the amount received by the States as a whole on account of the rise in share of taxes and duties. Thus, there was no squeeze of the fiscal space available to the Union government, because it had protected itself. In fact, the total resources devolved from the Union to all States put together has been declining as a share of GDP for some years now. There is no ground for reducing the share of States in the vertical devolution. The presumption now appears to be that the relative responsibility for development is shifting from the States to the Centre. Such a presumption, if accepted by the Commission, would shrink the fiscal space of the States and expand that of the Union government. India's great wealth rests in its diversity. To recognise this diversity is also to recognise that States will follow diverse paths of development. The Finance Commission must facilitate diversity and a democratic path of development by respecting principles of equity and fairness in allocating resources between the Centre and States in India.
