

Towards a New Federal Architecture: Issues and Challenges

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Abstract
Though India is wedded to a federal structure, its underbelly is often tormented by centre state discords. The bonanza from the 14th Finance Commission (FC), dismantling of the Yojana Bhawan by a Niti Aayog and the likelihood of Goods and Services Tax (GST) passing legislative muster have germinated hopes for a cooperative federalism. The paper brings out the innards of dichotomy that are on display in Human Development Index (HDI) and Gross Domestic Product (GDP) growth, multidimensional deprivations in the rural hinter land and heartless reduction in allocation to critical social sector programs like Integrated Child Development Scheme (ICDS). While the paper highlights the likely benefits that will flow out of GST legislation, it argues for the bolstering our regulatory mechanism, fostering transparent competition and ensuring accountability of all stakeholders so that unregulated free market promote crony capitalism.
Keywords: FC, GST, GDP, HDI, ICDS, NITI AAYOG

INTRODUCTION

The federal fabric of Unitary India has often been frayed by the subterranean tensions in Centre State Financial Relations. Various commissions like the Sarkaria Commission (1983), National Commission to Review Working of Constitution (2002) and Second Administrative Reforms Commission (2005) have tried to address these concerns with scant success. However, the substantial increase in allocation by the 14th Finance Commission lately and the likelihood of GST legislation passing muster have brought to the centre stage the **concept of cooperative federalism**. The other area which is causing concern is the dichotomy between high growth and poor human development indices after liberalization in India. This paper tries to analyze-

(a) *Growth & Development Disconnects after liberalization*
(b) *Socio Economic Survey of India's Villages & the Inter-State Variation*
(c) *Impact of 14th Finance Commission & Budget on Cooperative Federalism*
(d) *Implication of dismantling Planning Commission and GST Legislation*

INDIA'S GROWTH AND DEVELOPMENT DISCONNECT

India has wisely abdicated its addiction for Fabian Socialism and embraced a broad modicum of free market approach. This has dismantled the License, Quota, Permit regime; which was fostering corruption, favoritism and inefficiency. However, the growth story of the two periods presents a dissonance which deserves effective policy intervention.

Table-1: Growth & Development after Liberalization

PARAMETER	1980-1989	2000-2015
GDP Growth	5.5	7
Saving as % GDP	23.6	31
Exports as % GDP	13.1	20
FE Reserves ($B)	30	350
Mean Year of Schooling	3.5	4.4
Infant Mortality Rate (1000)	53	44
Maternal Mortality Rate (1 Lakh)	260	200
Human Development Index	0.563	0.586

It would be clearly evident that while our achievement is rather dismal in terms of **human development (4%), while the increase in growth rate is significant.** Most of the EME, like South Korea & China, who became independent around the same period, show a very high level of HDI (0.9 to 0.8), in contrast to India's (0.58), besides significantly increasing in their per capita by embracing free market approach. India's growth story is further exacerbated by drastic cuts (50%) in social sector allocations in ICDS. **This is seriously affecting basic nutritional needs of 7 crore children and 1.5 crore lactating mothers.** This displays a clear dichotomy between higher growth trajectory and higher social justice which India tries to achieve.

THE RURAL GROWTH STORY

Around 895million live in the villages constituting 70% of India's population. The SECC-2011 survey has come to the conclusion that **60% of rural population are deprived multi-dimensionally in terms of landlessness, high incidence of casual employment and poor access to credit as the following table would show:**

Table-2: Major All India Findings (Rural)

Parameter	% of Households
Land less & Casual Labour	38.3%
Illiterates	36%
Government & PSU Jobs	5%
Private Sector Jobs	3.6%
Destitute	0.4%
Income Less than Rs.5000	74.5%
Owning Mobiles	68.3%
Kisan Cards	3.6%

Source: SECC Report 2011

The most disquieting aspect of the above is that nearly **three fourth of the population do not earn minimum wage, and 96% do not have access to credit for kisans of Rs.50,000**. The endemic farmer suicide also reflects our cross insensitivity to poor who are bereft of proper social security architecture. The report also brings out new insights in regard to movable and non movable assets in our rural hinter land.

Table-3: Asset Ownership Profile Movable and Unmovable (Rural)

States	% with no Land	Mechanical Equipment	Irrigation Equipment	Kisan Cards	Refrigerator
All India	56	4.1	9.8	3.6	11
Punjab	65	16	23	8.2	66.4
Odisha	54	0.9	1.6	1.5	4.8
Bihar	65	2.5	5.2	2.4	2.6
Gujarat	55	8	13.6	2.5	16.1
Kerala	72	0.36	4.3	0.6	41.5

Source: SECC Report 2011

It would be seen from the above that states like **Punjab have very high degree of asset ownership; both in terms of tractors, diesel motors as also refrigerates**. Gujarat has also improved significantly in terms of agricultural assets which has contributed to significant growth in agriculture (7%) compared to other states (3%) as brought out by Dr. Ashok Gulati (2009). On the other hand, BIMARU states like Odisha and Bihar languish on all parameters of asset ownership.

14^{TH} FINANCE COMMISSION AND THE CHANGING FISCAL ARCHITECTURE

The Centre State Finance Relations have always been bumpy; largely due to inadequacy of internal resources of the state governments compared to their needs. While the finance commission as a constituent body (Article 280) evolves parameters for vertical and horizontal devolution of funds and grants in aid, the states are generally critical that the previous finance commissions have devolved around 30% of taxable resources of the Centre to the States. The **Fourteenth Finance Commission has been a watershed in Centre State fiscal architecture,** as it has not **only transferred 42% of central taxable resources to the states as against 32% earlier, it also seeks to meet both plan and non plan gaps of the state governments with greater equity as the leitmotif of devolution package**.

The comparative profile of the criteria and allocation made by the 13^{th} & 14^{th} Finance Commission would buttress the above contention.

Table-4: Comparative Criteria for Fiscal Devolution

CRITERIA	13^{th}	14^{th}
Population 1971	25	17.5
Population 2011	-	10
Fiscal Capability Distance	47.5	50
Area	10	15
Infrastructure	-	-
Tax Efforts	-	-
Fiscal Discipline	17.5	0
Forest cover	-	7.5
Devolution % from gross tax revenue	**32%**	**42%**

Source: 13^{th} & 14^{th} Finance Commission

The additional resources to be received by the states due to the 14th FC is **roughly of the order of Rs.2.14 lakh crore (including grants in aid).**

One notices that with NDA government in saddle, significant changes in the share of centre and states in the matter of resource sharing of a few flagship programmes as under-

Table-5: Changing Cantors between Centre and State – Social Sector Schemes (Rs. Cr.)

Scheme	2013-2014			2014-2015			2015-2016		
	Centre	State	Total	Centre	State	Total	Centre	State	Total
ICDS	16253	-	16253	16519	-	16519	8599	8245	16844
Swachh Bharat	-	-	-	11938	-	11938	6000	6000	12000
SSA*	14469	-	14469	15313	-	15313	19800	-	19800
MDM*	6413	-	6413	6395	-	6395	7775	-	7775

*Note- * Schemes covered under RTE Act (Art 21A)*
Source-Budget 2015-2016

As would be seen from the above table, in programs like SSA and MDM, **which come under the purview of Right to Education Act (RTE);** the central government has not tinkered with its resource allocation. However, **in other programme like ICDS, Drinking water and Sanitation** the central government has **abdicated its responsibility significantly.** It would useful to recall that SC has been amplifying the scope of Right to Life (Article 21) by impressing on the responsibility of the state to ensure **Right to Accessing Drinking Water, Right to Good Health and Right to Shelter. These Second Generation Rights were taken to a new level of sensitivity in PIL filed by PUCL against UOI (2004) where the SC directed the States to increase the Anganwadi centres to 14 lakhs and improve the norms for supply of nutritious food costing Re.1/- only (fixed in 1991).** This has led to universal application of this scheme which provides nutritional coverage to children below 6 and to expectant and lactating mothers number about 50 million.

Despite such clear directives by the highest court it's **surprising that budget 2015-2016 has whittled down its allocation commitment to served social sector programs.** Prof. Abhijit Sen, who was a member of the 14th Finance Commission, in a dissenting note, had observed that **"the recommendations are bound to disrupt existing plan transfers, with likely very serious effects in the first year of the award period".**

IMPACT OF NITI AYOG & GST ON CENTRE STATE RELATION

India adopted a Soviet model top down centralized model by instituting a Planning Commission in 1950 which allocated close to 30% of Central government resources to the States. While some of the plan allocation to less developed states was based on the Gadgil-Mukherjee formula, close to **70% of the centrally funded schemes lacks transparent criteria**. More so, since the grass root Planning Committees are not functioning properly, very often political considerations outweigh economic logic. There is a broad consensus that the replacement of the old planning behemoth with a Think Tank like NITI Aayog to advice on major policy issues with great involvement of States in the macro policy process is a welcome change. The Debroy Committee's recommendation to improve viability of the Railway sector is indicative of the refreshing approach.

GST is expected to be a game changer for **evolving a national common market**. It would be logical culmination to CENVAT by subsuming a number of taxes by preempting the cascading impact. Most importantly, it would be destination based and would be simple to implement. The NCAER (National Council of Applied Economic Research) has calculated that the GST with a cap of 18% is likely to improve our GDP by 1.7%. It would also increase our exports significantly **improve compliance and increase tax base**. This would, however, require a robust IT architecture. The two- tier GST system presently proposed for the States and Centre would need to be unified eventually. Hopefully it will get approved by the Parliament, as economic logic should not be sacrificed at the altar of political opportunism and slug fest.

CONCLUDING THOUGHTS

India adopted a unitary form of government in 1950 with a federal spirit, where the states would enjoy a high modicum of autonomy in governance. Over the years India's growth story has witnessed wide inter-state variations. States like Tamil Nadu, Gujarat and Maharashtra have become industrially more advanced than other states. Punjab and Haryana have a head start over most of the states in terms of agricultural growth and productivity. Only a few states have become IT hubs like Karnataka and Andhra Pradesh. There is also a valid perception that there is a huge disconnect between the high growth trajectory after 1990s and near stagnant social sector prompting Prof. Dreze to observe **"Sending rockets to Mars and running bullet trains but remaining a third world country as far as social services is concerned seem to be an odd view". There is a definite need for convergence between access, affordability and quality in education, health and sanitation**. The present emphasis on massive infrastructural development and building manufacturing zones to create additional 10 million jobs is a step in the right direction. Greater allocation to the states by the finance commission, **moving away from centralized politics based planning**, GST are also a welcome directional shift. However, an unfettered market, as Prof. Joseph Stiglitz observes, will lead to "**more monopoly power, more abuses in the financial sector and imbalanced trade relations**". It is only through **reform of our democratic institutions, making them more accountable to all of the people**, **more reflective of their interest** will heal the great income divide that afflict India and impede relationship between different communities and seriously affect inter-state relationship. Cooperative federalism must rest on the **canopy of shared prosperity where effective regulation, transparent competition and accountability pave the way for truly cooperative federal architecture and unregulated free market economy does not promote crony capitalism.**

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