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THE KEY STRATEGY IS FISCAL EMPOWERMENT OF STATES

Relevant for: Environment | Topic: Disaster and disaster management

The scale of disruption caused by the COVID-19 pandemic has never been seen before. Even as we are in the midst of the second phase of the national lockdown, there is no clarity on the time it will take to come out of the crisis, the extent of damage it will inflict, and the cost of relief and rehabilitation required. At a time when governments, both at the Centre and in the States, are fiscally stressed, the pandemic has forced them to undertake huge expenditures to save lives, livelihoods and reduce distresses and even more, to create a stimulus to revive the economy as we map the exit strategy.

The speed of economic revival will depend on how long it will take to revive economic activities and the volume of stimulus through public spending the government is able to provide. It now appears that the lockdown will be lifted in stages and the recovery process will be prolonged. The country is literally placed in financing a war-like situation and the government will have to postpone the fiscal consolidation process for the present, loosen its purse strings and finance its deficits substantially through monetisation. This is also the time for the government to announce relaxation in the States' fiscal deficit limit to make them effective participants in the struggle. It is also important for the States to realise the importance of health and prioritise spending on health-care services.

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Being closer to the people, the States have a much larger responsibility in fighting this war. Public health as well as public order are State subjects in the Constitution. In fact, some States were proactive in dealing with the COVID-19 outbreak by involving the Epidemic Diseases Act, 1897, even before the Government of India declared a universal lockdown invoking the Disaster Management Act, 2005. Of course, the Centre under Entry 29 of the Concurrent List has the powers to set the rules of implementation which states, “Prevention of the extension from one State to another of infectious or contagious diseases or pests affecting men, animals or plants”. While Central intervention was done to enable, “consistency in the application and implementation of various measures across the country”, the actual implementation on the ground level will have to be done at the State level. Furthermore, States are better informed to decide the areas and activities where relaxations should be done as the coronavirus curve is flattened. Hopefully, there will be better coordination between the Union and State governments instead of claiming credit and apportioning blame (see https://bit.ly/3bDauiF).

The acute shortage of protective gear, testing kits, ventilators and hospital beds has been a major handicap and the immediate task of States is to ramp up their availability and supply. In addition, the disruption caused by the lockdown has caused untold misery, and providing relief and rehabilitation to migrant labourers and informal sector workers had to the focus. The pandemic has underlined the historical neglect of the health-care sector in the country. The total public expenditures of Centre and States works out to a mere 1.3% of GDP. In 2017-18, in per capita terms, the public expenditure on medical and public health varied from an abysmal 690 in Bihar and 814 in Uttar Pradesh to the highest of 2,092 in Kerala. The centrally sponsored scheme, the National Health Mission, is inadequately funded, micromanaged with grants given under more than 2,000 heads and poorly targeted. The focus of “Ayushman Bharat” has been to advocate insurance rather than building wellness centres.

Besides protecting lives and livelihoods, States will have to initiate and facilitate economic revival, and that too would require substantial additional spending. Hand holding small and medium enterprises which have completely ceased production, providing relief to farmers who have lost their perishable crops and preparing them for sowing in the kharif season are other tasks that require spending. In fact, States have been proactive. Kerala came out with a comprehensive package allocating 20,000 crore to fight the pandemic. Almost all States have taken measures to provide food to the needy besides ramping up health-care requirements.

While the requirement of States for immediate expenditures is large, they are severely crippled in their resources. In the lockdown period, there has virtually been no economic activity and they have not been able to generate any revenue from State excise duty, stamp duties and registration fees, motor vehicles tax or sales tax on high speed diesel and motor spirit. The revenue from Goods and Services Tax is stagnant and compensation on time for the loss of revenue has not been forthcoming. In Karnataka for example, it is reported that as against the estimated 12,000 crore every month, the State may not be able to generate even 300 crore in April. As the recovery process will be staggered, it is doubtful whether tax revenues will register any positive growth in 2020-21. Not surprisingly, the State has decided to monetise land through auctions to get money besides regularising unauthorised constructions by paying high fees.

The position regarding tax devolution from the Centre is even more precarious. To begin with, the tax devolution in the Union Budget estimate is lower than the Commission's estimate by 70,995 crore. In fact, the Budget estimate for 2020-21 itself is a huge overestimate when seen against the 11-month actual collections in 2019-20. The required growth to achieve the Budget estimate is 33.3% over the annualised actual collection. The projections are that the growth of nominal GDP in 2020-21 will be just about 4% and if the tax revenue increases by the same rate, devolution to the States would be lower by 2.2-lakh crore than the Finance Commission's estimate. This results in a loss of 9,173 crore for Tamil Nadu, 9,000 crore for Andhra Pradesh, 8,000 crore for Karnataka, 4,671 crore for Telangana, and 4,255 crore for Kerala. There is a strong case for the States to go back to the Finance Commission with a request to make and give a supplementary report.

The war on COVID-19 can be effectively won only when the States are armed with enough resources to meet the crisis. But as mentioned earlier, they are faced with stagnant revenues while their expenditure commitments are huge. There is only limited scope for expenditure switching and reprioritisation now. Their borrowing space too is limited by the fiscal responsibility and budget management limit of 3% of Gross State Domestic Product (GSDP). Faced with an acute fund crunch, Kerala floated 15-year bonds but was faced with a huge upsurge in the yield to 8.96%. The announcement by the Reserve Bank of India on the increase in the limit of ways and means advances by 60% of the levels prescribed in March 31 could help States to plan their borrowing better; but that is too little to provide much relief. Therefore, it is important for the Central government to provide additional borrowing space by 2% of GSDP from the prevailing 3% of GSDP. This is the time to fiscally empower States to wage the COVID-19 war and trust them to spend on protecting lives, livelihoods and initiate an economic recovery.

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