

'CHALLENGE FOR THE PANEL IS WE DON'T KNOW WHAT THE RESOURCES ARE'

Relevant for: Indian Polity & Constitution | Topic: Finance Commission

The Chairman of the Fifteenth Finance Commission, **N.K. Singh**, says that though the Commission will have to take the 2011 census as the base year for population, it could use a combination of variables to ensure that performance and efficiency on part of the States are not penalised, while at the same time ensuring that considerations of equity are suitably addressed. Excerpts from an interview:

Some States have argued for the use of the 1971 census to consider population. Your view?

The Presidential notification on the Terms of Reference (ToR) of the Commission says that wherever we have to use population we have to use 2011 as the base year. Nonetheless, there are several things open to us.

Naturally, those States where there has been improved demographic management have argued that the 2011 census is not rational or fair to them. And those States where population base is large have argued that population must be [taken] as it is today.

And their needs for roads, education, health ... the fact is whatever the legacy issues, these are people as is where is now, and therefore have argued that it's quite fair to use the later population base.

The wording of the ToR of the 14th Finance Commission gave it some latitude and it therefore chose to give 27% weightage to population – 17% and 10%, ie 10% for the later 2011 population and 17% for the earlier one.

This time, perhaps the wording does not allow that degree of latitude; but there is a reference in the ToR of suitably incentivising States which have achieved better demographics management. One can use a combination of variables to try and see that performance and efficiency is not penalised while at the same time ensuring that considerations of equity are suitably addressed.

How important is it that political parties are aligned?

It came as a pleasant reminder, whenever we visited the States. Apart from meeting governments, we have met representatives of all political parties across the spectrum.

And all political parties, invariably, have signed a common memorandum that invariably articulates the viewpoint contained in the State government's memorandum.

Political parties have come to the conclusion that this is in the interests of the State, that they must sink their political differences and put their strength behind the point of view articulated by the State in the memorandum submitted to the Commission.

What is the biggest challenge for the Commission?

Right now, the most important challenge for the Commission is that we don't know what the resources are because of several factors. First and foremost, the GST itself.

GST does mean a case of pooled sovereignty. So a State government's flexibility in calibrating their excise rates to meet their targets has now been submerged in the GST.

So the manoeuvrability of States to address their revenue deficit issues through additional revenue measures have to that extent got circumscribed, so they have to look at non-tax revenues in being able to garner this. Second, as GST rates have been changed several times and their structure has been changed several times, we need to wait for figures at the end of the current fiscal year, to make projections – and don't forget, we have to make projections for the years 2020 to 2025 – and therefore what revenue buoyancy numbers would be reasonable and consistent with actual performance is the key variable of how much resources we have.

The second challenge is that we are awaiting eagerly the memorandum of the central government, which we hope will be available by this month and which would tell us what the expectations of the central government are in terms of the obligations and responsibilities they have for the vertical distribution formula – which is the first thing we have to decide, the split between the Centre and the State.

Last year, in the notification issued by the Ministry of Finance, they have made Centrally Sponsored (CS) schemes have a sunset clause that is co-terminus with the cycle of the Finance Commission.

This is a very important change, that the open ended Schemes in a major rationalisation taken up last year, all now have a sunset clause, unless specifically so indicated — like the Pradhan Mantri Gram Sadak Yojana has just been extended to 2022-23. This clause means that for the continuation of the schemes in the next Commission cycle, they must be reviewed and some conclusion on their continuation must be reached. We hope that when we receive the memorandum of the central government, not only the issue of Central outlay but also on the issue of CS schemes, there is some thought to be given which will be of some value to us.

CS schemes are a jungle, in the sense that all attempts at trying to rationalise them have only met with partial success.

I think the PM did, in the initial stages, recognise the problem.

He set up a committee under Shivraj Singh Chauhan which suggested the rationalisation of the CS schemes which was accepted by the council, classifying them as 'core of the core' and 'the core and the optional'. But they have umbrella schemes and under the umbrella, most of the schemes that existed before have resurfaced.

This is a case in which small sums of money [are allocated] with huge establishment costs.

Many of them are there, and there is a great need to rationalise them. The 14th Finance Commission had hoped that when they made 32% into 42% one of the assumptions was that there would be a significant a rationalisation of these myriad CS schemes, many of which may have lost contemporary relevance; unfortunately that did not happen and that is part of the problem.

You had talked of incentivising States for acting on pollution...

We are getting some research done by The Energy Research Institute of India(TERI) and other international organisations for developing a composite environmental index. In such an index, the ease of not merely business, not merely life, but let's say, ease of breathing is an interesting thought and we are trying to see whether we can develop criteria of measuring that. Data on

pollution levels, particularly in urban areas, is quite available and [we have to see] whether that can be made a variable in a composite environmental index which somewhat broadens the forest cover without penalising States that have forest cover.

We are [even] trying to see whether we can develop criteria for measuring ease of breathing

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