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FEDERALISM AND INDIA'S HUMAN CAPITAL

Relevant for: Indian Polity | Topic: Devolution of Powers & Finances up to Local Levels and Challenges therein - Panchayats & Municipalities

Investing in human capital through interventions in nutrition, health, and education is critical for sustainable growth. But India's human capital indicators remain low. In the World Bank's Human Capital Index, the country ranked 116th. The National Family Health Survey-5 for 2019-20 shows that malnutrition indicators stagnated or declined in most States. The National Achievement Survey 2017 and the Annual Status of Education Report 2018 show poor learning outcomes. In addition, there is little convergence across States. This is a cause of concern as these statistics could worsen due to the COVID-19 pandemic.

Several government initiatives have been launched to address these issues. The National Health Policy of 2017 highlighted the need for interventions to address malnutrition. On the basis of NITI Aayog's National Nutrition Strategy, the Poshan Abhiyaan was launched, as part of the Umbrella Integrated Child Development Scheme. The latest Union Budget has announced a 'Mission Poshan 2.0' and the Samagra Shiksha Abhiyan has been the Centre's flagship education scheme since 2018. However, India spends just 4% of its GDP as public expenditure on human capital (around 1% and 3% on health and education respectively) — one of the lowest among its peers.

Editorial | Discouraging numbers: On National Family Health Survey 2019-20

International experience suggests that one reason why these interventions are not leading to better outcomes may be India's record with decentralisation. Globally, there has been a gradual shift in the distribution of expenditures and revenue towards sub-national governments. These trends are backed by studies demonstrating a positive correlation between decentralisation and human capital.

In recent years, India has taken some steps towards decentralisation. The Fourteenth Finance Commission increased the States' share in tax devolution from 32% to 42%, which was effectively retained by the Fifteenth Finance Commission.

In India, three tiers of government are envisaged, with the Constitution dividing powers between the first two tiers — the Centre and the States, as per the three lists under the Seventh Schedule. While public health is in the State List, the broader subject of economic and social planning is in the Concurrent List. In 1976, education was shifted from the State List to the Concurrent List through the 42nd Amendment. The placement of a subject in the Concurrent List, in effect, indicates the presence of overarching considerations that warrant the Centre's involvement.

Comment | Needed, greater decentralisation of power

Fiscally, while the Constitution assigns the bulk of expenditure responsibilities to States, the Centre has major revenue sources. To address this vertical imbalance, the Constitution provides for fiscal transfers through tax devolution and grants-in-aid. In addition, the Centre can make 'grants for any public purpose' under Article 282 of the Constitution. While fiscal transfers that are part of tax devolution are unconditional, transfers under grants-in-aid or Centrally Sponsored Schemes (CSSs) can be conditional. Therefore, the increase in the States' share of tax devolution represents more meaningful decentralisation.

The 73rd and 74th Amendments bolstered decentralisation by constitutionally recognising panchayats and municipalities as the third tier and listing their functions in the Eleventh and Twelfth schedules, respectively. These include education, health and sanitation, and social welfare for panchayats, and public health and socio-economic development planning for municipalities. However, the Constitution lets States determine how they are empowered, resulting in vast disparities in the roles played by third-tier governments.

Despite some shifts towards greater State autonomy in many spheres, the centralised nature of India's fiscal architecture has persisted. Centrally Sponsored Schemes have formed a sizeable chunk of intergovernmental fiscal transfers over the years, comprising almost 23% of transfers to States in 2021-22. But its outsized role strays from the intentions of the Constitution. Article 282 of the Constitution is listed as a 'Miscellaneous Financial Provision', unlike Articles 270 and 275, which fall under 'Distribution of Revenues between the Union and the States'. Constitutional expert Nani Palkhivala had characterised it as more of a residuary power, opining that grants-in-aid under Article 275 as per Finance Commission recommendations are the more appropriate, regular route. The Supreme Court in Bhim Singh vs Union of India had observed that "Article 282 is normally meant for special, temporary or ad hoc schemes".

There are issues in the design of CSSs as well, with the conditions being overly prescriptive and, typically, input-based. Against this, international experience reveals that schemes with output-based conditions are more effective. Moreover, CSSs typically have a cost-sharing model, thereby pre-empting the States' fiscal space. This is incongruous, given that many CSSs cover subjects in the State and Concurrent Lists, such as health and education.

A functionally and fiscally empowered third tier would not only be more in keeping with the constitutional spirit, but also lead to better outcomes. But ironically, States, too, have been responsible for centralisation. Many States do not clearly demarcate or devolve functions for panchayats and municipalities.

Further, third-tier governments are not fiscally empowered either. The collection of property tax, a major source of revenue for third-tier governments, is very low in India (under 0.2% of GDP, compared to 3% of GDP in some other nations). The Constitution envisages State Finance Commissions (SFCs) to make recommendations for matters such as tax devolution and grants-in-aid to the third tier. However, many States have not constituted or completed these commissions on time, and hence, the Fifteenth Finance Commission has recommended no grants after March 2024 to any State that does not comply with the constitutional provisions pertaining to SFCs.

To begin with, the Centre needs to rethink the nature of its actions. It should play an enabling role, for instance, encouraging knowledge-sharing between States. For States to play a bigger role in human capital interventions, they need adequate fiscal resources. To this end, States should rationalise their priorities to focus on human capital development. The Centre should refrain from offsetting tax devolution by altering cost-sharing ratios of CSSs and increasing cesses. The unconditional nature of these vertical transfers should be effectuated in spirit. Concomitantly, the heavy reliance on CSSs should be reduced, and tax devolution and grants-in-aid should be the primary sources of vertical fiscal transfers. Panchayats and municipalities need to be vested with the functions listed in the Eleventh and Twelfth Schedules.

Leveraging the true potential of our multi-level federal system represents the best way forward towards developing human capital.

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To reassure Indian Muslims, the PM needs to state that the govt. will not conduct an exercise like NRC

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