ON AN EQUAL FOOTING

Relevant for: Indian Economy | Topic: Infrastructure: Energy incl. Renewable & Non-renewable

India has a population of about 135 crore people. It is the sixth largest economy in the world with a high growth potential. But this growth potential cannot be achieved without giving equal opportunity to every State.

The low-income States (LIS) are deprived on many fronts. They have low accessibility to credit, low investments, low power availability and accessibility, and high energy costs. The high-income States (HIS), on the other hand, have a big share in industry and commerce because they are not deprived on the same fronts. The six HIS (Maharashtra, Tamil Nadu, Gujarat, Karnataka, Andhra Pradesh and Telangana) together account for 56.4% of factories and 54.3% of the net value added to the country, while their share in population is only 32.3%. Among other reasons, this is because they have higher credit and financial accessibility (55% of total institutional credit and 56% of total industrial credit went to these five HIS) at the credit-deposit ratio. On the other hand, the six LIS (Bihar, Jharkhand, U.P., M.P., Odisha, and Rajasthan) access only 15% of total institutional credit and barely 5% of total industrial credit, while their share in population is 43%. These States together receive only 50% credit from their hard-earned savings. The maximum benefit of the Atmanirbhar package (20 lakh crore) also went to the HIS as they have a higher share in industry.

Among other reasons, the availability of adequate quality power at the cheapest rate attracts investments, either private or public, in a particular location. This is an important factor to start electricity-intensive industrial production. Of the total consumption of electricity, industry and commerce account for more than 50%. Energy India Outlook 2021 concludes: “Electricity prices vary not just among end users, but also between states, where a complex patchwork of different taxes and subsidy regimes can leave consumers in some states paying five times more for their electricity than their counterparts in neighbouring states.” This article provides two solutions in the power sector to attain higher economic growth.

The first is to eliminate price discrimination in the power sector. The power-producing States have the advantage of power, especially hydel power, being available at lower prices. This problem can be addressed by synchronising all the regional grids. This will help the transfer of energy (without compromising quality). The idea is of ‘One Nation, One Grid, One Frequency’. Further, this will pave the way for establishing a vibrant electricity market and facilitate the trading of power across regions through the adoption of the ‘one tariff’ policy. Without this policy, States with higher power purchasing costs face the difficulty of making energy traffic competitive by paying high subsidies from already scarce resources. Thus, they are unable to attract investments. The Central Electricity Regulatory Commission is in the process of implementing a framework of the Market-Based Economic Dispatch and moving towards ‘One Nation, One Grid, One Frequency, One Price’.

The second is the inclusion of electricity duty under the Goods and Services Tax (GST). Apart from uniform cost, the power sector also needs uniformity in electricity duty charged by different States. In general, the association between income and electricity consumption is direct. The HIS consume a higher proportion of electricity. According to the the Central Electricity Authority, Ministry of Power, Government of India, in 2020-21, six States consumed 50% of the total installed capacity of power. Thus, only 32% of the population used 50% of power. Contrary to this, six backward States got only 25% of the power though their share of the population is 43%. Therefore, it is clear that the substantial proportion of the power cost incurred in HIS is also borne by the LIS which buy those industrial products, as the input cost of power has already been included in the product's price. Further, this situation justifies the fact that the final costs of power consumption are also borne by other States. Thus, the electricity duty should be redistributed among the States under the ambit of GST equally shared by the CGST and SGST. However, 100% CGST should be devolved among the States through the Fifteenth Finance Commission formula, without being shared with the Centre (as electricity duty is State subject).

In order to attain higher economic growth, the States should raise the issue of uniform energy tariff and inclusion of electricity duty under the ambit of GST. This decision will benefit the whole nation through rational tax devolution and, therefore, provide the opportunity to attain higher growth.

Bakshi Amit Kumar Sinha is with the Centre for Economic Policy and Public Finance, a research unit of the Finance Department of the Government of Bihar

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