

A STIMULATING ALLIANCE: THE HINDU EDITORIAL ON ADDRESSING FISCAL WORRIES OF STATES

Relevant for: Indian Polity | Topic: Issues and Challenges Pertaining to the Federal Structure, Dispute Redressal Mechanisms, and the Centre-State Relations

The [Centre will release over 95,000 crore](#) in one stroke to States this month, Finance Minister Nirmala Sitharaman announced on Monday, after meeting with Chief Ministers and State Finance Ministers to discuss the state of the economy and to sustain the recovery from the COVID-19 pandemic. After all, no amount of central policy fixes will suffice to revive the country's long-somnolent investment cycle without States working in tandem. The Government set aside the spate of recent confrontations with States over revenue, GST compensation concerns, and their fears about 'encroachment' on their powers, to initiate an economy-focused dialogue independent of Budget consultations and GST Council machinations. Its ready acceptance of States' request to expedite the sharing of taxable revenues — as in the case of GST compensation for this year — is a token of the faith it seeks to imbue. While most States have positive cash balances, access now to double the funds than usual will help them ramp up capital expenditure. The cash flow could also help several States catch up on their capex targets, on which hinges an additional borrowing limit of 0.5% of their Gross State Domestic Product. The Finance Ministry's clarification that the excise duty cuts on petrol and diesel shall not dent the tax pool shared with States has also soothed frayed nerves.

The rare and 'one-off' meeting with CMs yielded several ideas and policy proposals, including a simple demand that the Centre share leads about prospective investors and enunciate a clear policy on green clearances. While the Finance Ministry believes that investments are on the cusp of a take-off, public investments will need to do the heavy lifting for several more quarters before the private sector can be expected to spur the economy's growth. The Centre and States need to combine forces to make it an easier and swifter journey through red tape for potential investors. Commerce and Industry Minister Piyush Goyal has said that just 10 States have joined the single window clearance system for investors, and four more may join next month. It not only makes sense to sustain this free-wheeling economic dialogue with States because the economy still needs collective hand-holding, but it also merits a broad-basing of the framework to include key economic ministries, and occasionally, the Prime Minister too. Investment facilitation was a key agenda item, so it would have been apt to include the Industry Minister in the deliberations to nudge States into joining the single window system. Closing this somewhat informal channel for dialogue with the States, outside the framework of NITI Aayog and the National Development Council, would be a wasted opportunity with embedded economic costs.

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