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UNDERMINING FEDERALISM, ERODING STATES' AUTONOMY

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

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'Most of the Centrally Sponsored Schemes are operated in the subjects included in the State list' | Photo Credit: Getty Images/iStockphoto

When the National Democratic Alliance Government (NDA) took office in 2014, there were hopes that India would move towards cooperative federalism. This was because Narendra Modi, as the Chief Minister of Gujarat, had been championing the cause of States' autonomy. This hope was reinforced when NITI Aayog replaced the Planning Commission of India with the main objective of promoting cooperative federalism.

The Cabinet Resolution of January 1, 2015 constituting the National Institution for Transforming India (NITI Aayog) has articulated, among others, that "India is a diverse country with distinct languages, faiths and cultural ecosystems... The States of the Union do not want to be mere appendages of the Centre. They seek a decisive say in determining the architecture of economic growth and development. The one-size-fits-all approach, often inherent in central planning, has the potential of creating needless tensions and undermining the harmony needed for national effort".

One of the main mandates of NITI Aayog is to foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognising that strong States make a strong nation.

It is unfortunate that NITI Aayog has not taken any major steps since its constitution to promote cooperative federalism. Contrary to its public statements on promoting cooperative federalism, the Government of India has been doing exactly the opposite. The following instances clearly demonstrate as to how the central government's policies have undermined the spirit of federalism and eroded the autonomy of the States.

It has been a well-established tradition to treat all the recommendations of the Finance Commissions relating to transfers to States as an award and a package. This tradition was broken for the first time while dealing with the recommendations of the Fifteenth Finance Commission. The Fifteenth Finance Commission, in its first report, had recommended a special grant to three States amounting to 6,764 crore to ensure that the tax devolution in 2020-21 in absolute terms should not be less than the amount of devolution received by these States in

2019-20. This recommendation was not accepted by the Union Government. Similarly, the recommendation relating to grants for nutrition amounting to 7,735 crore was not accepted. A similar approach has been followed by the Union Government with regard to grants to States recommended by the Finance Commission for the period 2021-26. The sector-specific grants and State-specific grants recommended by the Commission amounting to 1,29,987 crore and 49,599 crore, respectively, have not been accepted. This clearly demonstrates that the Union Government has undermined the stature of the institution of the Finance Commission and cooperative federalism.

The decision to treat off-Budget borrowings from 2021-22 onwards serviced from the State budgets as States' borrowings and adjusting them against borrowing limits under Fiscal Responsibility and Budget Management (FRBM) in 2022-23 and following years is against all norms. This is the first time that the Government of India is proposing to treat off-Budget borrowings as government borrowings retrospectively from 2021-22. The Government of India has indicated that such a decision is in accordance with the recommendation of the Finance Commission. In fact, there is no recommendation to this effect by the Fifteenth Finance Commission. The Finance Commission recommended that governments at all tiers may observe strict discipline by resisting any further additions to the stock of off-Budget transactions. It observed that in view of the uncertainty that prevails now, the timetable for defining and achieving debt sustainability may be examined by a high-powered intergovernmental group and that the FRBM Act may be amended as per the recommendations of this group to ensure that the legislations of the Union and the States are consistent. No such group has been appointed so far by the Centre.

The borrowings by corporations against State guarantees are mostly used for capital investment. The Centre has also been raising off-Budget borrowings but mainly for meeting revenue expenditure. The Comptroller and Auditor General of India (C&AG) Report on the Compliance of FRBM Act for 2017-18 and 2018-19 pointed out as many as eight instances of meeting revenue expenditure through Extra Budgetary Resources (EBR). Revenue expenditure met through EBR by the Centre amounted to 81,282 crore in 2017-18 and 1,58,107 crore in 2018-19. Such borrowings were not reflected in the Budget of the central government. In view of this, treating off-Budget borrowings of State corporations as States' borrowings retrospectively is totally unjustified.

The NDA government has been resorting to the levy of cesses and surcharges, as these are not shareable with the States under the Constitution. The share of cesses and surcharges in the gross tax revenue of the Centre increased from 13.5% in 2014-15 to 20% in the Budget estimates for 2022-23. Though the States' share in the Central taxes is 41%, as recommended by the Fifteenth Finance Commission, they only get a 29.6% share because of higher cesses and surcharges.

The C&AG in its Audit Report on Union Government Accounts for 2018-19 observed that of the 2,74,592 crore collected from 35 cesses in 2018-19, only 1,64,322 crore had been credited to the dedicated funds and the rest was retained in the Consolidated Fund of India. This is another instance of denying States of their due share as per the constitutional provisions.

Committee after committee appointed by the Government of India has emphasised the need to curtail the number of Centrally Sponsored Schemes (CSS) and restrict them to a few areas of national importance. But, what the Government of India has done is to group them under certain broad umbrella heads (currently 28). In addition, in 2015, the Centre increased the States' share in a number of CSS, thereby burdening States. Most of the CSS are operated in the subjects included in the State list. Thus, States have lost their autonomy.

The Sub-Committee of Chief Ministers appointed by NITI Aayog has recommended a reduction in the number of schemes and the introduction of optional schemes. These recommendations have not been acted upon.

The Centre has enacted three farm laws though agriculture is a subject listed in the State List under the Constitution. These farm laws have been enacted under Entry 33 of the Concurrent List relating to trade and commerce in, and the production, supply and distribution of foodstuffs including edible oils and oils. Though these Acts have been repealed, their enactment is against the spirit of the Constitution, and States were not even consulted while introducing these Bills.

All these instances indicate clearly that the Centre has not walked the talk on cooperative federalism. Instead, its policies have made Indian federation coercive.

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