

SPENDING ISSUES

Relevant for: Indian Polity | Topic: Finance Commission

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The writer is chairman, Economic Advisory Council to the PM. Views are personal.

There are at least three reasons for a discourse on the central sector (CS) and centrally sponsored schemes (CSSs). The difference between a CS and a CSS is that for the former, all expenditure is borne by the Union government. For a CSS, part of the expenditure is borne by the Union government. States bear the rest. The state contribution is contingent on the type of state — north east and Himalayan states versus the others. The first reason for a discussion is that the present CSS basket has an expiry date of March 31, 2020 which is co-terminus with recommendations of the 14th Finance Commission. Therefore, from April 1, 2020, we will have a new CSS basket. Indeed, we need to plan for that CSS basket in advance, since the 2020-21 Union and state budgets will need to factor in the new CSS basket. Procedurally, a CS is somewhat different from a CSS. One can argue that revamping a CS is the Union government's prerogative, while revamping a CSS, without consultation with states, is not.

Second, the ToR (terms of reference) for the 15th Finance Commission mention a re-examination of CSSs, in a way. Perhaps, one should quote that: "Achievements in implementation of flagship schemes of Government of India, disaster resilient infrastructure, sustainable development goals, and quality of expenditure." For these, and some other areas, "The Commission may consider proposing measurable performance-based incentives for states, at the appropriate level of government." And third, the Union government is taking a look at CSSs. Hence, all three triggers converge.

Note the two earlier committees: The former Planning Commission's 2001 B K Chaturvedi report on restructuring of CSSs and the Niti Aayog's 2015 Sub-Group of Chief Ministers' Report on rationalisation of CSSs. One shouldn't read too much into etymology, but "restructuring" and "rationalisation" are distinct expressions. If a mere rearrangement is done, that's restructuring of sorts.

The Chaturvedi report suggested that nine flagship schemes (MGNREGA, IAY, SSA, NRHM, and so on) should remain as CSSs, while another six schemes (JNNURM, RKVY and so on) should become CSs. Fifteen is a large enough number of schemes for public expenditure. Ideally, the Chaturvedi Report should have recommended scrapping of all others. But, that would have been too drastic, so, it didn't. So when implemented, all schemes were repackaged and retained. It was restructuring in the sense of rearrangement. The word "rationalisation" suggests more than restructuring. It implies a rationale for the continuation of existing schemes, scrapping of some, and even introduction of fresh ones.

The sub-group of chief ministers talked about implementation and divided schemes into core and optional ones. However, the core of the recommendation was the following: "The Sub-Group recommends that the existing CSS should be restructured and their number should be reduced to a maximum of 30 schemes. All these schemes would be 'Umbrella Schemes', with every scheme having a large number of components with a uniform funding pattern."

Thereafter, there are ostensibly 28 CSSs, divided into "core of the core" and "core". But these 28 are umbrella schemes and large umbrellas at that. For purposes of illustration, let me take one

scheme, the “Green Revolution” scheme, implemented by the Department of Agriculture, Cooperation and Farmers’ Welfare. A scrutiny of the Union Budget papers will tell you that this umbrella scheme covers “Rashtriya Krishi Vikas Yojana, National Food Security Mission, Agriculture Marketing, Information, Integrated Scheme on Agricultural Cooperation, Integrated Scheme on Agriculture Census and Statistics, National Agri-Tech Infrastructure, National Mission on Horticulture, National Mission on Oil Seed and Oil Palm, National Project on Agro-Forestry, National Project on Organic Farming, National Project on Soil Health and Fertility, Organic Value Chain Development for North East Region, Paramparagat Krishi Vikas Yojana, Rain-fed Area Development and Climate Change and Sub-Missions on Agriculture Extension, Agriculture Mechanisation, Plant Protection and Plant Quarantine & Seed and Planting Material.” Clearly, the figure of 28 is misleading. Counted properly, the number of CSSs depends partly on how one defines a CSS. But, the number will be close to two hundred. Clearly, this is unsatisfactory.

This issue isn’t new. At the 3rd National Development Council (NDC) meeting in November 1954, “He (Shri Hanumanthaiah) also referred to the difficulties of the states in finding resources to meet their share of expenditure on the schemes sponsored by the central government and suggested consultation with the states before directives in this regard were issued.” At another meeting on December 1956, it was pointed out that, “a large number of schemes were sponsored by other ministries also e.g. training schemes of the Ministry of Health and certain schemes for industry of the Home Ministry. The State (Madhya Pradesh) did not have money outside the Plan which could be provided to match the funds made available as Central assistance.”

In 1967, a sub-committee of the NDC was set up to examine CSSs. Some points are evident. First, given the paucity of resources, there can only be a limited number of CSs and CSSs combined, such as the Chaturvedi figure of 15. Second, there is an optimal level of governance at which public goods are best provided.

The Seventh Schedule was a product of historical evolution and circumstances and contemplated a certain structure of this optimal level of governance. It isn’t cast in stone. Why should then there be CSSs for items in the State List (such as health)? If the Union government should contribute for health because it is nationally important, why should states not contribute for defence? Third, a CSS restructuring/rationalisation debate requires a relook at the Seventh Schedule. Fourth, this can’t be done without consultation with states at an appropriate forum.

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