

EVA STALIN IAS ACADEMY - BEST IAS COACHING IN CHENNAI

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The next Finance Commission will have a tough task

The government will appoint a Finance Commission in the next few months to determine how much of the Centre's tax revenue should be given away to States (the vertical share) and how to distribute that among States (the horizontal sharing formula).

In the pre-reform period, the Finance Commission recommendations were not that critical because the Centre had other ways to compensate States, or indeed to play favourites, through plan financing and public sector undertaking (PSU) investments. Post-reforms, fresh PSU investments have thinned out and the Planning Commission was abolished in 2014 with the result that the Finance Commission remains virtually the sole architect of India's fiscal federalism. Its responsibility and influence are, therefore, much larger.

Issue will be about horizontal distribution

Currently, the Centre gives away 41% of its tax pool to the States. For sure, States will demand that this proportion be raised, but I do not see much room for stretching this further given the Centre's expenditure needs and the constraints on its borrowing limit. Therefore, much of the debate will centre on the horizontal distribution formula.

When the previous Finance Commission was appointed in 2017, its terms of reference became quite contentious because it was asked to take into account the 2011 population figures in determining the expenditure needs of a State. This was a departure from the standard practice until then of mandating Finance Commissions to use the 1971 population numbers so as not to give a perverse incentive to States to neglect family planning with an eye on a higher share of devolution. States which had done well in stabilising population growth rates, typically the southern States, protested against this change in the base year, calling it a 'penalty for good performance'.

A similar conflict arises with regard to revenue deficit grants that the Finance Commission awards to States which remain in deficit on the current account even after tax devolution. In theory, revenue deficit grants have a neat rationale – that every State in a country should be able to provide a minimum level of service to its residents even if it involves an element of cross-subsidisation. The worry is that this too has become a perverse incentive. Why bother raising



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It needs to bite the bullet in the interest of long-term fiscal sustainability and lay down guidelines on the spending on freebies

revenues on your own when the Finance Commission will compensate you?

Historically, Finance Commissions have struggled to determine how much a State's deficit is due to its fiscal incapacity and how much is due to fiscal irresponsibility. They have tried to tweak the distribution formula to support deficit States without penalising responsible States, a mathematically impossible task since you cannot give more to a State without giving less to another. The net result is that every horizontal distribution formula has been criticised as being inefficient or unfair or both.

These faultlines across States have in fact deepened in recent years along political, economic and fiscal dimensions. When the Bharatiya Janata Party (BJP) lost the Karnataka election last month, many political commentators read that as a north-south divide, with the BJP being confined to the northern States while the Opposition parties rule the southern States. Similarly, many headline numbers suggest that the southern States of the country are doing better in terms of infrastructure, private investment, social indicators and the rule of law, which has put them on a virtuous cycle of growth and prosperity and widened the north-south gap.

The bottom-line though is that it is in the very nature of horizontal distribution that richer States compensate poorer States. How to ensure that this happens without deepening the divide will challenge the government in defining the terms of reference of the Finance Commission, and of the Finance Commission itself in delivering on those terms of reference.

Cesses and surcharges

The terms of reference of the Finance Commission enjoin it to take into account the expenditure needs and revenue earning capacity of the Centre and States. I believe the forthcoming Finance Commission should use this leverage to focus on two issues in particular.

The first is the egregious practice by the Centre of increasingly resorting to a levy of cesses and surcharges rather than raising taxes. A white paper released by the Tamil Nadu government a couple of years ago pointed out that the proportion of cesses and surcharges in the Centre's total tax revenue had nearly doubled from 10.4% in 2011-12 to 20.2% in 2019-20.

There is a perverse incentive in operation here. The straightforward option for raising revenues is to raise taxes, but if the Centre does

that, it has to part with 41 paise to States. On the other hand, if it raises the additional rupee by way of a surcharge, it gets to keep all of it. When the Constitution was amended in the year 2000 giving States a share in the Centre's total tax pool, the implicit understanding was that the Centre will resort only sparingly to cesses and surcharges, and not as a matter of routine as has become the practice. As a result of this breach of understanding, States have felt cheated out of their legitimate share of national tax revenue. The next Finance Commission should lay down guidelines for when cesses and surcharges might be levied, and also suggest a formula to cap the amount that can be raised.

Restraint on freebies

The second issue of focus for the Finance Commission should be government spending on what has come to be called freebies. All political parties are guilty on this count, some more than others, but trying to apportion blame will be a wrong start.

In a poor country, where millions of households struggle for basic human needs, it sounds cruel to argue against safety-nets for the poor. But it is precisely because India is a poor country, that we need to be more circumspect about freebies.

In theory, the restraints imposed by the Fiscal Responsibility and Budget Management (FRBM) Act should have acted as a check on such populist spending, but governments have found ingenious ways of raising debt without it appearing in the budget books. It is not easy to unambiguously define a freebie, and any check on this will be contested as infringing on the sovereignty of elected governments. Nevertheless, the next Finance Commission should bite the bullet in the interest of long-term fiscal sustainability and lay down guidelines on the spending on freebies.

After the BJP lost the Karnataka election, the Prime Minister said that the guarantees offered by the Congress in Karnataka were impossible to implement, and if taken forward, 'the country and the State concerned will become bankrupt.' Strong words indeed. In the State Assembly elections to be held later this year, the Prime Minister should walk the talk and invest his political capital to show that the promise of good governance can trump the lure of freebies.

That will embolden the Finance Commission to formalise a mechanism for a restraint on freebies.

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Male-centric medicine is affecting women's health

"If you were a young boy, I could have offered you a bouquet of medicines. Unfortunately, for both of us, you are a lovely young girl," said my daughter's neurologist, writing out her prescription. And then he began to explain the possible side-effects, some mild, some severe. Exactly three decades ago, the U.S. National Institutes of Health (NIH) Revitalization Act of 1993 mandated the inclusion of "women and minorities" in clinical trials in a bid to reduce health disparities. Yet, to date, the male model of medicine is thriving, and so is the tendency of treating women as smaller men despite a growing body of research insisting on physiological differences (beyond the reproductive organs) between the sexes. The genetic and epigenetic differences between men and women are also extensively documented.

Generic drugs, trials, mental health

In India, the "pharmacy of the world", the gender disparity in clinical trials has even bigger implications, thanks to generic drug production and consumption. It has been demonstrated in various studies that women's bodies respond differently to the components of generic drugs.

Professor Cassandra Szoeko, Director of Healthy Ageing Program at the University of Melbourne, Australia, says that thanks to the recent inclusion of women in clinical trials for generic medicine, we now know that "nearly one-fifth of medications showed a difference in the active dose between men and women". Women have been either overdosing, as in the case of Zolpidem, a common sleep medicine, or not getting enough, as in the case of several pain medicines, for decades now thanks to their underrepresentation in clinical trials.

It is not just about treatment but also testing



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It is time for policy intervention in the space of gender-specific research in medicine, with India's G-20 presidency an ideal time to highlight this issue

and diagnosis where women have been getting a rough deal. Take, for instance, mental health. According to a study conducted in Tamil Nadu by Nobel laureates Abhijit Banerjee and Esther Duflo, along with their research partners, "26 per cent of men and 31 per cent of women aged 61-70 have symptoms indicating a high likelihood of depression".

The study firmly notes that depression rates and the prevalence of anxiety are higher for women than for men worldwide in general. One can add to this a study on human capital conducted by Ernst R. Berndt and others that states that women with an early onset of depression "are less likely to obtain college degrees and less likely to pursue postgraduate degrees". We see the vicious cycle of women's underrepresentation here.

Like depression, cardiac issues are now acknowledged as having a slightly more prevalence in women. Yet, they continue to be diagnosed and treated like 'lesser men'. Study after study demonstrates that women are less likely to receive appropriate medications, diagnostic tests and clinical procedures even in developed countries such as Canada and Sweden. The stereotype of the "hysterical woman" continues to haunt women even when they need urgent clinical interventions.

Gaps that can be linked to apathy

The exclusion of women from clinical trials and research projects addressing sex-agnostic critical illnesses such as cancer and heart disease has resulted in a limited understanding of sex-specific symptoms and responses to treatment. When it comes to sex-specific illnesses such as breast or endometrial cancers, polycystic ovarian syndrome, and pregnancy-related issues, there

are serious gaps in research that can only be explained by an apathy towards "women's only" issues. United States-based studies show that the funding received for research in migraine, endometriosis and anxiety disorders is much lower in proportion to the burden of these illnesses.

"If men menstruated there would be several multi-million dollar projects studying cramps" – this meme is not funny any more when you look at mortality numbers because of poor reproductive health. World Health Organization data from 2017 show that "every day about 808 women die due to complications of pregnancy and childbirth". Almost all of these were preventable but occurred "due to interaction between pre-existing medical conditions and pregnancy". Pregnant women are further down the ladder of representation in clinical trials and research.

In an equitable world, women would be accepted as an individual category, with race, age and class as subcategories. And an equal amount of time and resources would be spent in finding and providing treatment and health care. How can women even aspire to have access to equal health care when their ailments are not even understood?

For India to note

India has several progressive policies with respect to women's health including the right to abortion. It is time for policy intervention in the space of sex-specific research in medicine and the implementation of outcomes.

India's G-20 presidency may be an opportune time to highlight this issue in alignment with Sustainable Development Goals on women's health.