

EVA STALIN IAS ACADEMY - BEST IAS COACHING IN CHENNAI

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Charting the path for the Sixteenth Finance Commission

The Sixteenth Finance Commission is due to be set up shortly. Many critical changes have taken place since the constitution of the Fifteenth Finance Commission in November 2017 that includes COVID-19 and the subsequent geopolitical challenges. The combined government debt-GDP ratio had also shot up close to 90% at the end of 2020-21. Many States show large fiscal imbalances too.

The vertical and horizontal dimensions

The Fourteenth Finance Commission had raised the share of States in the divisible pool of central taxes to 42% from 32%. This was revised to 41% when the number of States in India was reduced to 28. However, the Centre could manage the situation because of the withdrawal of Planning Commission grants as the Planning Commission was abolished. There may not be a strong case for recommending any further increase in the States' share of central taxes in view of the Centre's large fiscal imbalances. Alongside, a re-examination of the role of non-shareable cesses and surcharges is required.

During 2020-21 to 2023-24 (BE), the effective share of States in the Centre's gross tax revenues (GTR) averaged close to 31%, which was significantly lower than the corresponding share of nearly 35% during 2015-16 to 2019-20. This was due to the inordinate increase in the share of cesses and surcharges to 18.5% of the Centre's GTR during 2020-21 to 2023-24 (BE) from 12.8% during 2015-16 to 2019-20. This heavy reliance on cesses and surcharges requires scrutiny by the Sixteenth Finance Commission. One option is to freeze the share of cesses and surcharges to some base number.

In the period under the Thirteenth Finance Commission, this share was just 9.6%. Perhaps, a 10% upper limit of the share of cesses and surcharges as a percentage of Centre's GTR may be recommended. To make it biting, the share of States must be increased if the proportion crosses 10%. Thus, there will be one proportion, say 42%, if cesses and surcharges exceed 10%, and another share of 41% if they are 10% or below. The formula may be nuanced by the Sixteenth Finance Commission with the help of the latest data. An issue of concern in recent years has been the poor performance of the Goods and Services Tax (GST) and the consequent decline in total



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Correcting excessive cesses, freezing the weight for income distance criterion, and sharper monitoring of fiscal deficit are the areas that need attention

divisible pool. Fortunately, this is not an issue now. GST collections have maintained good buoyancy in the last two years. GST still needs restructuring to make it a good and simple tax.

The share of individual States in the Centre's divisible pool of taxes is determined by a set of indicators that includes population, per capita income, area, and incentive-related factors such as forest cover and demographic change. In the case of per capita income, it is the distance of a State's per capita income from a benchmark, usually kept at the average per capita income of the top three States that is used as a determining factor. This distance criterion implies relatively larger shares for relatively lower income States. At present, it has the highest weight of 45% – it had an even higher weight previously. Many of the richer States have argued for a lowering of the weight given to this criterion.

However, due attention needs to be paid to the needs of the lower income States. These States are expected to provide a relatively larger share of 'demographic dividend' to India in future provided attention is paid to the educational and health needs of their populations. It may be useful to freeze the weight to distance criterion at the current level or even reduce it to 40%, but some upward adjustment in the resources transferred to the poorer States may be done through grants.

In fact, equalisation of the provision of education and health services should be prioritised in the overall scheme of resource transfers. Instead of using a large number of tax devolution criteria, the transfer of resources to individual States may be guided by the equalisation principle using a limited number of criteria such as population, area and distance, supplemented by a suitable scheme of grants. The equalisation principle is consistent with both equity and efficiency. It is used in federations such as Canada and Australia. The basic consideration of reflecting needs, costs of providing services, and equity considerations can all be reflected through these three criteria, provided there is more fine-tuning.

Recommendations

The debt-GDP ratio for the combined account of central and State governments had peaked at 89.8% in 2020-21, of which the Centre's debt-GDP ratio excluding any on-lending to the States

amounted to 58.7%, and that of States was 31%. While these numbers have begun coming down, these are still considerably above the corresponding Fiscal Responsibility and Budget Management (FRBM) norms of 40% and 20%, as in the 2018 amendment. In 2020-21, the Centre's fiscal deficit had shot up to 9.2% of GDP and that of States to 4.1%. In view of the large departures of the debt and fiscal deficit to GDP ratios from their corresponding norms and the reduction of the States' debt-GDP target to 20%, the 2018 amendment to the Centre's FRBM needs to be re-examined. This was also recommended by the Fifteenth Finance Commission.

The Twelfth Finance Commission had recommended a target of 28% consistent with an underlying nominal GDP growth of 12%. It is also clear that the adjustment needed for the central government is larger than that for State governments. At the same time, a few State governments appear to have relatively larger debt and fiscal deficit numbers relative to their GDPs. In this context, two concerns appear: these relate to the proliferation of subsidies and the re-introduction of the old pension scheme in States without a clear identification of the sources of financing and the resultant fiscal burdens. Often, such subsidies are sought to be financed by raising the fiscal deficit.

Reforms worth pursuing

One innovation which may be relevant in this context is to set up a loan council, as recommended by the Twelfth Finance Commission. This independent body should oversee the loan magnitudes and profiles of the central and State governments. The Sixteenth Finance Commission should examine the subject of non-merit subsidies in detail. However, exclusion of 'unjustified' subsidies while determining grants may cause the Finance Commission to be caught in political crossfire.

At the same time, one cannot afford to be relaxed with respect to subsidies and fiscal deficit. The Finance Commission should be strict about States maintaining fiscal deficit within limits. It should provide carrots to States maintaining fiscal deficit (for example including fiscal performance as a criterion in horizontal distribution) and sticks for those that exceed fiscal deficit limits (by suitably acting on the extent of borrowing allowed).

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A spectacle of 'repentance' and symbolic inclusion

A video clip of an upper caste functionary of the Bharatiya Janata Party indulging in indecorous behaviour – he was seen easing himself on a tribal man in Madhya Pradesh – that went viral after it was shared in early July, expectedly caused an uproar and led to protests in the State.

The government had to take action and it responded by invoking the National Security Act on the accused and bulldozing his home in an attempt to appear tough. But what caught the media attention, perhaps even more than the incident itself, was the 'spectacle', orchestrated shortly after the alleged incident, by Madhya Pradesh Chief Minister Shivraj Singh Chouhan. In the full glare of the media, Mr. Chouhan performed the ritual of washing the feet of the victim.

The objectives of a 'ritual'

The spectacle was meant to serve two objectives. First, to create powerful "counter-optics" in response to the video clip. Second, it was supposed to be a public act of repentance for the atrocity. However, the public performance of the ritual has divided public opinion. While supporters of the regime including Ministers lauded the Chief Minister's act as one that restored the dignity of the victim, others dismissed it as a gimmick aimed at damage control in an election year.

The spectacle was not merely an electoral move. It has great ideological significance. The ritual asserted the ideal of *samarasta* or social harmony within the hierarchical caste-based Hindu social order. The concept of *samajik samarasta* or social harmony is unique to the ideological project of Hindutva and key to understanding its approach to the caste question.

It must be noted that while all other political projects anchor themselves within the concepts of equality (*samata*) or social justice (*samajik nyaya*), Hindutva is the only discourse which has chosen to develop an alternative conceptual vocabulary to address caste conflicts.



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A critique of the ideological significance of a ritual of repentance performed by a top political functionary in Madhya Pradesh, and the nature of justice within its framework

This innovation was necessitated by the need to balance the imperatives of uniting the hierarchical Hindu social order into an ethnicised whole while accommodating the claims of justice by the oppressed castes within a democratic context.

It is essential to critically examine the concept of *samarasta* to understand the ideological significance of the ritual that was performed by the Chief Minister and examine the nature of justice within its framework.

The Rashtriya Swayamsevak Sangh (RSS) derives its ideological worldview on caste from the Arya Samaj movement. The RSS constructs a fictional past – much like the imaginary 'state of nature' of liberal contract theorists – when the caste system was merely a division of labour which allowed for social mobility. However, over time, it degenerated into an ossified and discriminatory structure. The RSS blames colonialism, Marxism and 'identity liberalism' for the degeneration.

Given the primacy of shoring up social power within the RSS's framework, they argue that the ills of the caste system can only be solved through social and not political action. Therefore, in this framework, fighting casteism is a matter of social reform and not justice. Politicising matters of caste conflict or undertaking caste-based mobilisation is considered undesirable as it undermines the goal of ensuring 'Hindu unity'.

An age-old dilemma

The fundamental shortcoming of this framework is that it restricts the impact of caste to the ritual realm and does not have adequate resources to address the pernicious consequences of caste within the secular realm, i.e. political, educational and economic sphere. This dilemma surfaced in B.R. Ambedkar's own career. He attempted to force the upper caste orthodoxy to engage in self-reflection and develop an internal moral critique through temple-entry movements and campaigns such as the Mahad Satyagraha. However, when those attempts failed, he shifted

his political anchor from social reform to political justice by employing the language of rights to gain equality as citizens. He stopped appealing to the morality of the upper caste orthodoxy, and instead appealed to the rationality of the state to augment the power of the oppressed castes through political bargaining by ensuring representation.

It was this strategy of relocating the struggle against caste from the ritual to the secular realm and emphasising the political over the social which weakened the totalising grip of caste on society, and in turn facilitated ritual recognition as a matter of right. Reframing the discourse within the conceptual matrix of political power made the passage of protective and egalitarian pieces of legislations such as the Scheduled Castes and Scheduled Tribes (Prevention of Atrocities) Act, the Panchayat Extension to Scheduled Areas (PESA) Act and the Forest Rights Act possible.

A State that sees many atrocities

However, Hindutva does not possess the language of rights and equality. Therefore, while the symbolic acts of ritual elevation and inclusion may be morally important, they are inadequate because they are incapable of addressing the structural nature of caste discrimination by altering power relations. This is borne out from the case of Madhya Pradesh. The State has the dubious distinction of having the highest rate of atrocities against Adivasis.

Moreover, within days of the Chief Minister performing the ritual, a string of cases of atrocities against Adivasis and Dalits recurred in the State. Interestingly, this time around, none of the victims' feet were washed. It is apparent that *samarasta* or harmony offers only symbolic social inclusion and fictional harmony to the oppressed. In fact, the goal of harmony sans equality only serves the purpose of upholding the status quo of unequal power relations. Therefore, it is imperative to politicise caste; and interrogate it through assertions of equality and rights.