

Union government's reins on financial transfers to States

Ever since the start of the Fourteenth Finance Commission award period (2015-16), the Union government has been reducing financial transfers to States. This is particularly strange given that the Fourteenth Finance Commission recommended devolving 42% of Union tax revenues to States, which is a clean 10 percentage points increase over the 13th Finance Commission's recommendation. The Fifteenth Finance Commission retained this recommendation of 41%, excluding the devolution to Jammu and Kashmir (J&K) and Ladakh, which were recategorised as Union Territories. If we include the shares of J&K and Ladakh, it should be 42%. The Union government not only reduced the financial transfers to States but also increased its own total revenue to increase its discretionary expenditure. The discretionary expenditures of the Union government are not being routed through the States' Budgets, and, therefore, can impact different States in different ways.

Some basic math on tax revenue

The Finance Commissions recommend the States' share in the net tax revenue of the Union government. The difference between the gross and the net tax revenue includes collection costs, tax revenue to be assigned to Union territories, and cess and surcharges. Though the Fourteenth and Fifteenth Finance Commissions recommended 42% and 41%, respectively, of the net tax revenue to be the shares of States, the share of the gross tax revenue was just 35% in 2015-16 and 30% in 2023-24 (Budget Estimate). While the gross tax revenue of the Union government increased from ₹14.6 lakh crore in 2015-16 to ₹33.6 lakh crore in 2023-24, the States' share in the Union tax revenue increased from ₹5.1 lakh crore to ₹10.2 lakh crore between these two years.

In other words, the gross tax revenue of the Union government more than doubled while the share of States just doubled. Grants-in-aid to States is another statutory grant recommended by the Finance Commission. The grants-in-aid to States declined in absolute amount from ₹1.95 lakh crore in 2015-16 to ₹1.65 lakh crore in 2023-24. Thus, the combined share of the statutory financial transfers in the gross tax revenue of the Union government declined from 48.2% to 35.32%.

One of the reasons for the States' share in gross revenue declining during this period is that the net tax revenue is arrived at after deducting the



J. Jeyaraman

is Vice-Chairman of the State Planning Commission, Government of Tamil Nadu



R. Srinivasan

is Member, State Planning Commission, Government of Tamil Nadu

The Union government's moves, which reduce the aggregate financial transfers to States, are weakening cooperative federalism

revenue collections under cess and surcharge, revenue collections from Union Territories, and tax administration expenditure. Among the three factors, revenue collection through cess and surcharge is the highest and increasing. The cess and surcharge collection in 2015-16 was 5.9% (₹85,638 crore) of the gross tax revenue of the Union government, and this ratio increased to 10.8% (₹3.63 lakh crore) in 2023-24. This calculation is excluding the Goods and Services Tax (GST) cess that is collected to compensate for the revenue loss of the States due to implementation of GST till June 2022. The Union government is increasing tax collection under cess and surcharge categories mainly to implement its own schemes in specific sectors, and at the same time, the revenues so raised need not be shared with the States.

More centralisation of public expenditure

When the financial transfers to States either as tax devolution or grants-in-aid decline on the one hand, or do not increase at least proportionately to increase in gross revenue of the Union government on the other, the resultant effect is the availability of larger discretionary funds for the Union government to spend. This could affect the equity in distribution of financial resources among States. The Union government has two other routes of direct financial transfers to States, i.e., Centrally Sponsored Schemes (CSS) and Central Sector Schemes (CSec Schemes). The Union government influences the priorities of the States through CSS wherein the Union government provides partial funding and another part is to be committed by States. In other words, the Union government proposes the schemes and States implement them, committing their financial resources as well. Between 2015-16 and 2023-24, the allocation for CSS increased from ₹2.04 lakh crore to ₹4.76 lakh crore through 59 CSS. Thus, the Union government compels the State to commit more or less an equivalent quantum of financial resources. Moreover, the actual financial transfers to States under CSS is only ₹3.64 lakh crore (2023-24), retaining nearly ₹1.12 lakh crore of CSS allocation for other expenses.

An important aspect of CSS shared schemes is that the States that can afford to commit matching finances from the State budgets alone can avail of the matching grants. This creates two different effects in terms of inter-State equity in public finances. Wealthy States can afford to commit equivalent finances and leverage Union

finances inwards through the implementation of CSS. Less wealthy States will have to commit their borrowed finances in these CSS, thus increasing their own liabilities. These differential trajectories of the public finances of States accentuate inter-State inequality in public finances, the major reason being CSS.

The CSec Schemes are fully funded by the Union government in sectors where the Union government has exclusive legislative or institutional controls. The allocation for CSec Schemes increased from ₹5.21 lakh crore in 2015-16 to ₹14.68 lakh crore in 2023-24 to implement more than 700 schemes. Thus, it is clear the Union government allocates a larger share of the finances to CSec Schemes. It is quite likely that the Union government can allocate financial resources with a motive to benefit specific States or constituencies through the CSec Schemes. Since the CSec Schemes are directly implemented by the Union government, only ₹60,942 crore is devolved to States under this scheme in 2023-24. The combined allocation for CSS and CSec Schemes in 2023-24 is ₹19.4 lakh crore and only ₹4.25 lakh crore is devolved to States.

Scope for anti-federal fiscal policies

The financial transfers through CSS and CSec Schemes are non-statutory transfers as they are based on neither any legal provisions nor any formula determined by the Finance Commission. This non-statutory grant forms 12.6% of gross tax revenue. Together with statutory grants, the total financial transfers as a proportion to gross tax revenue were only 47.9% in 2023-24. Further, the non-statutory grants are tied grants, i.e., they have to be spent on specific schemes for which the grants are allocated. This reduces the freedom of States in conducting public expenditure. In addition to retaining more than 50% of gross tax revenue, the Union government incurs a fiscal deficit to the extent of 5.9% of GDP. Thus, the Union government wields enormous financial powers with limited expenditure responsibilities.

Further, the Fifteenth Finance Commission noted that the Union government had argued for the downward revision of States' share in Union tax revenue from 42% and the Commission retained the share at 41%. Citing higher expenditure commitments, the Union government may repeat the argument before the Sixteenth Finance Commission. So much for cooperative federalism!

EVASTALIN

Understanding the nuances of the liberal arts

Liberal arts degree programmes are on the rise in the context of Indian private higher education. At the same time, liberal ideologies are gravely misunderstood and viewed with scepticism in contemporary popular and right-wing articulations. As a faculty in a liberal studies school, I find that a greater understanding of the value of liberal arts education and what it offers to future citizens are extremely essential for a more harmonious future. By better understanding the nuances of what a liberal arts education can offer, students who opt for this degree can better respond to their contemporary problems – whether it is the on-going Israel-Palestine war or the politics of merging the state and religion.

The importance of context

A liberal arts education seeks to enable students and future leaders to understand contemporary social problems in context. This is to suggest that to understand and respond to any situation, we must engage with the historical, sociological, economic, and psychological contexts. Such an approach would necessitate openness, require an ability to comprehend a problem from multiple perspectives, and recognise the complexity of the issue at hand. No quick answers or solutions would be possible. Another important aspect of a liberal arts education is to learn how to historicise our contemporary problems. This can enable us to have a view of the present in a way that does not ignore the past but instead teaches us how historical events have led to contemporary crises.

This is why a historian may have a stronger and clearer opinion about present crises than someone in a non-liberal arts field. A nuanced perspective, fertile with critical thinking, would



Anandini Dar
is Associate Professor,
School of Liberal
Studies, BML Munjal
University, Haryana

A greater understanding of the value of liberal arts education is essential for a more harmonious future – a point being lost sight of in contemporary popular and right-wing articulations

require us to recognise how and why we do have a problem or a conflict. Is there a context to the crises at hand? What are the larger geopolitical issues that affect the issue? Who is being affected and what is at loss?

For example, any armed conflict is not about a battle for physical resources or religious dominance, but represents multi-dimensional fault-lines over culture, language, perceptions of truth and justice. The construction of the idea of 'sovereignty' is itself often hinged on subjective perceptions of historical claims and injustices. Geopolitical and military interests add to the complications of a narrative of conflict. A liberal approach at the very minimum should recognise these complexities before denouncing any particular voice or narrative.

The subject of identity

People's identities are intrinsically linked to regional, national, religious, gender, and other markers. There is nothing reductive about recognising identities of people. No social scientist or historian or economist is, as often labelled as doing so, trying to reduce identities to characteristics. This would be a grave misunderstanding of these liberal disciplines. Instead, recognising identities means acknowledging difference, which is innate in human society. How can we forget the history of human evolution, the formation of societies, cultures, and groups, and speak from a naive position of "simply being human"?

In making sense of conflict between two groups, a student of the liberal arts would instead first ask the question "when and why do national identities matter? Does the erasure of identity of some lead to the dominance/flourishment of

other identities? If identities did not matter, then why do passports matter when we travel? Why do nations not open up their borders to all religious and national subjects?

Power as a central vector

In aiming to answer these questions, the role of power in societies can be recognised as being extremely significant. Liberal arts education allows students to learn that power is a central vector in understanding contexts and crises. Incorporating the role of power in any analysis does not denude it of nuance, as Allison Schrager argues in a 'premium' media online article of December 3, 2023, "There is an economic case for redefining liberal arts education". Rather, it deepens the engagement with contemporary crisis situations. Ignoring power relations and hierarchies between identities often leads to flat, homogenised narratives that are hardly of use in the real world. It would be naive and ignorant to deny the role of power in war, or in societies at large.

Power itself may operate in a society, or between nations, in a complicated, multi-layered fashion, and thus a nuanced liberal understanding should anchor itself on a complex treatment of power – not by excluding or wishing it away. A liberal arts education, seeking to be transformative, encourages students to be more humane, while recognising differences and identities, and understanding how power operates within our societies. By asking critical questions first and then understanding the problems in-depth, students can learn to think about solutions, take informed stands, and find resolutions – which shall also have to be complex and nuanced.

EVA STALIN IAS