



Fiscal Federalism:

Financial decisions pertaining to an economy are taken by the government.

READINGS

1. **Y.V Reddy**, "Fourteen Finance Commission(FFC), Continuity, Change and way forward".EPW, Vol.50 Issue No.21, 23 May 2015

2. Report of FFC, **Chapter 12**

3. *Report of the **Committee on Fiscal Statistics**, September 2018 from National Statistical Commission, Gol.

- Chapter 1: Fiscal Data System in India: Key issues
- Chapter 2: Sources of fiscal Statistics: Aggregation and Coordination

TOPICS

A) 1. Fiscal Federalism

2. Cooperative vs Competitive Federalism

3. India –A Federal structure

B). 4. Finance Commission in India

5. Recommendation of Fourteen Finance Commission(FFC)

C). 6. MoSPI-FCI-Committee on Fiscal Statistics

7. Fiscal Data System in India: Key Issues

8. Sources of Fiscal Statistics : Aggregation and Coordination

(A)1. FISCAL FEDERALISM

INTRODUCTION

Fisc literally means public treasury or exchequer

Federal means a government where there are **two or more tiers**

Each tier has jurisdiction, defined by the **constitution**, over specific matters of legislation, taxation and administration.

Financial autonomy ensured by specifying revenue of each tier.

DUAL FEDERALISM

- Fixed division between layers of Govt*
- Layer cake federalism

COOPERATIVE FEDERALISM

Federal & state governments share power equally**

MARBLE CAKE FEDERALISM

Mixing of power, resources, programmes between and among National State & local govt- interwoven and interdependent

COMPETITIVE FEDERALISM

Regional and local governments compete with each other

2. COOPERATIVE VS COMPETITIVE FEDERALISM

COOPERATIVE FEDERALISM

- A school of thought in the field of **Cooperative economics**
- Historically, its proponents included J.T.W Mitchell, Charles Gide, Paul Lambert, Beatrice Webb.
- Deals with the relationship between **Union and state govt** in the matters of **legislation, administration and finance**

COMPETITIVE FEDERALISM

- Deals with relationship among 2 or more states in the matter of trade, investment and commerce
- Union government may make rules of this competition
- States compete to attract funds & investment
- This may facilitate efficiency in administration & enhances development activities

INDIA: A FEDERAL SYSTEM

- Federalism is a basic structure of **constitution**
- **Article 1** of the Constitution states,
“India, that is Bharat, shall be a Union of States”.

Three tiers In India- Central ,State & Local Government.

Two tier structure until-1993*

CONSTITUTIONAL PROVISIONS

DISTRIBUTION OF POWER - 7th Schedule

- **Article 246(1)** Constitution of India states that Parliament or Union Govt. has exclusive power to make laws with respect to any of the matters enumerated in List I in the seventh Schedule (in this Constitution referred to as the "Union List").

Article 246(3) Legislature of any State has exclusive power to make laws for such State or any part thereof with respect to any of the matters enumerated in List II in the Seventh Schedule (in this Constitution referred to as the "State List").

Article 246(2) In respect of matters in List 3 called concurrent list in the seventh schedule to the Constitution, both Central and state govt can exercise powers to legislate

Article 246 A(1) This is a new **article** inserted in the **constitution**. It says that (1) Notwithstanding anything contained in **articles 246** and 254, Parliament, and, subject to clause (2), the Legislature of every State, have power to make laws with respect to goods and services tax (GST) imposed by the Union or by such State.

(2) Parliament has exclusive power to make laws with respect to goods and services tax where the supply of goods, or of services, or both takes place in the course of interstate trade or commerce

Residuary power vested with the parliament .

EVOLUTION OF FISCAL FEDERALISM

- Contribution from the provinces to the Union **in the 1920s.**
- **Gol Act 1919** provided for a separation of revenue heads between Centre & State.
- **1935 Act** allowed for sharing of Centre's revenue and for the provision of grant in aids to provinces.
- Post independence **center** assumed greater importance*
- Single party domination impact on rules and institutions.
- Problems of intergovernmental co-ordination in the new political environment.

SIGNIFICANT DEVELOPMENTS IN FISCAL FEDERALISM

- Three important changes in union-state fiscal relations since 2015-16
- (i) the abolition of the Planning Commission in January 2015 and the subsequent creation of the **NITI Aayog**;
- (ii) **FFC** addressing new realities .Higher tax devolution to the states from the fiscal year 2015-16 onwards based on FFC recommendation
- lii) the Constitutional amendment to introduce the Goods and Services Tax (GST) and the establishment of the **GST Council** for the central and state governments to deliberate and jointly take decisions.

COOPERATIVE FEDERALISM

Examples From INDIA

Schedule 7 of the Constitution specifies union, state, concurrent list

Union and state are constitutionally obliged to cooperate with each other on the matters in schedule 7

- ❑ To ensure unity and integrity of India, powers tilted in favor of Union government
- ❑ 73rd & 74th amendment introduced Panchayati Raj(rural)& Municipality(urban) system to strengthen roots of Coop Federalism in India

NITI AAYOG-2015

- National Institution for Transforming India
- Objectives:
 - a. To evolve a **shared vision** of national development priorities, sectors and strategies with the **active involvement of States** in the light of national objectives.
 - b. To foster **cooperative federalism** through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation

NITI Aayog 5th Governing Council Meeting 15th June 2019

The **Governing Council of NITI Aayog** comprises the Prime Minister of India, Chief Ministers of all the States and Union Territories with Legislatures and Lt. Governor of Andaman and Nicobar Islands, and four Union Ministers as ex-officio members and three Union Ministers as Special Invitees



GST COUNCIL

- GST Council comprises of the Union Finance Minister, Union Minister of State for Finance and all Finance Ministers of the States.
- $\frac{2}{3}$ rd of Voting power is with the States and $\frac{1}{3}$ rd with the Centre which reflects the accommodative spirit of federalism.



39TH GST Council Meeting 14 March 2020

The [Inter-State-Council](#) is a constitutional body -Article 263 of the Constitution of India set up on 28.5.1990.

It is mandated to investigate and advise on disputes between states, investigate and discuss subjects in which some or all of the states, or the Union and one or more of the states, have a common interest.

OTHER EXAMPLES

- JOINT VENTURES BETWEEN CENTRE & STATES
- REPLICATION OF SUCCESS OF ONE STATE IN

OTHERS

- Karnataka E Mandir replicated as National Agriculture Market

COMPETITIVE FEDERALISM

Examples From INDIA

Competitive federalism is not part of the basic structure of Indian constitution. It is the decision of executives.

This idea of Competitive federalism gained significance in India post 1990s economic reforms.

NITI AAYOG mandate to develop competitive federalism

INVESTOR MEETS organised by states to showcase facilities & attract business & investment.

INTER STATE RANKING METRIC

INVESTOR MEETS/ EVENT / ORGANISED BY STATES

HP- RISING HIMACHAL Nov 7-8 2019

UP- DEFENCE EXPO 2020

GUJARAT – VIBRANT GUJARAT 17TH JAN 2019

KERALA – ASCEND Jan 2020

Indore – Magnificent MP 2019



INTER STATE RANKING METRIC

Spirit of competitive federalism is seen in the various inter state ranking metric derived such as for

- Ease of business
- SDG India Index
- Environmental pollution
- Health Index
- Aspirational District Prog
- Composite Water Management Index

WORLD BANK'S EASE OF DOING BUSINESS INDEX 2019

- In India, jointly prepared by **Dept of Industrial**
- **Policy & Promotion** & **WB** (Jan 2019, Dept. for
- promotion of Industry & Internal trade, Min of Comm)

- India rank 63 (2019)
- States – Andhra Pradesh on the top
- Internationally, Newzealand tops.



SDG INDIA INDEX : 2019-20

STATES

1) Kerala 2) Himachal Pradesh 3) Andhrapradesh 4) Tamil Nadu 5) Telengana.....
26)Arunachal Pradesh , 27)Jharkhand and 28)Bihar

UT

1) Chandigarh7)J&K 8) Ladhak.

Aspirational Districts Programmes – Jan 2018

Transforming India, One District at a Time

The programme hinges on expeditiously transforming **115 districts** that were identified from across 28 states, in a transparent manner.

There are three core aspects that frame the structure of the programme – **Convergence** (of Central & State Schemes), **Collaboration** (of Central, State-level 'Prabhari' Officers & District Collectors), and **Competition** among districts.

Driven primarily by the States and instituted for the States, this initiative focuses on the strengths of each district, and identifies the attainable outcomes for immediate improvement, while **measuring progress and ranking** the selected districts.

HEALTH INDEX- NITI AAYOG ,Ministry of Health & WORLD BANK

<http://social.niti.gov.in/>

The top five performing States in the reference year (2015) based on the composite Index score are Kerala (76.55), Punjab (65.21), Tamil Nadu (63.38), Gujarat (61.99), and Himachal Pradesh (61.20).

On the other end of the spectrum, Uttar Pradesh (33.69) scored the lowest and ranks at the bottom preceded by Rajasthan (36.79), Bihar (38.46), Odisha (39.43), and Madhya Pradesh (40.09).

UT – Lakshadweep

COMPOSITE WATER MANAGEMENT INDEX (CWMI)-2018

- (NITI) Aayog has developed the Composite Water Management Index (CWMI) to enable effective water management in Indian states in the face of the growing water crisis.
- Data and centre-state and inter-state cooperation are some of the key levers that can help address the crisis.
- The Composite Water Management Index (CWMI) is a major step towards creating a culture of data- based decision-making for water in India, which can encourage '*competitive and cooperative federalism*' in the country's water governance and management.

ISSUES

- Competition between states in the Index
- Not so well-off states against the uniform approach
- Opposition by well-off states w.r.t loss of revenue
- In India, with inequality of resources, states individually not able to compete effectively.

Issues in India's Fiscal Federalism

VERTICAL, HORIZONTAL & DEVELOPMENT IMBALANCES

- **Vertical Imbalance** is there between the capacity of Union government and State Governments to raise revenue .
- **Horizontal Imbalance** among the states in India to raise revenue as states differ in their resource endowments , levels of development and standard of delivery of public services .
- **Development Imbalance*** the regional disparities in terms of per-capita incomes between states and within states
- The assignment of taxes & responsibilities as well as correction of vertical & horizontal imbalances is at the **CORE OF FISCAL FEDERALISM.**

TOWARDS COOPERATIVE COMPETITIVE FEDERALISM

- India needs a mix of both.
 - In 2017, the Niti Aayog called out for competitive Cooperative federalism
 - Competitive federalism provides the **dynamism** that needs to be unleashed.
 - Cooperative federalism provides a **balance** to competitive federalism



Read More :

- 1. NITI AAYOG (Planning Commission abolished)
- https://economictimes.indiatimes.com/news/economy/policy/the-end-of-five-year-plans-all-you-need-to-know-about-this-big-policy-change/articleshow/58162236.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst
- 2. Cooperative and Competitive Federalism
- https://economictimes.indiatimes.com/news/economy/policy/niti-aayog-calls-for-competitive-cooperative-federalism-in-states/articleshow/59534359.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst
- 3. India's New Fiscal Federalism
- Working Paper No. 252 Accessed at <https://www.nipfp.org.in/publications/working-papers/1846/> Page 5 **Towards India's New Fiscal Federalism**. No. 252. 25-January-2019. Vijay Kelkar. National Institute of Public Finance and Policy. New Delhi. NIPFP Working .

Questions on Part(A)

1. What are the elements of Cooperative federalism in Indian Constitution?
2. How does NITI AAYOG foster Cooperative and Competitive Federalism?
3. What are the challenges , issues and concerns associated with fiscal federalism in our country?

ONLINE TEST 1 (Unit 4 :Part A)

<https://forms.gle/giXNzyw2io5hYqbVg>

Thank you!

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