FISCAL FEDERALISM

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


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

   - 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.
<table>
<thead>
<tr>
<th>DUAL FEDERALISM</th>
<th>COOPERATIVE FEDERALISM</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Fixed division between layers of Govt*</td>
<td>Federal &amp; state governments share power equally**</td>
</tr>
<tr>
<td>• Layer cake federalism</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MARBLE CAKE FEDERALISM</th>
<th>COMPETITIVE FEDERALISM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mixing of power, resources, programmes between and among National State &amp; local govt- interwoven and interdependent</td>
<td>Regional and local governments compete with each other</td>
</tr>
</tbody>
</table>
2. COOPERATIVE VS COMPETITIVE FEDERALISM
COOPERATIVE FEDERALISM

- A school of thought in the field of Cooperative economics


- 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
  - (iii) 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.

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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:

- To evolve a *shared vision* of national development priorities, sectors and strategies with the *active involvement of States* in the light of national objectives.

- 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.
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.
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

Dr. Mallika Kumar, March 2020
INVESTOR MEETS/ EVENT / ORGANISED BY STATES

HP- RISING HIMACHAL Nov 7-8 2019
UP- DEFENCE EXPO 2020
GUJARAT – VIBRANT GUJARAT 17 TH JAN 2019
KERALA – ASCEND Jan 2020
Indore – Magnificent MP 2019
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
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, New Zealand tops.
SDG INDIA INDEX : 2019-20

STATES

UT
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.
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
(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

Dr. Mallika Kumar
March 2020
Read More:

1. NITI AAYOG (Planning Commission abolished)


2. Cooperative and Competitive Federalism


3. India's New Fiscal Ferderalism

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/9iXNzyw2io5hYqbV9
Thank you!

For any queries write to drmallika.kumar@srcc.du.ac.in