

The Functioning of Fiscal Federalism in India, its impact on Centre-State relationship on special perspective of Covid-19 Pandemic Period

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Abstract

The Federalism is a positive mechanism of Political system to maintaining the heterogeneity existed in various States on various spheres and capable to unite within one political dominance with their regional identities. The functioning of any Federalism depends upon the amicable relationship between Centre and Provinces. The Constitution of India provides a sophisticated mechanism including the Judiciary of India to smoothing mechanism as Interstate Council, NITI Aayog etc. The wake of Covid-19 pandemic in Indian scenario where the Country seems to have come to an unforeseen and instant halt persuade more autonomy of the States with regard to administrative and financial decisions to combating this pandemic. Undoubtedly the Governments at both level i.e Union and States require huge funds to face the miseries of people in Corona period. In these consequences the Union Government instantaneously created an emergency fund name as PM-CARES (Prime Minister's Citizens Assistance & Relief in emergency situations) on 28th march 2020. This fund has its intents in building capacities for quick emergency reaction and efficacious community resilience where use of new technology and advanced fact finding mechanism become an inseparable element of such concerted action required in confrontation with the circumstances emerged in this pandemic period. Though the PM-CARES was criticized on the grounds of the justification of its establishment where the P.M. National Relief Fund is already in existence as well as the absence of procedural transparency. Beside it the unilaterally announcement of lockdown by the Union Government without proper consultation with the States. However this lockdown was contravened the subjects enumerated in the State list was big complication to the fiscal federalism. In addition to these issues the dispute on the sharing of GST revenue collection, suspension of MPLADS lead to erosion of fiscal federalism during the period of the pandemic duration in India.

Keywords: Fiscal Federalism, P.M-CARES fund, Covid-19 period, Centre-State relationship, Constitution.

Introduction

The Federalism is one of basic feature of our political system and the character of Federalism is absolutely fruitless in absence of fiscal federalism. Like other Countries the fiscal aspect of Federalism is a reflection of political federal structure in India. Basically the fiscal Federalism of India is different from other Federal Nations has to pacify the competing stipulations of regional or local concerned with their financial needs. As a basic aim of fiscal Federalism is expected to authorize the Centre and provincial governments run in such a way that leads to logicity in use of resources- not only in turn of quality of the services of the government but also in term of creating the atmosphere in which all economic functionaries may utilize these resources efficiently. The functioning of Political system and environment is most significant aspect of fiscal federalism. After Independence, the Congress party rule at the Centre and almost all of the States for many decades hence the State Governments were the retainer of the Centre government, undoubtedly this period was Cooperative Federalism. But decline of the Congress party from many States leads to Bargaining Federalism. The tendency of this

Bargaining federalism was increased at the time of coalition governments were running in the Centre. At that time the regional political powers were bargained with the Centre government for more fiscal assistance to their States instead of their support to the centre government. But after the emergence of Modi era in Indian Politics, the Centre-State relationship is seen in a new form. Now in this time the political scenario has been changed and Centre-state relationship is determining as NDA vs non NDA ruling governments. Today mostly states where BJP or NDA governments as in UP, M.P, Karnataka, Bihar etc are ruling, there are better understanding in Centre-State relationship but on the states where non BJP or opposition political parties are ruling as Delhi, West Bengal, Rajasthan etc there are contradictions in Centre-State relationship. In wake of Covid-19 pandemic in our country, the tussle has more sharpened between the Centre and states. The BJP government push for unitary structure at the centre and demand from regional political parties for greater autonomy to the states to made stronger the spirit of Federalism envisaged in the Constitution. Here is a most burning question arose after the first lockdown that mostly effects of this lockdown was noticed on the subjects of the State List as Hospitals, State offices, shops and markets, migrant workers etc, then how could the Centre government decide these issues arbitrary without consultation of the States. It was a setback for fiscal federalism.

According to some critics the innovation of PM-CARES in our Country is altering the borders of cooperative and fiscal federal nature of the India. This fund is setup for fulfillment the financial requirements arose in confrontation of covid-19 pandemic. Here the question stood up why the Modi government prioritized to PM-CARES fund over the Prime minister's national relief fund. The internal notes of the cooperative affairs reveals that both aforesaid funds are private funds and PM of India has discretion to spend it. There is a fundamental issue with concerning a majority of the resources in a fund controlled by the Centre that of reducing the capability of the States to effectively respond to the pandemic is corrosion of Fiscal Federalism. The set back on revenue collection of States due to imposition of lockdown first was deeply criticized by the champions of State rights. During lockdown the Centre did not release the outstanding GST compensation of about 30,000 crore to the States was a paralysis of State economy.

Aim of Study

This paper mainly analyzes the functioning of fiscal federalism, emergence of the disputes concerning with announcement of lockdown, PM-CARES, GST revenue sharing, during the period of Covid-19 pandemic as well as its effect on the Centre-State relationship in Indian scenario.

Justifications of Fiscal Federalism in current Scenario

According to Britannica Fiscal Federalism is a system which ascertains financial relations between units of governments with their Federal government. It is a part of broader public finance discipline. The term fiscal federalism is first time introduced by Richard

Musgrave in 1959. The fiscal federalism combines the advantages of decentralization with the benefits from economies of the States. As the political concept of democracy the fiscal federalism is considered to be an ideal institutional arrangement or resources between the Union and Units. In addition to inter-jurisdictional competition provides incentive for innovation and increase in productivity in the provision of public services. However the fiscal federalism represents the polar case where the fiscal arrangements are decided purely on economic principles. The existence or otherwise of a Federal Constitution is not a consideration and the principles fiscal federalism apply to both unitary and federal political system. Fiscal Federalism is a system of decentralization it irrelevant as the country is federal or unitary. Under the system of fiscal federalism everything as tax and expenditure assignments, intergovernmental and inter jurisdictional interactions and intergovernmental transfer system of the resources are ascertained purely on the basis of economic considerations.

The theory of fiscal federalism presumes that a federal system of government can be efficient and effective at solving problems governments face today, such as just distribution of income, efficient and effective allocation of resources and economic stability. The economical stability rationale distribution of income can be done by federal government because of its flexibility in dealing with these problems. Because the States are not equal in their income, federal intervention is needed. Mr Musgrave emphasized that Federal or central government should be responsible for economic stabilization and income redistribution but the allocation of resources should be responsibility of the provincial governments. The fiscal federalism is affected by the relationship between levels of governments thus the historical events that shape this relationship. Hence fiscal Federalism is integral part of federal system that contains the financial State autonomy with federal economy.

Roots of Fiscal Federalism in India

the Fiscal Federalism in India is rooted in our Country since the period of Kautilya. Perhaps he first time in his great book Arthshashtra described the importance of fiscal aspect of the State though the central subject of this book was the politics yet he took the name Arthshashtra means economy as he assumed the financial significance in politics. In modern India, the fiscal federalism is reestablished in Governments of India Act 1919 and 1935 under the British rule. The Act of 1919 was prescribed a scheme of distribution of revenue heads between the Centre and the Provinces while Act of 1935 provided the scheme of the sharing center's revenues as grant-in-aid to the States. However the character of Federalism in India first time introduced in modern form in the Act of 1935. Before the Act of 1935 all type of earlier modifications was Unitary in nature. It was proposed to unite the provinces and Indian States in to a federation under the British Crown. This Act proposed a complete break up of the unitary state into a number of autonomous provinces which were to derive their

authority from the Crown. However the Provincial autonomy was given effect on April 1937, in this time the federal government was seemed parallel because both section of the governments were as the retainer of the crown. Though this act prescribed some provisions which enabled to the central government retained control over the states on specific issues required for protection for British rule in India.

After Independence, our Constitution preferred Unionism over federalism, which striking unitary features owing to circumstances of that time when unity and integrity was prime concern. Indian Constitution gives a detailed scheme as 7th schedule and Article 246 with political, institutional and functional devices. The Finance Commission is one of them, which enables rationale resources sharing based on the Constitutional division of functions and finance between the Union and the States, is a critical aspect of Indian Federalism.

Fiscal Federalism in Indian Scenario after the adoption of liberalization strategy

The principle of fiscal federalism assists us to recognize welfare maximizing organization of governmental system. The concept of fiscal federalism enables us to identify the sources of inefficiency and inequity in federal fiscal arrangements in Indian Union and to get an idea of the extent to which the actual deviates from the ideal. India followed liberalization since 1991 and hereinafter there was reassessment of the entire fiscal arrangement through the Constitution. It was an examination of Constitutional scheme and concept determinants of centre-state relationship. After liberalization India opened her gates for multi national companies there was a setback for provincial economical autonomy and the states have become retainer of the Centre policies at the Union level. However the policy decision concerned with state jurisdiction became more crucial. After adoption of new planning policy i.e Liberalization and decline of one party dominance the fiscal federalism pursued for competitive fiscal federalism in India. Thus in this liberalized economic climate, although the governmental role in resource allocation in general would be smaller than in the past, the relative role of State governments are likely to increase rather than decline.

Fiscal Federalism after the wake of Covid-19 pandemic

Undoubtedly after the emergence of the corona pandemic in our country many actions of the Modi government lead to unitary rather than the federalism. There are few complicated steps of the Union government which seem to diluting the fiscal federalism of the Country as-

Firstly

The Union government is criticized for the establishment of PM-CARES fund as an avenue of expenditure under the ambit of Corporate Social Responsibility (CSR) contributions. However, the contributions concerned with Chief Minister relief fund or State relief fund for covid-19 do not qualify as admissible for CSR expenditure. When the rationale was questioned an amendment by the UPA-II government was preferred. According to this rule

which was introduced on February 2014 disallowed to State CM relief fund for getting donations CSR funds. In fact the amendment to schedule 7th of Companies Act 2013 the provisions that how the companies can spend their CSR funds as the Companies with net worth of at least 500 crore or revenue of 1000 crore or net profit of 5 crore should spent at least 2% of their net profit on CSR. The Indian corporate world spends about 15000 crore in every year on CSR. According to a notification issued on 27th February 2014 it is clarified that only funds created by the central government are qualified for the donations under CSR.

Secondly

The other point blaming to diluting fiscal federalism is appeared with crunching the fund delays in receiving GST dues and arrears of the States by the Centre to characterize by reduced economic activities of the States. The States governments of Kerala and Rajasthan have to sold their 15 years bonds. In addition to it the States governments as Gujarat and Maharashtra also reported 38% and 40% decline in their stamp duty collection, which contributes significantly to their income. With GST collections drained as a result of the lockdown and the covid-19 pandemic burdening their responsibilities and stretching financial capacities the condition of the States is desperate, to say the least.

Thirdly

The trend towards centralization is also evident the Terms of References for 15th Finance Commission, which among other things asks the Finance Commission to examine whether revenue deficit grants should be provided at all for the State Governments and to recommend measures for controlling populist measures by the States. These mandates not only compel the Finance Commission go beyond its Constitutional responsible mandate as well as reveal how non elected bodies are being misused to constrain the fiscal space of the States.

Fourthly

In fact the imposition of pan-India lockdown with virtually no consultation with State Governments and all pervasive notifications and guidelines issued by the Union have weakened the State Finance as well as cooperative federalism. The notification issued by the Centre government on the first lockdown (24th march 2020) and extended lockdown (15th April 2020) were an arbitrary in nature because no proper way of consultation was followed with the States by the Union. The 7th schedule, which is base of Indian Unionism and State list was contravened by these lockdown as it includes State Government offices (entry 41), hospitals (entry 6) Shops and markets (entry 28) Industries (entry 24) agriculture (entry 140) alcohol (entry 8) etc.

Fifthly

The centre government decision regarding the suspension of MPLAD scheme for two years and divert this fund on consolidated fund of India is one of the instances on which the fiscal federalism is weakened. In times such as present health crisis, local level fund was required to spend which the MPLAD scheme allows for could have filled the gaps in relief

works in the Pandemic period.

Conclusion/Recommendation

There is no doubt that the functioning of fiscal federalism is affected as the consequences of numerous decisions taken by the Union Government. Especially the establishment of PM-CARES fund, GST revenue sharing, suspension of MPLAD scheme and other unilateral decisions during the period of the lockdown by the Centre Government are bypassed the Federal mandates of the India. However these decisions may be defended as the requirement of the pandemic urgency by the Union but in reality the lack of consultation between the Union and the States is a setback for Federalism of India. The Union Government's ultimate claim on Companies social responsibility fund also seems contradictory with the fiscal federalism. The innovative consultation and empowerment of federal mechanism for joint centre-state effort to battle one of the worst medical crises ever would have restored trust and resurgence of fiscal federalism as needed during the pandemic period. The interstate council may be the best forum of dialogue for this purpose.

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