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Navigating the storm

The Fifteenth Finance Commission has adapted well to swiftly shifting sands

A pair of balanced scales representing the Union of India and the States, the cover visual of the Fifteenth Finance Commission's report for the period 2021-22 to 2025-26, seeks to highlight the Commission's endeavour to maintain an equitable approach at a time when the Centre and States are facing unprecedented revenue stress and fiscal demands. The Centre has accepted much of the Commission's broad recommendations, including giving States a 41% share of the divisible pool of taxes and revenue deficit grants of nearly ₹2.95-lakh crore for 17 States over the next five years. It has also acceded to the Commission's suggestion to make grants towards urban and rural local bodies conditional upon States setting up their own finance commissions and publishing online the accounts of local bodies. And 60% of these grants will be further linked to these bodies' providing sanitation and water services. There is an 'in-principle' nod to the panel's suggestion to set up a non-lapsable dedicated fund to support defence and internal security modernisation – a response to the Centre's belated request to examine if such a fund can be considered for funding defence capex beyond normal Budget allocations. While the panel has suggested moving ₹1.53-lakh crore out of the Consolidated Fund of India over five years to partly finance this, the Centre has said the funding nitty-gritties will be examined later. States would monitor how the modalities here evolve, even as they have reason to fret about the Centre's non-committal response to the Commission's recommendations of sector-specific and other grants for them adding up to about ₹1.8-lakh crore.

It is up to the Centre now to ensure that States do not feel short-changed from the new fiscal framework, given their frayed ties over GST compensation dues. States have also been steadily losing out, given the Centre's penchant to raise more cesses and surcharges that do not have to be shared. This Budget has seen an encore with the agriculture infrastructure development cess. One wishes the Commission had at least noted its displeasure on this practice, like its predecessors did. Unlike them, however, the N.K. Singh-led panel had to cope with a tumultuous shift in the domestic and global macro-economic landscape. At home, the Planning Commission was dissolved and GST introduced. The panel's tenure was extended by a year, requiring it to give an interim report first, with its work culminating in a virtual zero-visibility zone as the COVID-19 pandemic broke out months before its deadline. Given these pressures and the difficulties in projecting the economy's path, the Commission has done well. It has resisted the Centre's nudge to review what it felt was a too-generous 42% share granted to States by the previous Commission, and deftly dealt with most of the unusual terms of reference foisted on it. As N.T. Rama Rao said, India lives in the States. If the Centre takes them along, it might help attain the balance envisaged by the Commission, which is needed to drive the country onto a double-engine growth trajectory from the current nadir.