

Gist of EPW October Week 2, 2021

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1. Fifteenth Finance Commission Recommendations

Introduction

- The final report of the Fifteenth Finance Commission is titled 'Finance Commission in COVID Times: Report for 2021–26'. The 15th FC was appointed in 2018 for giving recommendations covering the period 2020–25.
- The commission gave an interim report for 2020–21 in February 2021 to enable devolution of taxes and grants to the states for that year as the Commission's term was extended by one year in November 2019 after the bifurcation of the state of J&K in August 2019.
- The final report was submitted in November 2020.
 - Only once before in the history of the finance commissions, the Ninth Finance Commission had submitted two reports.

Read more on the [Fifteenth Finance Commission](#) in the linked article.

Highlights

- The Fifteenth Finance Commission's report comprises four volumes unlike the previous commissions whose reports usually comprised two volumes.
- In addition to the usual two volumes containing the recommendations and the annexures, there is a volume each devoted to issues specific to the union and the states.
- Six Hindi-belt states i.e. Uttar Pradesh, Madhya Pradesh, Bihar, Jharkhand, Rajasthan, and Chhattisgarh, which together account for 42.85% of India's population as per the 2011 Census would be getting 48.57% of the sharable pool of the union government taxes during 2021–26, as per the recommendations of the Fifteenth Finance Commission.
- The five southern states – Tamil Nadu, Karnataka, Kerala, Andhra Pradesh, and Telangana with a population share of 21.32% will get 15.8% of the sharable taxes, while the seven western, eastern, and northern states, which contribute 30.61% of the population would get 25.31%.
- The eight north-eastern states, Uttarakhand, Himachal Pradesh and Jammu and Kashmir accounting for 5.32% of the population would get 10.48% of the tax transfers.

Federal Financial Relation

- Finance commissions' recommendations broadly follow three principles: equity, equalisation, and efficiency, keeping the needs and performance of both the states and the union in mind, while moderating these with considerations for balanced regional development.

- The equity principle is reflected in parameters like population and area of a state, the equalisation principle is reflected in the parameters related to the distance of per capita income or fiscal capacity of a state from the most prosperous one, so that disadvantaged states with low income or capacity get more funds than the prosperous states.
- The efficiency criteria are reflected in parameters such as tax effort and fiscal discipline.
- All the finance commissions have broadly followed the above principles even while using different parameters.
- Article 280(4) of the Constitution gives the finance commission absolute independence to determine their procedure and exercise such powers in the performance of their functions as Parliament may by law confer on them.
- As per Article 280(3) of the Constitution, the primary task of a finance commission is to make recommendations for the horizontal and vertical sharing of the net proceeds of taxes in the divisible pool between the union and the states and determine the principles for union government grants-in-aid to the states, besides recommending measures to supplement the resources of the local bodies.

Tweaks

- The Fifteenth Finance Commission has kept the same criteria for vertical and horizontal sharing as in its interim report for 2020–21.
- The Fourteenth Finance Commission had increased the states' share of divisible pool taxes substantially to 42% after raising it by 10%, while reducing the grants drastically.
- The Fifteenth Finance Commission has retained the states' share at the same level, except that 1% has been kept apart to cater to the needs of J&K.
- Table 1 shows the criteria used by the Twelfth to the Fifteenth Finance Commissions to determine the inter se shares of states in the horizontal distribution of resources.

Table 1: Criteria Used by the Different Finance Commissions (%)

Criteria	Weights			
	Twelfth FC	Thirteenth FC	Fourteenth FC	Fifteenth FC
Equity				
Population (1971)	25	25	17.5	
Population (2011)				15
Demographic changes since 1971 (2011 population)			10	
Area	10	10	15	15
Equalisation				
Income distance	50		50	45
Fiscal capacity distance		47.5		
Efficiency				
Demographic performance				12.5
Tax effort	7.5			2.5
Fiscal discipline	7.5	17.5		
Environment				
Forest and ecology			7.5	10
Total	100.0	100.0	100.0	100.0

FC = Finance Commission.

Source: Reports of the respective finance commissions.

Concerns

• Demographic Issues

- Scaling the tax effort, defined in terms of the ratio of average per capita tax to average state income for three years, to the 2011 population resulted in Bihar's share in terms of tax effort exceeding that of all states except UP and Maharashtra.
- Similarly, scaling demographic performance, defined as the inverse of fertility ratio, by the 1971 population, resulted in UP's share exceeding that of all other states; even Bihar's share looks quite respectable compared to Gujarat's.

• Resource Mobilisation Issues

- It recommended reducing off-budget borrowings and ensuring the stability of direct tax rates and thresholds and these have already been acted upon by the finance minister in the [2021–22 budget](#).
- It also recommended the restoration of the revenue neutrality of the GST rates that was compromised by its multiple rate structure and several subsequent adjustments, which brought down the rates on many commodities.
- The Fifteenth Finance Commission recommended a rationalised structure of GST by merging the rates of 12% and 18% slabs and converging into a three-rate structure of a merit rate, a standard rate, and a demerit rate of around 28%–30%.

• Expenditure Aspects

- The pandemic has seriously exposed the weaknesses in our healthcare system—especially in the rural areas.

- Almost three-quarters of the health infrastructure being urban-centric, the primary healthcare infrastructure and delivery system in the rural areas remain among the most neglected sectors.
 - It recommended that health expenditure should constitute more than 8% of a state's budget by 2022, and public health expenditure of the union and the states together should be increased in a progressive manner to reach 2.5% of the gross domestic product (GDP) by 2025.
 - The total health sector grants over the award period amounted to Rs 1.07 lakh crore, which is more than 10.3% of the total grants-in-aid recommended by the finance commission, but is only about 0.1% of the GDP.
 - However, the commission did not indicate any road map for this, except broadly recommending increases in allocation by individual states and the union.
 - It has though, noted that centrally sponsored schemes such as the [National Health Mission](#) and the Pradhan Mantri Jan Arogya Yojana account for the major healthcare expenditure of the union, which are primarily top-driven and need much more flexibility for the states to “adapt and innovate” to tailor these to their specific needs; besides, there is also an urgent need to shift the focus from inputs to outputs and outcomes, away from the current focus on line items and activities.
- **Other Issues**
 - For the local bodies, the commission has recommended a grant of Rs 4.36 lakh crore during 2021–26, which will be distributed among the states with a weightage of 90% for the population and 10% for the area.
 - Of these, 54% will be earmarked for Panchayati Raj institutions, 28% for urban local bodies, and 16% for fixing the critical gaps in the healthcare system at the primary level through local governments, of which Rs 24,028 crore and Rs 2,095 crore are respectively meant to develop the urban health and wellness centres and urban primary health centres.
 - Private healthcare remains largely unregulated and unmonitored, the public healthcare delivery systems lack efficiency, accountability, as well as the availability of adequate human resources.
 - For the states as well as the union, the commission has recommended a fiscal road map for deficits and borrowings, but it is again doubtful how much of these targets will actually be achieved, given the uncertain recovery of an economy battered by the pandemic.
 - The commission has also urged for greater accuracy, timeliness, and transparency in government accounting and financial reporting systems and strengthening of the cash management practices.
 - The one significant recommendation that can transform the public financial system to compete with the best in the world in terms of transparency and fiscal discipline is the setting up of an independent, advisory fiscal council with powers to access governmental records.

2. No Ordinary Road Rage

Incident

- On October 3, 2021, three cars rammed into a crowd of protesting farmers in Uttar Pradesh's Lakhimpur Kheri in Uttar Pradesh.
- Lakhimpur Kheri district is the largest district in Uttar Pradesh, on the border with Nepal.
- The incident left eight people dead: four farmers, two BJP workers, a driver of one of the vehicles, and a journalist.
- As per newspaper reports, two of these cars belong to union minister Ajay Kumar Mishra.

Media Story

- As media reports show, three cars sped through protesting farmers as they marched and killed eight people, four of them farmers.
- Reports indicate that arrests have been made and summons was sent to the son of a union minister, who was allegedly present during the incident.
- Some reports suggest that there were gunshots fired.

Political Aftermath

- The state government has announced a judicial commission led by a retired high court judge to inquire into the events that unfolded.
- Rakesh Tikait arrived at the scene, and reports suggest that some kind of peace has been restored between the Samyukta Kisan Morcha leader and the representative of the state government.
- Farmer leader Rakesh Tikait brokered a deal that allowed for the cremation of the bodies and compensation to be paid.
- The matter has reached the Supreme Court. The Supreme Court has taken suo motu cognisance, ordering an action taken report from the administration.
- There is frustration among the ranks of the ruling regime.
- The forthcoming elections in UP and Punjab are crucial.

Concerns

- The lack of remorse with a narrative like 'the protesters had it coming' on account of their actions is worthy of concern.
- The grammar of violence is coded into the power rooted in the social hierarchy and cannot be extricated from that easily.
- The nature of violence in this case, and at different points in the recent past, has a brazenness and ruthlessness whose source is not far from a feudal imagination of dealing with resistance.

Overview

- Such incidents raise very serious questions regarding the present challenges that have come up in the way of Indian democracy.

Read previous [EPW](#) articles in the link.