***If asked a question on how states have more autonomy under the NDA budget and these social sector cuts are not necessarily cuts, 4 possible arguments may be made to counter this question. However, before this let us understand what the government is claiming***

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| **Government Justification:** The justification provided by the government for such reduction is on account of the 14th Finance Commission (FFC) recommendations for fiscal devolution to states. One of the major recommendations made in the FFC report which was tabled last week, and accepted by the centre, took a leap forward in terms of changing the nature of resource sharing between centre and states. The FFC recommended a transfer of 42 percent of the divisible central taxes to the states which amounted to an increase by 10 percent points from its predecessors. This comes as a relief to the states who have been demanding 50 percent share of taxes. The increased devolution also works in tandem with the spirit of fiscal federalism with more autonomy and resources to the states. With the replacement of the Planning Commission by NITI Aayog and the acceptance of greater share of taxes to be devolved to the states, the government has termed it as a stepping stone for ‘cooperative federalism’. |

## Bursting the Government Myth:

***1. The Myth of more funds flowing to states:***

* Prime Minister Narendra Modi and Finance Minister ArunJaitley have been claiming credit for accepting the recommendations of the 14th Finance Commission which looks to transfer a much larger share of resources to the states. This move like every other aimed at hoodwinking the states. The budget numbers reveal, however, that the states won't really get much more in 2015-16 than in 2014-15 and they may even be worse off.
* The list of existing Central schemes has been unbundled into three categories in the budget. In Category A are schemes the Centre continues funding fully. Category B consists of programmes that'll have state and central funding but the Centre's share will go down. Category C schemes will no longer have central support.
* Comparing budget estimates of 2015-16 with those of 2014-15 shows the fall in Central funding to Category B and C schemes together is about Rs 66,000 crore. Compare this with how much states gained in net transfers from the Centre, including tax devolution, they have gained a little under Rs 64,000 crore, 1.5% of the Centre's gross tax revenues. This implies that whatever the states have to shell out for Category B and C schemes wipes out what they gain through fund transfer from the Centre.

***2. The question of state capacity which varies from state to state:***

* A deeper examination of the amount of increased devolution provides a clearer picture of the status of overall resources being transferred to the states. Hence, while the states’ share in central taxes and Non-plan grants as share of GDP does show an increase, the total Union resources reveals a decline from last year’s budgeted expenditure.
* It therefore implies that while the states would definitely enjoy a greater degree of autonomy and flexibility in terms of deciding on their expenditure priorities, it does not necessarily imply an increased spending capacity for the states. For e.g. a prosperous state like Karnataka may carry forward all schems. However, Arunachal Pradesh or Chattisgarh will not have the same state capacity to continue these schemes. Thus the Union government’s argument for reducing total expenditure as a result of increased devolution to states remains unconvincing.
* The reduced expenditures also throw light on the lack of priority accorded to the social sector commitments of the Union government. The Union budget categorically states that due to the higher devolution of taxes to the states the Normal Central Assistance, Special Plan Assistance, Special Central Assistance and Additional Central Assistance for other purposes are subsumed in the award itself.

***3. Several important schemes have been left out of complete central funding:***

* The government has also announced that some of the schemes which represent national priorities especially those targeted at poverty alleviation will continue to be supported by the Centre. In addition, the schemes mandated by legal obligations and those backed by cess collection would also be fully provided for. The budget has also announced retaining and supporting some of the schemes which are targeted to benefit the socially disadvantaged group which includes SCs, STs, Muslims and physically challenged sections of the population.
* This list however, does not include important schemes related to children and women such as ICDS or schemes for protection and prevention of violence against women.
* Given these trends and announcements, it is amply clear that a lot of the burden to cater to the needs of the social sector as well as socially disadvantaged sections of the population has been accorded to the States on the pretext of higher tax devolutions. There is a clear decline in the social sector expenditures as share of GDP and total expenditure of the Union government as well as expenditure priorities accorded by states to social sector commitments. On an average it has ranged between 35-40 percent, thus implying that in order to cater to the needs of social sector, in the absence of the Union government interventions, the states would need to restructure their priorities. This would only be possible if the states receive commensurate increase in Union transfers to states for the purpose.

***4. An excuse to completely abandon several path-breaking social sector schemes***

* Finally, it is also important to bring in a degree of caution while interpreting some of the announcements related to major schemes under modified sharing patterns. It has been categorically added by the centre that: The Centre-State funding pattern is being modified in view of the larger devolution of tax resources to States as per the recommendations of 14th Finance Commission whereby in this scheme, the revenue expenditure is to be borne by the States. This announcement may be interpreted as a slow phase out of the schemes from the ambit of the Union government as capital expenditure on most of the listed programmes are miniscule and they have a larger revenue component which then would be borne by states.
* Thus if the resources of the states do not increase commensurately, there is an increased possibility of the important programmes suffering due to a lack of resources. This might also be burdened with the pressure on the states to bring down the revenue deficit to zero. Therefore, within the scope of ‘cooperative federalism’, increased autonomy and flexibility in spending abilities would only yield improved outcomes based on whether the overall size of the pie improves for the better. This remains to be seen in the subsequent years.