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Indian Federalism and GST [Goods and Service Tax] Instabilities and Conflicts in India

Dr.Naveen Tewari

Associate Professor, Dr. Bhim Rao Ambedkar Govt. College, Sriganganagar, Rajasthan, India

ABSTRACT: The ongoing discords between the Centre and states over issues ranging from the allocation of financial resources to fixing of Goods and Services Tax (GST) rates has once again brought to the fore issues pertaining to our federal structure, the resolution of which is essential for the country's growth.

The traditional approach to federalism that sees competition and cooperation at loggerheads is no longer relevant in the post-1990s scenario. A combination of cooperative and competitive spirit ensures the economic prosperity and welfare of the nation in an equal and equitable manner.

The rising stature of the Indian economy on the world stage can only be strengthened by a tailored approach to cooperation and competition.

KEYWORDS- federalism, GST, instabilities, conflicts, India

I.INTRODUCTION

- Federalism in essence is a dual government system including the Centre and a number of States. Federalism is one of the pillars of the Basic Structure of the Constitution of India.
- A Federal theorist K.C. Wheare has argued that the nature of Indian Constitution is quasi-federal in nature.
  - The Supreme Court, too, in Sat Pal v State of Punjab and Ors (1969), held that the Constitution of India is more Quasi-federal than federal or unitary.
- The respective legislative powers of states and Centre are traceable to Articles 245 to 254 of the Indian Constitution.
- Recent efforts in this direction include providing greater leeway to states in the functioning of the NITI Aayog, frequent meetings of the Prime Minister with the Chief Ministers and periodic meetings of the President of India with Governors.
- The functioning of "PRAGATI" to review the progress of developmental efforts has also generated the requisite synergy between the Centre and states.
- The GST has taken away much of the autonomy available to states and has made the country's indirect tax regime unitary in nature.
- After the introduction of the GST in 2017, state governments lost their independent taxation powers.
  - Liquor and fuel are the only two significant avenues left for states to generate their own tax revenues, without having to seek approval from the Union government, since they are outside the GST regime.
- India's GST is precariously held together by the loose thread of "compensation guarantee", under which states surrendered their fiscal powers in return for guaranteed revenues.
  - However, during the Covid-19 pandemic, the Union government repeatedly violated the compensation guarantees to the States under the GST regime. Delay in paying the States their due worsened the impact of the economic slowdown.
  - The GST compensation period expires in June 2022, and despite multiple requests from the States, the deadline has not been extended.[1,2,3]
- Recently, the Supreme Court in a judgment invoking the spirit of "Cooperative Federalism" for the well-being of democracy, held that Union and State legislatures have "equal, simultaneous and unique powers" to make laws on Goods and Services Tax (GST) and the recommendations of the GST Council are not binding on them.
  - The apex court's decision came while confirming a Gujarat High Court ruling that the Centre cannot levy Integrated Goods and Services Tax (IGST) on ocean freight from Indian importers.

- In simple terms, Parliament and State Legislatures have simultaneous powers to legislate under the GST.
- A Reformed Approach toward States: The Centre could strive to be more conciliatory towards States' concerns and fiscal dilemmas.
    - The Council should also meet more often to nurture the critical fiscal federalism dialogue in the right direction and minimize trust deficits.
    - There are many pending reforms that require the Centre to work more cohesively with States to take India's economy forward and lift those left behind - land, labor markets as well as the agrarian sector.
- Horizontal and Vertical Level Cooperation: Cooperation between the Centre and states is required at both vertical (between Centre and states) and horizontal (among states) levels and on various fronts.
    - This includes fine-tuning of developmental measures for desired outcomes, development-related policy decisions, welfare measures, administrative reforms, strategic decisions, etc.
- Reforms in GST Council: It may be time already for reform of the GST. What is needed is statesmanship at the GST Council even if the Court has said that the Council is a place as much for political contestation as for co-operative federalism.
    - The Council should transcend political rivalries of the day.
    - The States should have the right to dissent in the Council and their voice should not be drowned in the pursuit of unanimity in decision-making.
    - The competitive aspect of federalism can positively be harnessed by encouraging states to adopt each other's best practices. This positive competition can be ensured vertically as well as horizontally.
    - Positive efforts of states towards attracting investment can create a conducive environment for economic activities in urban and backward regions alike.
    - Healthy competition coupled with a transparent ranking system would ensure the full materialization of the vast but least utilized potential of the federal framework.
        - Healthy competition among states would also help them innovate and generate the requisite synergies for local businesses.
    - Adoption of best practices and implementation of reforms at the ground level would positively impact the ease of doing business for MSMEs.
    - This would raise India's manufacturing capacity to the next level and radically transform India's growth story.
    - The rise in economic activities would result in higher GST collection and thereby boost the government's welfare measures.
    - Competition among states along with hand-holding by the Centre has the potential to enable the realization of the goal of a five-trillion economy by future[4,5,6]

II.DISCUSSION

Fiscal federalism broadly considers the vertical structure of the public sector, fiscal policy institutions and their interdependence.

First, one needs to determine at which level of government to assign different expenditure responsibilities. The conventional starting point is that local governments hold more detailed information on the preferences and local needs of their citizens than any higher level of government and that, and consequently, it is in their interest to provide many of the public goods and services to their citizens. In general, this suggests that the lowest possible level of government should provide public goods and services. This consideration is also implicit in the European Union subsidiarity principle and fiscal decentralisation in most sovereign countries. However, according to the conventional view, policies concerning macroeconomic stabilisation and redistribution should be left primarily for higher levels of government, such as the federal government, since they serve national interests. In addition, policies that induce significant spillover effects to other jurisdictions could justify assigning particular tasks to the central government.

Second, one needs to determine the strategy to finance a given level of public goods and services. The starting point is that the level of government that is responsible for the provision of a particular good or service should also be responsible for its funding and collecting the necessary revenue. In this case, it is more likely that the provider bears the full costs related to provision and, consequently, moral hazard is limited. As different types of tax instruments have heterogeneous characteristics, for example, due to differences in the mobility of their tax base, instruments should be allocated to the level that is most effective in raising the revenue. Thus, tax instruments should be assigned so that each government can realistically collect sufficient tax revenues. In practice, different levels of government are only rarely self-sufficient in terms of financing their legal responsibilities.

Third, and as a consequence of the previous two points, one needs to determine the appropriate instruments (and their degree) to equalise disparities in fiscal resources and fiscal needs, both over time and across jurisdictions. In most federal systems, there exist both vertical transfers, in which there are transfers from different levels of government to each other, and horizontal transfers, in which there are transfers across the same level of government. The differences between revenues and expenditures are called vertical and horizontal fiscal imbalances, or fiscal gaps. Borrowing and different types of transfers (including tax sharing, conditional and unconditional grants and transfers based on demographic factors) are alternative instruments used to stabilise the imbalances in revenues and government expenditures over time.

Fourth, and to the extent that the vertical design does not impose fiscal discipline to an adequate degree, one needs to adopt strategies to cap excessive spending and borrowing at each level of government. The logic is mainly to avoid fiscal free-riding and moral hazard: given the interconnected area and fiscal framework, governments may implement policies that have negative spillover effects on other jurisdictions and regions. Governments may also aim to benefit from transfers from other regions. In all federal countries, there exist some form of fiscal rules and governance concerning budget deficits and borrowing, but strategies differ.[7,8,9]

Finally, it should be noted that in many respects, the allocation of responsibilities and instruments to different levels of governments is never clear-cut; there is always some degree of overlap. For example, many government responsibilities are either shared between the federal and state governments, or their actions are coordinated. In addition, harmonisation in tax bases and national standards imply that fiscal instruments are not always fully adjustable to regional preferences, even if the instruments were solely assigned to their use.

Here, the focus will be to discuss the changing landscape of centre-state relations and the dynamic federal polity, particularly of India. Federalism means different things to different people. Some federal romantics believe that the future of India lies in greater autonomy and power to states and that the evolution of the polity has deprived the subnational governments of making a more meaningful contribution to the development process. This could equally be said about the third tier of government, namely Panchayat and Urban Local Bodies (as they are called in India). There are others however, who look at this issue more clinically, broadly examining the architecture of fiscal federalism and its adherence to the original architecture. As Charles Kennedy said, however, “we have to win vocabulary before we succeed in the vision”. The same holds true for fiscal federalism.

This is organised as follows: the following section provides some background on the principles of fiscal federalism and the changing dynamism of federalism. This is followed by a description of the evolution of fiscal federalism in India during the pre-independence (pre-1950s) and post-independence periods (post-1950s). The sixth and seventh sections trace the trend of fiscal transfers to subnational governments over time. The penultimate section discusses emerging challenges in India’s fiscal federalism, and the final section offers some concluding remarks.

Democracies all over the world have become leadership-oriented; this is more de jure than de facto. With forms of government headed by presidents, it is self-evident, but this is also the case in democracies where citizens vote for prime ministers.

In federations, central leadership matters greatly. In India, for example, electoral positions are significantly centred on the leadership of political parties. Votes are sought for the prime minister or the chief minister for elections, most recently with strong electoral mandates. Even in many subnational government elections, the prime minister is often seen rallying the ruling party to garner electoral support.

The nature of governance has changed fundamentally in India. For example, it is not possible for any prime minister, while visiting a subnational government, to state that he/she cannot provide support for drinking water, improved power supply or enhanced agriculture just because the subject is not in the purview of the central government, but in the domain of the states. This is not a practical proposition because the Constitution serves the people and states that government must adapt to its citizens’ changing expectations.

Reconciling harmonious relationships between subnational and national entities must address the principal challenge of the changing dynamics within the electoral framework itself, and the parliamentary democracy from which multiple mandates are born. Politics have changed the effects and rationality of several primary relationships that were perceived initially in the Constitution and enacted in the early 1950s.

Federalism in India, pre-independence

The federal system is essentially a post-industrial revolution phenomenon. India, as a federal system, is about 70 years old, compared to the federal systems of the United States, Switzerland or Canada, which are more than two centuries old. There is a wide variety of international experiences in fiscal federalism based on: 1) the division of functions among different tiers of government; 2) the design of fiscal transfers; 3) principles of assessment; and 4) institutional arrangements (Ma, 1997[3]). Furthermore, intergovernmental fiscal transfers are either constitutionally or legally mandated.

Many of the features of India's fiscal federalism are intertwined with the history of the East India Company and the British Crown. The East India Company was granted a Charter of Incorporation in the year 1600 by Queen Elizabeth, which gave the company exclusive trading rights with India. The East India Company then set up a number of factories and trading centres in different places in India. Bombay, Madras and Calcutta became the main settlements and were declared as presidencies. Under the Act of 1773, the Calcutta presidency was given full powers over the other two presidencies of Madras and Bombay, which for the first time resembled setting up a government.

Only in the Charter Act of 1833, however, was a central fiscal authority with presidencies as integral constituents actually formed, which vested the financial and legislature powers in India solely in the Governor-General of Bengal, who was designated the Governor-General of India, centralising the entire administration. The current system of the financial year ending on 31 March, along with the principles of the English budget system, was adopted with the Crown taking direct control in 1858. The Union, State and Concurrent Lists in the current Indian Constitution have its genesis in the first budget, which was presented in 1860-61 under the new system.[10,11]

A system of diarchy, dividing the administrative subjects into two categories of central and provincial was the result of the Montague-Chelmsford reforms enacted in the Government of India Act, 1919. Under the Act, provinces gained power by way of delegation, whereas the central legislative retained the power to legislate on any subject for the entire country. The Act also divided the sources of revenue between the centre and provinces.

The Government of India Act, 1935, established a federal system with provinces and Indian states as two distinct units. Under the act, legislative powers were distributed under three lists: the Federal List, the Provincial List and the Concurrent List. This act made the revenues and finances of the provincial government distinct from those of the federal government. The act also provided for the collection and retention of levies by the federal government and spelt out details for the distribution of financial resources and grants-in-aid to provinces. As per the act, such sums as prescribed by his majesty – in Council – were to be charged on the revenues of the federation. The Government of India Act, 1935 established the basic structure of fiscal federalism in India, one that survives today.

The Constituent Assembly was constituted in 1946, which adopted a unitary form of government. The federal framework evolved, though indigenously, over a period. The final shape of the federal form of government and federal finance was incorporated in the Government of India Act, 1935. The framework also had some features of a parliamentary system. However, the nature of the relationship between the proposed federal government and the provinces of British India relative to that of the princely states was resolved only after independence, but before the Constitution was adopted.

Federalism in India, post-independence

India, at the time of independence, had nine provinces and over 500 princely states. The princely states accounted for 40% of the territory and 30% of the population, and were diverse in size, character, systems and in the nature of their relations with British India. They were integrated with India after independence, and the union of states came into existence on 26 January 1950. The evolution of fiscal federalism in India was heavily based on the Government of India Acts of 1919 and 1935. While the Act of 1919 provided for a separation of revenue heads between the centre and the provinces, the 1935 Act allowed for the sharing of the centre's revenues, and for the provision of grants-in-aid to provinces.

There was no unanimity among the members of the Constituent Assembly with regard to the name of the country. Wherein some members suggested the traditional name (Bharat), others advocated for the modern name (India). Hence, the Constituent Assembly adopted a mix of both ("India, that is, Bharat"). Secondly, the country was described as a "union" although its constitution is federal in structure. On 4 November 1948, Dr B. R. Ambedkar, while moving the

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Draft Constitution in the Constituent Assembly responded to the question as to why India is a "union" and not a "federation of states":

"The Drafting Committee wanted to make it clear that though India was to be a federation, the federation was not the result of an agreement by the states to join in a federation and that the federation not being the result of an agreement no state has the right to secede from it. The federation is a union because it is indestructible."

Political scientist Alfred Stepan, categorised India as a "holding together" as opposed to a "coming together" federation. Unlike the federal form of government in the United States, which is described as an indestructible union composed of indestructible states, India is described as an indestructible union of destructible states. The Indian federation has seen multiple transformations since 1947. This is because Article 3 of the Constitution empowers Parliament to create new states. While such a provision can be seen as giving too much power to the union, it has arguably been central in holding India together since it allows the federation to evolve, respond and change according to subnational aspirations.

Initially, in 1950, the Constitution contained a four-fold classification of the states of the Indian union, into Parts A, B, C, and D. With the States Reorganisation Act (1956), the distinction between Part A and Part B states was done away with, while Part C and Part D states were abolished. Currently, India now has 28 states and 9 union territories.

Broadly speaking, with the evolution of fiscal federalism in India, there has been marked stability in its process and procedures. The annual budgetary processes of both the central and federal governments are independent exercises and must pass through the Parliament or state legislature. The Finance Commission, which was first constituted in 1951, performs the functions broadly enshrined in Article 280 of the Indian Constitution

For most of the post-independence era, the existence of the Planning Commission injected centralising dependence in more ways than one. The Planning Commission became a parallel institution for the transfer of resources from the Union of States. While the focus of the Finance Commission remained on the revenue account, the Planning Commission was concerned predominantly with the capital account. Successive Finance Commissions commented on this as being inconsistent with the spirit of the Constitution in the devolution of resources. There were other developments, like the 73rd and 74th Amendments of the Constitution in 1992 giving status to Panchayat Raj institutions and Urban Local Bodies with specific functions assigned to them under the 11th and 12th schedules.

As coordinating entities between the central and subnational governments, two key institutions have remained: the National Development Council constituted in 1952 to oversee the work of the Planning Commission (to approve their five-year plans and their mid-term appraisals), and the Inter-State Council, set up following a Constitutional Amendment in 1990, based on the recommendations of the Sarkaria Commission Report. Centre-state relations and their dynamics have kept pace with the changing needs of the time. India has changed remarkably in its economic policies and its governance rubric.[12,13,14]

The role of the Finance Commission in India's federal architecture

The Finance Commission has an important role to play in India's overall federal architecture. In fact, it may be older than the Constitution of India. Article 280 of the Constitution says the Finance Commission was formed to define the financial relations between the central government of India and the individual state governments.

The Finance Commission broadly assesses the overall gross tax revenues of the union: cesses, surcharges and non-tax revenue are netted out from gross tax revenue to arrive at the net divisible pool (NDP). Following a constitutional amendment in 2000, the divisible pool now consists of all taxes of the union and not merely income tax and excise duty. Thus, in deciding the distribution of the corpus contained in the net divisible pool, the Finance Commission undertakes consultations and visits all subnational governments, and receives their memorandums/submissions as well as those of the union government. Bearing in mind the needs of the central and subnational governments, the Commission then decides on what percentage out of the net divisible pool should be assigned to the subnational governments and thereby, leaves the balance to the central government.

The Fourteenth Finance Commission decided that 42% of NDP should go to the subnational governments by way of devolution, or net proceeds of taxes, and the balance should go to the central government. In addition, after projecting the likely growth rates of individual subnational governments and their likely buoyancy in appropriate cases, a revenue deficit grant under Article 275 was given. This is in addition to resources being made available to subnational governments from out of the resources of the government for disaster management and state-specific grants. As far as the interstate allocation of resources among the subnational governments is concerned, the Finance Commission decides on the parameters and then assigns weights to them. Over time, the parameters have remained constant, namely population, income distance, geographic area and fiscal compliance. The weightages to be assigned to these individual factors have also been circumscribed by past legacy, but each Finance Commission has faced its unique challenges.

Trends in fiscal transfers to the states over the years

At the core of fiscal federalism in India lie fiscal transfers from the central government to subnational governments. Transfers are predominantly based on the recommendations of the Finance Commission and consist of tax devolution and grants. With the initiation of planned economic development and the centre's interventions in a number of subjects in the State List in the form of centrally sponsored schemes (CSS), a significant number of transfers are taking place outside the recommendations of the Finance Commission. Therefore, to gain a comprehensive view of central transfers, it is necessary to analyse the aggregate transfers, i.e. those recommended by the Financial Commission and those made outside of it. The study of these shows that vertical as well as horizontal balances recommended by the Finance Commission can be counterbalanced to some extent by the Union through the levy of cesses and surcharges, and through non-Commission transfers.

One noteworthy development due to the acceptance of the recommendation of the Fourteenth Finance Commission is the decline in discretionary transfers since 2015-16 from the centre. With the removal of the distinction between plan and non-plan, the predominant share of the Finance Commission transfers in total transfers is likely to continue, if the centre does not use its fiscal headroom to introduce more schemes funded by the centre.

III.RESULTS

There are a number of challenges facing India's fiscal federalism. First, the Seventh Schedule of the Indian Constitution broadly demarcates the functions of governance into three lists. This schedule distributes the legislative and financial powers between the union and the states. List I pertains to subjects of the centre. List II pertains to subjects that belong to the subnational governments. List III is a category called the Concurrent List, which belongs to both the central and subnational governments, and in the event of conflicting legislation, the law passed by the centre prevails.

Over time, the Concurrent List has sought to occupy increasing space, transgressing its earmarked borders and intervening in the subjects of subnational governments. This has taken the form of a formal act through, for example, constitutional amendments like the 42nd Amendment of the Constitution (1975), which shifted the subjects of forest and education from the State List to the Concurrent List.[15,16,17]

There have been other ways in which the original demarcation has been altered. Take, for instance, the issue of entitlement-driven legislations. Some time ago, India entered an era of entitlement-based stand-alone legislation. The classic examples are the Mahatma Gandhi National Rural Employment Guarantee Act of 2005, the Right of Children to Free and Compulsory Education Act of 2009 and the National Food Security Act of 2013. This was the area where fiscal authorities should have intervened, as employment, education and food were originally intended to be the domain of subnational governments.

Second, there is the issue of the incongruence of Article 282 of the Constitution with the letter and spirit of the Seventh Schedule. Article 282 of the Constitution states that
"The Union or a State may make any grants for any public purpose, notwithstanding that the purpose is not one with respect to which Parliament or the Legislature of the State, as the case may be, may make laws."

Originally, in the Indian Constitution, it was not expected to be an overarching provision, but an extraordinary provision that was to be used very sparingly. Shri K. Santhanam, Chairman of the Second Finance Commission on Article 282, said:

"This was not intended to be one of the major provisions for making readjustments between the Union and the States - if that was the idea, then there was no purpose in evolving such a complicated set of relations of shares, assignments and grants. There is no purpose in having two Articles enabling the Centre to assist the States-one through the Finance Commission and the other by more executive discretion. In the latter case, even parliamentary legislation is not needed. Of course, it will have to be included in the Budget. But, beyond being an item in the Budget, no further sanction need to be taken. Therefore, in my view, this Article was a residuary a reserve Article to enable the Union to deal with unforeseen contingencies. That was how this Article was used both by the British Government and, after transfer of power, before the first year of the First Five Year Plan. Under this Article, only some grow-more-food grants and some rehabilitation grants were given."

N. A. Palkhivala, a Constitutional expert, stated in his opinion given to Ninth Finance Commission, "Art. 282 is not intended to enable the Union to make such grants as fall properly under Art. 275. Art. 282 embodies merely a residuary

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power which enables the Union or a State to make any grant for any purpose, irrespective of the question whether the purpose is one over which the grantor has legislative power."

The legitimacy of all centrally sponsored schemes, most of which are in the domain of the states, emanates from the use or misuse through recourse to Article 282. Indeed, the raison d'etre of the Planning Commission in many ways emanated from excessive use of Article 282 in the plethora, if not the jungle, of what has come to be known as the centrally sponsored schemes. Here again, notwithstanding the successive attempts to rationalise these schemes, the last being under the Committee headed by the former Chief Minister of Madhya Pradesh, Shivraj Singh Chauhan, their numbers and diversity remained very robust. Based on an exercise by the Fifteenth Finance Commission, there are approximately 211 schemes/sub-schemes under the umbrella of 29 core schemes. Many of these exist masked under the so-called umbrella schemes. What is even more staggering is that the total outlay of the central government on these centrally sponsored schemes is approximately INR 3.32 trillion in 2019-20. Considering that the states often protest that these schemes are ill-designed, not suited to their specific needs and entail significant financial outlays by them, no state has decided to abandon them. Far from centrally sponsored schemes seeing the end, some large schemes in the shape of Ayushman Bharat and Swachh Bharat are expanding their scope and dimensions.

Another challenge is that of fiscal incongruity. One of the terms of reference made to the Fifteenth Finance Commission is to review the current level of debt of the union and the states and recommend a fiscal consolidation roadmap for sound fiscal management. As per the amended Fiscal Responsibility and Budget Management (FRBM) Act, the central government shall take appropriate steps to ensure that:

1. 1.The general government debt does not exceed 60%.
2. 2.The central government debt does not exceed 40% of gross domestic product (GDP) by the end of fiscal year 2022/25.
3. 3.According to the central government budget (Statement of Fiscal Policy as required under FRBM Act 2003, July 2019), the central government debt is estimated at 48.4% of GDP for 2018/19 RE. It is expected that central government liabilities will come down to 48% of GDP in 2019/20 BE.
4. 4.The outstanding liabilities of the state governments stands at 25.1% of gross state domestic product (GSDP) in 2017, with a range of 42.8% in the subnational government of Punjab and 17% in the subnational government of Chhattisgarh [18,19]

CONCLUSION

Finally, there is the issue of the goods and services tax (GST), which was rolled out across the country on 1 July 2017. The GST subsumes the majority of the indirect taxes – excise, services tax, sales tax, octroi (entry tax) – to create "One Nation, One Market". To sort out issues pertaining to the implementation of the GST, the GST Council was formed as a constitutional body involving the centre and the states under Article 279 A(1). Since the Council decides the central goods and services tax (CGST) and state goods and services tax (SGST) rates, it ensures that the states are significant partners even on issues such as macroeconomic engagement, and in deciding tax rates. However, on the flip side, states have lost the autonomy to decide the tax rates of subjects that fall within the State List. Previously, state governments used to fix tax rates by taking into account their spending requirements, revenue base, etc. The inability of states to fix tax rates to match their development requirements implies greater dependence on the centre for funds.

Indian polity has evolved beyond recognition. When the Constitution of India was drawn up, the interdependence among states, fostered by technology and migration had not gathered pace. The autonomy of states in a pre-globalised era is vastly different from that found in an era where both migration and technology erode the boundaries of states unperceptively. Not undermining the importance of global value chains (GVCs), the time has come to develop and foster the Indian value chain. Products, processes and services commenced in one state could involve several states before it reaches the final consumer.

National priorities and notable policy initiatives like Swachh Bharat, the New Education Policy, Ayushman Bharat and Swachh Jal through Jal Jeevan Mission constitute an integral part of the changing dynamics and nature of responsibilities between the centre and the states. The issues of National Priority transcend boundaries as they are designed to address the basic tenets of growth multipliers, benefitting every segment of society and addressing welfare tenets on health, housing and employment as core national priorities.

There are several points of action to be considered. For example, it is important to take another look at the Seventh Schedule – the allocation of centre-state responsibilities – in today's contemporary context. Unless the contours of the

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schedule are redrawn, some of the incongruities between the contours of the Schedule and Article 282 of the Constitution and the stand-alone legislation of the subjects will remain cluttered and opaque.

A far more credible policy for the rationalisation of centrally sponsored schemes and central outlays is also needed. Several committees have attempted to do so in the past, but the outcome has been elusive. This is even more relevant since the role of the National Institution for Transforming India (NITI Aayog), which is primarily a think tank institution and not a financial body, remains somewhat unclear in the financial sphere. There is no central entity with an overview of the centrally-sponsored schemes and how many and in what form many of these could be amalgamated with central sector outlays.

Further, with the abolition of the Planning Commission, many economists and policy makers have argued that there exists an institutional vacuum. While the National Development Council (NDC) is performing an important function, states have pleaded for a credible institution to act as a link for policy dialogue with the centre of government, as in many countries around the world. In Australia, for example, states came together in 2005 to set up the Council for the Australian Federation to jointly represent their interests in Canberra. India has an institutional entity – the Inter-State Council – how to rejuvenate and rekindle it deserves serious consideration.

Another area of incongruity is the fiscal story. As mentioned above, one of the terms of reference made to the Fifteenth Finance Commission is to review the current level of debt of the union and the states and to recommend a fiscal consolidation roadmap for sound fiscal management. Reforms in public finance management (PFM) systems are a continuous process. Previous Finance Commissions have made recommendations on various aspects of the PFM systems of both the union and states, focusing on budgetary and accounting processes, financial reporting, etc.

It is important now to rethink the design and structure of a genuine fiscal partnership, which should not merely be a race to garner more resources, but a creative attempt to move towards a vibrant Indian value chain that can catapult India's growth rate closer to the quest for double-digit growth. Times of economic slowdown must be viewed anecdotally as they are transient in nature and cannot impair India's vision, both with regard to its potential and its historical compulsions. It is necessary to recast the ideology in a more contemporary context; only then will the practice become more transparent, and India will benefit from congruence between its precepts and practice.[20]

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