States need resources  
During pandemic, Centre must not constrain states

In the design of its pandemic relief package, the Union government has been careful about the immediate fiscal impact. This is because it is facing a severe revenue crunch. The under-performance of goods and services tax predates the pandemic — but, naturally, the near complete standstill imposed by the lockdown will have further affected revenue. In her announcement of the package, Union Finance Minister Nirmala Sitharaman was right to note the fiscal problems the Union government was facing were also applicable to the state governments. In fact, many states witnessed revenues decline by up to 90 per cent in April. They must be allowed to borrow more freely than the package envisages.

The state governments require greater independence and consideration. First of all, they are on the front line in terms of dealing with the spread of the disease, and in managing quarantine and treatment. The administrative and other expenses of quarantining, contact tracing, and health are straining their finances. Secondly, they are facing an even more severe resource crunch than the Union government — especially those that depend upon their own revenue and not transfers from New Delhi. Poor states in the Gangetic belt like Uttar Pradesh and Bihar will expect transfers from the Union; but states like Tamil Nadu, Gujarat, and Maharashtra, which get more than two-thirds of their revenue from their own sources, will be hit hard. State governments’ revenues come from their share of goods and services tax (GST) and petroleum taxes; the excise on liquor; as well as stamp fees and duties on property and vehicles. GST has fallen, and the Union was in any case dilatory in sharing states’ dues; petroleum cess was increased, but that is not shared with the states; and, of course, real estate and liquor had been locked down. Fitch estimates that states lost almost $1 trillion in revenue just in April. This follows a consistent shortfall in taxes devolved — according to the Centre for Policy Research, transfers to the states fell short by almost $7 trillion in 2015-20 than was projected by the Fourteenth Finance Commission.

In this context, ensuring that states have enough resources not just to carry on the pandemic fight but also to maintain regular spending and indeed stimulate their economies is a real challenge. Note that there is a ceiling on borrowing by the state governments at 3 per cent of state gross domestic product per financial year. This has helped control the states’ share of the general government deficit. However, it is clear that at this unprecedented moment some special measures will have to be taken. The Union government’s relief package included the announcement that states will be able to borrow up to 5 per cent of state gross domestic product during this financial year — a substantial increase from the current 3 per cent. But it is unfortunately hedged about by conditions that are unwarranted in the current scenario. Even if those conditions look good on paper, in the current political scenario, the government must accept that they should not be evaluated by the Centre but by a joint or a genuinely independent body — an inter-state or a fiscal council.