Missing Prince of Denmark in the Hamlet of reforms

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BY any measure, even the hardcore supporters of the ruling party consider one year of the NDA rule as uneventful. The NDA came to power with the promise of *achhe din* (better days) for the common man through effective and transparent governance, improving the ease of doing business, accelerating growth, making the common man participate in the growth process, and reducing corruption. Indeed, there has been some progress in these directions but somehow these have not added up to make them wholesome and show clarity in the direction of reforms. Surely, many of the initiatives are works in progress but the big picture is yet to emerge. The Prince of Denmark seems to be missing in the Hamlet of reforms!

It must be noted that the NDA has been distinctly lucky. There was a concern that a poor monsoon will bring in a lot of hardship to the farm sector but it turned out to be better than originally feared, though unseasonal rains in March brought in a lot of misery to the farmers. More importantly, the global environment in the past year has been favourable and the government could have pursued reforms with much greater focus and vigour. Falling commodity prices, particularly crude oil, provided substantial relief in terms of lower inflation, reduced current account deficit and larger fiscal space. This was the time to get the prices right by disbanding administered prices (particularly fertiliser, food and raw material) to enable the markets provide correct signals, but little has been done in this direction. The focus has been to get the legislations passed in Parliament, and when it is clear that the ruling coalition does not have the necessary numbers in the Rajya Sabha, they are bound to be stuck.

One important area where the government was provided with an opportunity for reform has come from the report of the Fourteenth Finance Commission. It was creditable on the part of the government to accept the recommendations of the Commission, increasing tax devolution from 32% to 42%. Providing larger untied transfers to the states is an important measure of reposing greater trust on the states and enabling them greater flexibility for delivering public services in their domain. Of course, the Commission's recommendations included plan revenue expenditure requirements of the states and, unlike previous ones, the Fourteenth Finance Commission desisted from making various discretionary grants to the states other than the revenue deficit grants, grants for disaster relief and local body grants. If all these are considered, the increase works out to be from 39% to 42%.

To the extent the Commission's recommendations constrained the fiscal space of the government, it provided an opportunity for rationalising central schemes. The Budget substantially reduced transfers to the states under centrally-sponsored schemes. With the Finance Commission transfers as a ratio of GDP increasing from 3.4% in 2014-15(RE) to 4.5% in 2015-16 (BE), the Budget compressed plan grants from 2.2% to 1.4%. This was done by classifying plan grants into three categories. One, the block grants given earlier for plan purposes were discontinued. Two, grants for as many as 34 schemes were continued with the unchanged pattern of assistance. Three, over 50 schemes were continued with changed pattern of assistance. The change in the pattern is yet to be notified but the estimate shows that, for maintaining the same level of absolute expenditures, the states will have to contribute an additional 30% of the cost of these schemes. On the whole, after the Commission's award, transfers to the states as a ratio of GDP increases from 5.45% in 2014-15 (RE) to 5.88% in 2015-16(RE) and as a ratio of gross revenues of the Union government rose from 47.1% to 50%.

While the reduction in plan transfers is on expected lines, the approach has been largely ad hoc. As the Finance Commission took into account the plan revenue expenditure requirements of the states in its recommendations, the discontinuance of block grants given by the Planning Commission was only to be expected. But it is important that remaining grants are prioritised and rationalised. Analysis shows that, of the 34 schemes with unchanged pattern of assistance, apart from externally-aided projects, four schemes—NREGA, Prarambhik Shiksha Kosh, Pradhan Mantri Gram Sadak Yojana and National Social Assistance Programme—claim 75% of the assistance. Similarly, of over 51 schemes retained with changed pattern of assistance, nine, including Rashtriya Krishi Vikas Yojana, National Health Mission, Integrated Child Development Services and urban & rural housing, claim close to 80% of the assistance. Reducing these schemes into a manageable number will help focus on the outcomes, reduce administrative and transaction costs, and help better monitoring of schemes. It is also important to rationalise these schemes to take into account inter-state variations in policies, systems and institutions, and the Niti Aayog can play an important role in this.

The Commission has provided an opportunity to reform the transfer system and enable the Union government to make focused interventions in state and concurrent subjects which are considered to be of immense national importance through specific purpose transfer system. The approach adopted in the Budget is largely ad hoc. The time is opportune for a rationalisation and, hopefully, in this task, the Union government will take account of the views of the states and domain experts in the spirit of cooperative federalism as recommended by the Fourteenth Finance Commission.

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