Reimagining Fiscal Federalism : India's Next Chapter of Reforms

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Abstract

Fiscal federalism in India is one of the hotly contested issues in the country. There are two schools of thought on this, first is in favour of the strong centre to deal with the exigencies of the day, especially the post partition difficulties and the second school of thought argues for a fairer devolution of powers to the state and the local governments for localised interventions based on the specific demands of the state's ground realities. There exists two kinds of fiscal imbalances, one is the horizontal and the other is vertical and these impact the division of taxation powers among the Centre, State and the Local Governments. With the changing social, cultural and technological circumstances, the approach to the fiscal federalism has shifted from the The fiscal landscape of the country has been shaped by some of the bold economic reforms since the 1990s such as the 72nd CAA and 73rd CAA, GST, replacement of the Planning Commission with the Niti Aayog among others. During the past few years, there has been an imbalance in all the verticals, horizontal and fiscal. This has also led to tensions between the State and the Central governments as well as the North-South divide on the tax devolution framework. So. There is a need to rethink India's federal fiscal architecture. The paper aims to understand the various challenges of the current fiscal federalism in the country. Moreover, the paper also recommends policies for strengthening fiscal federalism.

Keywords: Fiscal Federalism, North-South, devolution, Niti Aayog, technological, imbalance.

Evolution of Fiscal Federalism in India

There has been a built-in unitary bias in the Indian federal structure which was mainly to cater to the exigencies of India's Partition. India's political dynamics has shifted from the one-party governance during post-independence times to becoming a multi-party system. Moreover, the nature of the polity, society, technology, demography and the development paradigm has undergone a transformation. These changes, especially post 1990s, have had a significant impact on the trajectory of India's fiscal federalism.

The division of powers between the Centre and the States is one of the hotly debated issues in the fiscal landscape of the country. On one hand, the states demand for more autonomy in their functioning, on the other hand, the Union Government emphasises the need for macroeconomic stability. In this context, it is also crucial to understand the constitutional aspect of fiscal federalism in India. Fiscal federalism involves the distribution of the financial responsibilities, duties and powers between the Union and the States. This also includes the distribution of taxation powers between the State governments, urban local bodies and the rural local bodies. Article 280 of the Indian Constitution provides for the constitution of a Finance Commission. The Finance Commission has been entrusted with the responsibility of maintaining smooth functioning of the Centre-State relations. The body has played a major role in addressing the various fiscal concerns, restoring budgetary balance and maintaining macroeconomic stability in the economy. The Finance Commission both at the State and the Central level plays an important role in shaping the fiscal federalism in India. Post the 73rd and 74th Constitutional Amendments, there has been transformation of the two-tier federation into a multi-tier fiscal system. India currently has a three-tier federal tax system with clear demarcation of the powers between the central, state and the local bodies. Article 270 outlines the distribution of the net tax proceeds between the Union and the States.

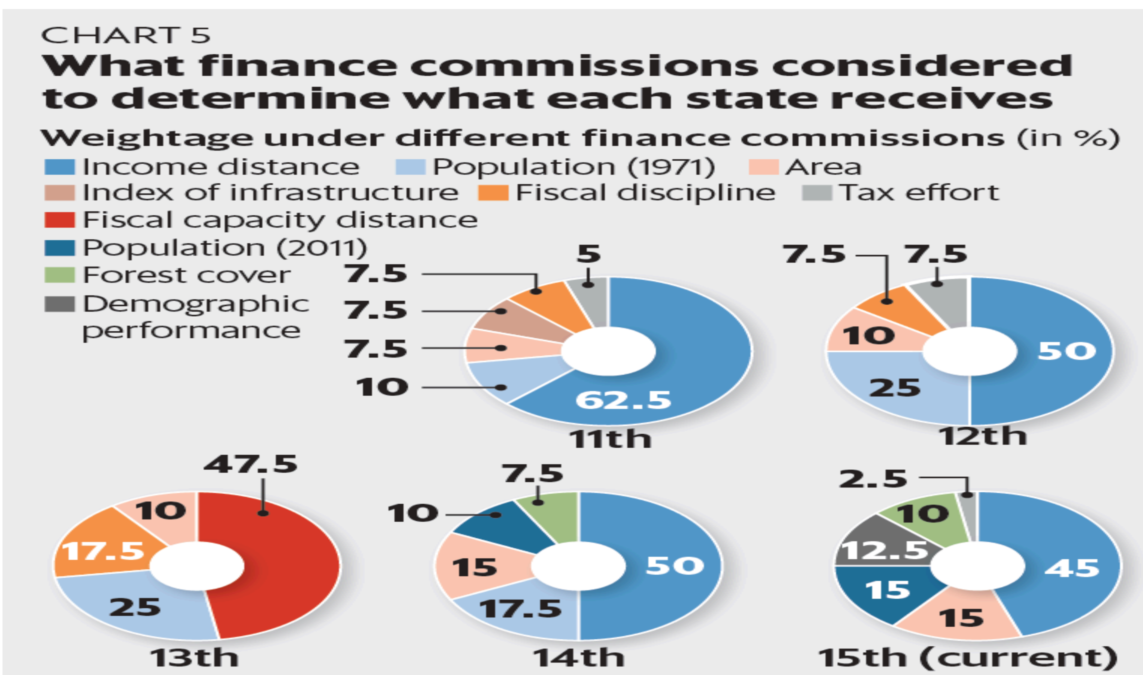
Post the 1991 LPG (Liberalisation, Privatisation and Globalisation Reforms) ,there has been a shift from the planned economy to a market-mediated economic system. There has been the transformation of a two-tier federation into a multi-tier fiscal system on account of the 73rd and 74th Constitutional Amendments. In the recent years, policy initiatives such as providing greater leeway to the functioning of the states in the NITI Aayog and increased frequency of the meetings between the PM and the Chief Ministers and the functioning of the PRAGATI has developed greater synergy of cooperation between the Centre and the States. Secondly, there has been the replacement of the Planning Commission with the NITI Aayog. Thirdly, the passage of the Fiscal Responsibility and Budget Management Act (FRBM) and the GST council have altered the fiscal landscape that has reshaped India's Fiscal Federalism. The idea of NITI Aayog was a result of the conceptualisation of the concept of cooperative federalism, which marks a break from the traditional idea of competitive federalism.

Challenges of Fiscal Federalism in India

India's current fiscal landscape faces some critical challenges which have negatively impacted its efficient and smooth functioning. The challenges are as follows:

1. **The Equity vs Efficiency Dilemma**

   There is a gap between the revenue and expenditure of the states depending upon their historical backgrounds and levels of development. Several Indian States, especially the Southern states, have argued that they have not been receiving their fair share of revenue as per the current system of tax devolution in India. **The wide ranging regional disparities across the country is one of the reasons for the current revenue distribution structure. The Southern states have always outperformed the country (especially Northern states) in almost all the social parameters.**

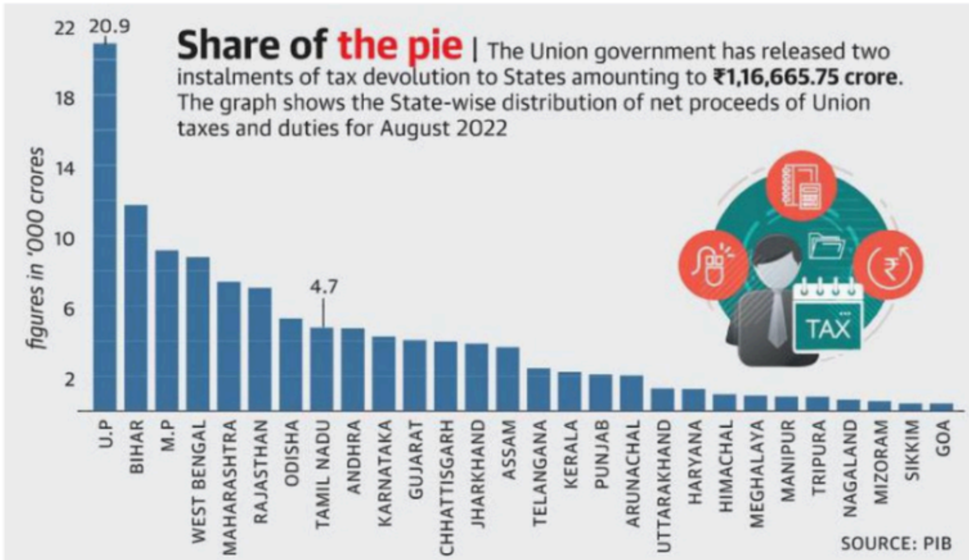


   India's fiscal transfer principles, adopted by the successive Finance Commission, gives priority to equity over efficiency is arguably progressive. The current system uses population and income as the criteria and this is based on the idea of the socialist principle which is "from each according to its ability to each according to its need.' Mumbai, Delhi, Tamil Nadu and Gujarat are the top states that account for 70% of the total tax collections in the country and these states contribute around 70% of the total direct tax collections in the country. The current tax devolution works on the basis of the "rich states pay for poor states" principle.[1] For example, Karnataka gets only 46 paise for every rupee on the other hand Uttar Pradesh gets Rs 1.79 against every rupee in the tax-revenue structure. However, Karnataka's overall performance has improved, the 14th and 15th Finance Commission revised the numbers to Rs 3.646 and Rs. 3.646 respectively. Under the 13th Finance Commission (2010-2014), Karnataka received Rs. 61,691 crore followed by Rs. 1,51,309 crore under the 14th FC (2015-2019) and Rs 1,29,854 crore under the 15th FC (2020-2026). We must also note that Uttar Pradesh's gain is much less than Karnataka in terms of the per capita income. **On the other hand, it is also worth noting that there are regions within Uttar Pradesh which are richer in terms of their economics as compared to the sub-regions in the South.** For example, Paschim Pradesh or even Awadh Pradesh has a higher per capita income (consumption terms) than the Kalyana Karnataka Region. [2]The second issue is that the states have a set of their own development expenditure responsibilities which require a huge amount of the fiscal resource value regardless of the population which should not be calculated on the per capita income and this is due to the rapidly ageing population, in-migration from the poorer states and regions of the country and increased pace of urbanisation in the Southern States.

In 2013, the Raghuram Rajan had recommended the inclusion of a backwardness index for determination of the fund allocation to the states and it was agreed upon that 60% of the central funds would be automatically transferred to the poorest states. The formula was inherently flawed as in this case, the maximum weightage was given to the state's population and then to the area of the state which made the calculations random in nature. **With this new formula, Bihar had not been given the tag of "special category state" which was even granted to Northeastern states, Sikkim, Uttarakhand, Jammu and Kashmir and Himachal Pradesh. In the latest budget, Bihar has been given its much deserved status.**

[1]Ritwik Mehta, Opinion: Tax for Dividing the Nation or Developing, February 9, 2024, News18
https://www.news18.com/opinion/opinion-tax-for-dividing-the-nation-or-developing-8772654.html

[2] Gurucharam Gollerkeri, Towards a New Paradigm of Fiscal Federalism , 28 February 2024, the Deccan Herald,
https://r.search.yahoo.com/_ylt=AwrPri2PA5FmsNMMtcO7HAx.;_ylu=Y29sbwNzZzMEcG9zAzIEdnRpZAMEc2VjA3Ny/RV=2/RE=1720808463/RO=10/RU=https%3a%2f%2fwww.deccanherald.com%2fopinion%2ftoward-a-new-paradigm-of-fiscal-federalism-2913083/RK=2/RS=2BN6L472vIkd9B8FdYeJ5WQU_8I-



Source: PIB

The grants-in-aid to States declined in the absolute amount from Rs. 1.95 lakh crore in 2015-16 to Rs. 1.65 lakh crore in 2023-24. Thus, the combined share of the statutory financial transfers in the gross tax revenue of the Union government from 48.2% to 35.32%. The decline is due to that the net tax revenue is arrived at after deducting the revenue collections under cess and surcharge, revenue collections from Union Territories and tax administration expenditure. The cess and surcharge collection in 2015-16 was 5.9% (Rs 85, 638 crore) of the gross tax revenue of the Union Government and this ratio increased to 10.8% (Rs 3.63 lakh crore) in 2023-24. This is calculated excluding the GST cess that is collected for compensating the revenue loss for the states. Due to the large availability of the funds for the Union Government to spend could affect the equity in the distribution of the financial resources among the states.

The share of the Southern States in the tax devolution system has come down from the 23.3% from the period covered by the Ninth Commission to the 15.8% in the award period of the 15th Finance Commission (2021-26)[3]. The issue of efficiency in the fiscal devolution process needs to be taken into account. There is also a looming fear about the delimitation process in 2026 which would impact the parliamentary representation of the

[3] Anna Isaac, Explained: How South States Stand to lose from 15th FInance Commission Recommendations, 3rd Feb 2020 The News Minute https://r.search.yahoo.com/_ylt=Awrx.gLDA5Fm9dsNFR27HAx.;_ylu=Y29sbwNzZzMEcG9zAzEEdnRpZAMEc2VjA3Ny/RV=2/RE=1720808516/RO=10/RU=https%3a%2f%2fwww.thenewsminute.com%2fnews%2fexplained-how-south-states-stand-lose-15th-finance-commission-recommendations-117406/RK=2/RS=KM2Plur28XiElifx4UyiIgf0RTc-

Southern States. Even within the states with higher per capita income, there are large intra-state differences and presence of backward pockets. The Fourteenth Finance Commission recommended that the states should receive 42% of the total tax revenue which includes revenue from the GST.[4] The equity considerations and the balancing act between the better performing states in the backward states is a major challenge for the fiscal federalism in the country.

2. **Lack of Revenue Autonomy of the Panchayati Raj System**

Kerala has often been held as the classic example of fiscal decentralisation. The study of the Centre for Policy Research Report, 2021 stated that Kerala has recognised the advanced model of fiscal decentralisation to the rural local governments, which has led to the successful devolution of revenues at the local levels. However, the implementation has been partial and distorted. This is because of the non-transfer of adequate powers and resources for meeting the additional functions as well as non-transfer of financial powers for revising the rate of tax and non-tax items of the local governments. The question of who should tax what, has been borrowed generously from the Government of India Act 1935. As per the RBI Report 2022-23, panchayats have a total revenue of Rs 35,354 crores, out of this, only Rs 737 crore was generated through their own tax revenue model. [5]The share of the panchayat in the State's own revenue is minimal in nature. **The recently released report on the Finances of Panchayati Raj Institutions by the RBI for FY 22-23 reports that the panchayats are excessively reliant on the grants from the Central and the State government.** T**he gram panchayats lack the authority and power to collect taxes, which is a major setback to the devolution and decentralisation of powers and functions.** The gram panchayats collect 89% of their own taxes, the intermediate panchayats collect 75% and the district panchayats a nominal 5%. [6]In case of the fiscal devolution to the Panchayati Raj Systems, this

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[4] PIB Bureau, Ministry of Finance, 14th Finance Commission FFC Report, 24 February, 2015 https://r.search.yahoo.com/_ylt=Awrx.qlhDJRmLHg8mUC7HAx.;_ylu=Y29sbwNzZzMEcG9zAzEEdnRpZAMEc2VjA3Ny/RV=2/RE=1721007266/RO=10/RU=https%3a%2f%2fpib.gov.in%2fnewsite%2fprintrelease.aspx%3frelid%3d115810/RK=2/RS=Than9Hqcuk_dKksKJ_xLIGR9Cig-

[5] Panchayats in India earn only one percent of their revenue through taxes: Data, the Hindu Data Team,February 8,2024, the Hindu https://r.search.yahoo.com/_ylt=Awr1UVkQBJFmGjwNq3i7HAx.;_ylu=Y29sbwNzZzMEcG9zAzEEdnRpZAMEc2VjA3Nj/RV=2/RE=1720808593/RO=10/RU=https%3a%2f%2fwww.drishtiias.com%2fdaily-updates%2fdaily-news-analysis%2ffinances-of-panchayati-raj-institutions%23%3a~%3atext%3dIn%2520the%2520fiscal%2520year%25202022-23%252C%2520panchayats%2520recorded%2520a%2cregistration%2520fees%252C%2520taxes%2520on%2520property%252C%2520and%2520service%2520tax./RK=2/RS=VFYXRJN7UHFMP82ilVQjIfoBqb4-

[6] Finances of Panchayati Raj Institutions by RBI, 2024, International Collective in Support of Fishworkers, https://r.search.yahoo.com/_ylt=Awr1UVkyBJFmzsgNQB67HAx.;_ylu=Y29sbwNzZzMEcG9zAzEEdnRpZAMEc2VjA3Nj/RV=2/RE=1720808627/RO=10/RU=https%3a%2f%2fwww.icsf.net%2fresources%2ffinances-of-panchayati-raj-institutions-by-reserve-bank-of-india-rbi-2024%2f%23%3a~%3atext%3dPanchayats%25E2%2580%2599%2520own%25

has been an arena of great confusion as the subject matter of the Panchayati institutions has been simply lifted from the State List and the Concurrent list and this also lacks the operational meaning. There has been a failure on the governance front to place the third tier on the fiscal federal map of India. **There have also been reports of alleged arbitrariness, corruption and mismanagement of the resources and ad-hocism of fiscal transfers at the third tier, due to lack of capacities and low fiscal autonomy of the panchayats.** The public participation, local community, local administration and infrastructure projects through state government, knowledge transfer and capacity building. However, public policy analysts have recently noted the lack of public participation, the lack of funds and the difference in the projects ideated by the state and the local governments. The 73rd and 74th CAA have given crucial recognition to the panchayats and municipalities within the federal system. This is hampered due to the delay in the constitution of the State Finance Commission. Moreover, an assessment of the fiscal health of Panchayati Raj Institutions is also challenging due to unavailability of data.

The equitable intergovernmental transfers involving the transfer of funds from the central to the state governments are crucial for balanced regional development, reducing fiscal imbalances and promotion of cooperative federalism. Intergovernmental Transfers (IGTs) to Urban Local Bodies (ULBs) in India has been 0.5% of their GDP which is much lower than the 2.5% typical of other developing nations.[7] Other countries such as Africa, Mexico, Philippines, Brazil allocate 2.6%, 1.6%, 2.5%, 5.1% respectively. The InterGTs make up about 40% of ULBs' total revenue, however the issues with regard to predictability, earmarking for vulnerable groups and horizontal equity remain. The introduction of the GST has reduced the revenue of the urban local bodies tax revenue from about 23% in 2012-13 to about 9% in 2017-18.[8] The 13th Finance Commission has pointed out that parallel agencies and bodies are emasculating local governments both financially and operationally. The local governments require support from the Union and State Governments through the funds, functionaries and technical aid. The programmes such as the Member of Parliament Local Area Development

20sources%2520of%2520revenue%2520are%2520limited%252C%2520mainly%2cdelays%2520in%2520the%2520constitution%2520of%2520State%2520Finance%2520Commissions./RK=2/RS=LpPEeJgWcPa3285fOe93MSf95bA-

[7] Tikender singh Pawar, What is on the agenda for the 16th Finance Commission?, the Hindu, July 2,2024 https://r.search.yahoo.com/_ylt=AwrKFWm4BJFmeNMNSC.7HAx.;_ylu=Y29sbwNzZzMEcG9zAzEEdnRpZAMEc2VjA3Ny/RV=2/RE=1720808760/RO=10/RU=https%3a%2f%2fwww.thehindu.com%2fnews%2fnational%2fwhat-is-on-the-agenda-for-the-16th-finance-commission-explained%2farticle68356820.ece/RK=2/RS=khZm5CFCYS84gdCUvWuPKy9ZQ14-

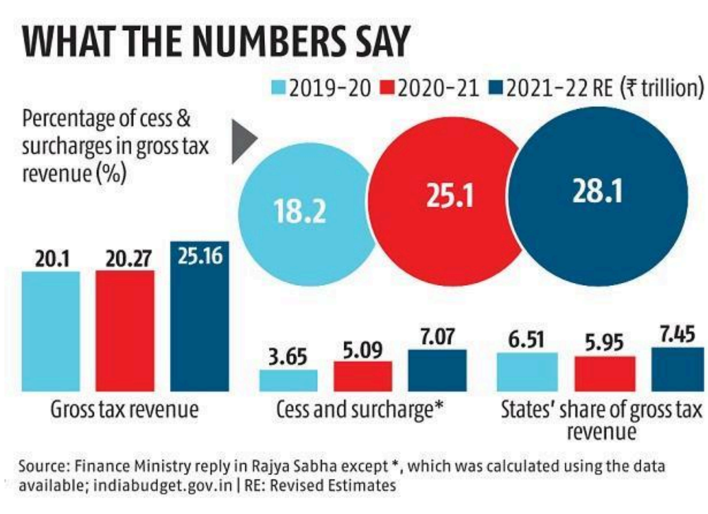
[8] Sayli Mankikar, The Impact of GST on Municipal Finance in India: A Case Study of Mumbai, ORF Issue Brief, September 2018, Issue No. 257 https://r.search.yahoo.com/_ylt=AwrKB1WSBJFm33wNG1C7HAx.;_ylu=Y29sbwNzZzMEcG9zAzIEdnRpZAMEc2VjA3Ny/RV=2/RE=1720808722/RO=10/RU=https%3a%2f%2fwww.orfonline.org%2fwp-content%2fuploads%2f2018%2f09%2fORF_Issue_Brief_257_GST-Municipal_N.pdf/RK=2/RS=mo.YBywUkyiOTyJFkaS9gsn6yxE-

Scheme and the Member of the Legislative Assembly Local Area Development Scheme exacerbates the issue and also distorts the federal structure.

3. Vertical Fiscal Imbalance

The vertical imbalance reflects the fiscal asymmetry in the powers of taxation vested with the Union and the States with regard to the taxation and revenue responsibilities as mandated by the Constitution. **The Centre has wide-ranging powers for raising taxes including income taxes, personal and corporate, taxing consumption of goods and services, and taxing foreign transactions. In contrast, the states may only tax the consumption of goods and services.** The Union government mobilises about 60% of the taxes and its expenditure in the domain of defence and external affairs is about 40% of the total public expenditure. Fiscal devolution refers to the transfer of the financial resources and the decision-making powers from the Central government to the States. The borrowing space of the States is restricted in the current system.

There has been a significant reduction in the financial transfers to the state since the beginning of the Fourteenth Finance Commission 2015-16, the 14th Finance Commission recommended the devolution of 42% of Union tax revenues to the states. The Union Government not only reduced the financial transfers to states but also increased its own total revenue to increase its discretionary expenditure. The difference between the gross and net tax revenue includes collection taxes, tax revenue to be assigned to the Union Territories and cess and surcharges. However the share of the gross tax revenue was just 35% in 2015-16 and 30% in 2023-24. The gross tax revenue of the Union Government increased from Rs. 14.6 lakh crore in 2015-16 to Rs 33.6 lakh crore in 2023-24, the state's revenue from Rs 5.1 lakh crore to Rs 10.2 lakh crore.



The recent data shows that there has been a dramatic decrease in the Union's share of the state loans, from 57% in 1991 to just 3% in FY 2020, which reflects the state's increasing dependence on the market borrowings. The states have also been increasingly resorting to the usage of the Public Sector Undertakings (PSUs) for bypassing Article 293. India's federal experiment is facing a crisis. F**or instance, in 2021, 37% of the combined revenues of the Centre and the States were collected by the state whereas 62.4% of the expenditures incurred at the state level. The grants-in-aid to states have fallen from Rs. 1,95,000 crore (2015-16) to Rs. 1,65,000 crore in 2023-24.** The ability of the states for financing their current expenditures from their own revenues has declined from 69% in 1955-56 to less than 38% in 2019-20. The states cannot raise their tax revenue due to their curtailed indirect tax rights which have been subsumed under the GST, except for the taxes on petroleum products, electricity and alcohol. **The revenue of the States has been stagnating at 6% of their GDP in the past decade. The increased share of the devolution of taxes (as recommended by the 14th Finance Commission) has increased from 32% to 42%.** There has been a substantial raise on the non-divisive cess and surcharges which go into the Union kitty (tax bucket). The non-decisive pool of the Center has increased from 9.43% in 2012 to 15.7% in 20220. The differential interest rate which is 10% for the states and 7% for the Centre is also an area of concern.[9]

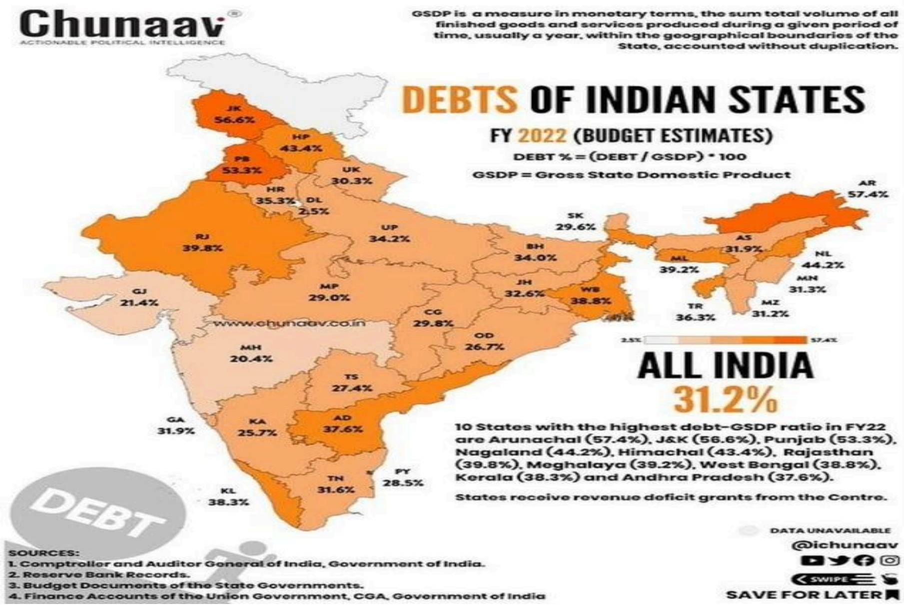
The GST Compensation Cess is a major area of debate and controversy. The GST Council recommended the levy of a compensation cess on certain goods and services for raising funds to pay the states to compensate for the revenue shortfall in the first five years from the implementation of the GST. It was levied at different rates for the goods and services which ranged from 8% to 25% for the luxury items such as the tobacco products and motor vehicles, which affected these businesses negatively. In 2022, the GST Council recommended the extension of the compensation cess until March 2026 for meeting the shortfall in the compensation cess collection. The prolonged continuation of the compensation cess has raised concerns about the competitiveness , impact on the consumer goods and overall economic growth. This is resource intensive for the companies who are involved in the multi-state operations. This would also negatively impact the international competitiveness of India's exports. **Some of the states argue that the compensation for the revenue losses during the implementation of the GST is insufficient.** The flow of the GST compensation

[9] The Poor State of India's Fiscal Federalism, July 29,2022, Insight https://r.search.yahoo.com/_ylt=AwrKFWk5BZFm4CoN4rW7HAx.;_ylu=Y29sbwNzZzMEcG9zAzMEdnRpZAMEc2VjA3Ny/RV=2/RE=1720808890/RO=10/RU=https%3a%2f%2fwww.insightsonindia.com%2f2022%2f07%2f29%2feditorial-analysis-the-poor-state-of-indias-fiscal-federalism%2f/RK=2/RS=GhciZaAswXFFgQ4LGB1s6YjYADw-

reflects upon the fact that there is delay in the adulting of state finances which reminds us to think about the future of the cess.

Another issue of the proliferation of Centrally Sponsored Schemes (CSS) are only partly funded by the Centre and many of the schemes in the State List. The Union Government also influences the expenditure of the states through its Central Sector Schemes (CSec Schemes) by providing them with partial funding. Between 2015-16 and 2023-24, the allocation of the resources under CSS increased from Rs. 2.04 lakh crore to Rs 4.67 lakh crore through the 59 CSS. Thus, there is a compulsion on the states to commit the matching finances from State Budgets for an equivalent quantum of the resources This has a huge impact on the interstate equity in public finances. States which are less wealthy will be required to commit their borrowed finances through the implementation of the CSS which accentuates the interstate inequalities among the states. The CSec Schemes are fully funded by the Union Government. The allocation under CSec Schemes increased from Rs 5.21 lakh crore in 2015-16 to Rs. 14.68 lakh crore in 2023-24 for the implementation of the more than 700 schemes. The combined allocation for CSec and CSS Scheme in 2023-24 is Rs. 19.4 lakh crore and only Rs 4.25 lakh crore is devolved to the states. These non-statutory grants are tied to grants which reduce the freedom of the states in the conduct of public expenditure. The Union Government incurs a fiscal deficit to the extent of 5.9% of the GDP while also retaining more than 50% of the gross tax revenue. With regard to the implementation of the schemes of the Central Government, the states are also required to share a part of the cost about 25% to 40%. Previously, the centre used to extend loans to the states. This is a part of the system wherein the maximum taxes are central subjects and the public services such as the health, education and irrigation are left with the state governments. The committees have recommended the restriction of the CSS to the various areas of national importance. The Union Government has to review the on-going CSS at an interval of five years, however no such review has taken place. **The NITI Aayog report in 2015[10] stated that there should be a reduction in the number of schemes of national importance and introduction of the optional schemes to address the issue of "one-size-fits-all" .** This has led to the grants under CSS have been consistently exceeding the FC transfers excluding tax devolution. In 2022-23, the CSS transfers amounting to Rs 3,46,992 crore exceeded the FC grants by over 100 per cent.

[10] Annual Report 2015-16, NITI Aayog, https://r.search.yahoo.com/_ylt=AwrKFWlkBZFmrdYNszS7HAx.;_ylu=Y29sbwNzZzMEcG9zAzIEdnRpZAMEc2VjA3Ny/RV=2/RE=1720808933/RO=10/RU=https%3a%2f%2flibrary.niti.gov.in%2fcgi-bin%2fkoha%2fopac-detail.pl%3fbiblionumber%3d79537%26query_desc%3dProvider%253ANITI%2520Aayog%2520/RK=2/RS=0dFq1cvephqyFeXxS4QsVwK.Hx4-



Poor Fiscal Health of the Indian States, Source: Chunaav

There has been a mounting debt burden on the states and the deteriorating fiscal situation in some of the states. The key questions are whether the state has a "right" to borrow under Article 293 and whether the debts raised by the state's PSUs fall within the scope of Article 293. This is a question of the fiscal autonomy of the states. **However, the excessive state debts without the regulatory oversight of the Central could lead to economic destabilisation of the states, for example, Punjab's high debt-to-GSDP ratio which reached 53.3% due to the populist schemes.** It will also negatively impact the country's overall credit rating and borrowing costs in the international arena, for example, in 2020-21, when State's gross market borrowings increased by 55% which affected the borrowing costs. This can also lead to the overlapping debt obligations between the States and the Union leading to legal and financial complexities. The introduction of the Ujwal DISCOM Assurance Yojana in 2015 wherein the states' took control over the power distribution companies leading to overall debt management. The National Commission on Urbanisation in the mid-1980s had described the cities as engines of growth. The city contributes 66% of India's GDP and about 90% of total government revenues.[11] The current economic scale is insufficient to meet

[11] Tikender Singh Pawar, What is on the agenda for the 16th Finance Commission?, Explained, the Hindu, July 2, 2024, the Hindu, https://r.search.yahoo.com/_ylt=AwrKB1VvBJFmhsMNciC7HAx.;_ylu=Y29sbwNzZzMEcG9zAzMEdnRpZAMEc2VjA3Ny/RV=2/RE=1720808688/RO=10/RU=https%3a%2f%2fwww.thehindu.com%2fnews%2fnational%2fwhat-is-on-the-agenda-for-the-16th-finance-commission-explained%2farticle68356820.ece/RK=2/RS=UYa3Y.E_1PMpOUxEFzgEFXJM31I-

the needs of the Indian cities. The World Bank has estimated that $840 billion is needed for basic urban infrastructure in the next decade. The problem is that the financial devolution to cities remains inadequate, which has had a detrimental impact on the quality of city life.

The recent disagreements between the Centre and the State have been brought to the Supreme Court. Kerala had moved the Supreme Court contending the Centre's imposition of a Net Borrowing Ceiling (NBC) on the state which limits the borrowings from all sources. The Centre has decided to deduct liabilities arising from the public account of the states and the debt of the state-owned enterprises are also being included in the state government's debt. The Supreme Court of India has declined Kerala's request for prevailing upon the centre for relaxing the cap imposed on their annual borrowings. The state is also facing an unprecedented financial crisis. This is the first time Kerala had approached the Supreme Court against the Central Government on the borrowings. Kearala argued that the state legislature has no power for including withdrawals from public accounts in the NBC. Kerala is also a great example for the KIIFB (Kerala Infrastructure Investment Fund Board) for funding the development projects through the extra-budgetary spending. So, the issue of the borrowing restrictions on the states is a roadblock for fiscal federalism in India. **Thus, Kerala is an important case study as it would also define the Supreme Court's powers of judicial review with regard to fiscal federalism.**

4. Challenge of Fiscal Consolidation

There is an absence of readily available data on the aggregate individual state budget data which is a consolidated view of the general government finances. [12]Next is the challenge of containing the revenue deficit of the states wherein 7 out of the 13 states are driven by the revenue deficits. The states such as Kerala, Punjab, West Bengal have high large debt to GSDP (State GDP) ratios.[13] So, there is a re-emergence of the revenue deficit in recent years. There has been a shift in the financing pattern from the money financing to the bond based financing since the 1990s. The fiscal rules determine the state's access to the debt, which is again subject to the government approval. The amendments to the FRBM (Fiscal Responsibility and Budget

[12] Pinaki Chakraborty, A Macro View of the Fiscal Health of States, July 5, 2023, the Hindu, https://r.search.yahoo.com/_ylt=Awr1QdUwo5JmgJ8nBj27HAx.;_ylu=Y29sbwNzZzMEcG9zAzEEdnRpZAMEc2VjA3Nj/RV=2/RE=1720914865/RO=10/RU=https%3a%2f%2fwww.thehindu.com%2fopinion%2flead%2fa-macro-view-of-the-fiscal-health-of-states%2farticle67042253.ece%23%3a~%3atext%3dDue%2520to%2520the%2520absence%2520of%2520aggregation%2520of%2520individual%2cof%2520India%25E2%2580%2599s%2520%2528RBI%2529%2520Annual%2520Study%2520on%2520State%2520Finances./RK=2/RS=PbUVzoVz5v49sywoJcaA999pHvs-

[13] Forbes India, Debt to GDP ratio of Indian States in 2024, Feb 21, 2024 https://r.search.yahoo.com/_ylt=AwrKGFBQo5JmgTIAIbO7HAx.;_ylu=Y29sbwNzZzMEcG9zAzEEdnRpZAMEc2VjA3Ny/RV=2/RE=1720914897/RO=10/RU=https%3a%2f%2fwww.forbesindia.com%2farticle%2fexplainers%2fdebt-to-gdp-ratio-indian-states%2f88469%2f1/RK=2/RS=aSjWjH75WWAg_SXCkm5aVsN85AI-

Management) Act in 2018 has mandated the Centre to take appropriate steps in order to limit its fiscal deficit. The Covid 19 and the post pandemic has had a negative impact on the fiscal health of the states. Some of the recent steps taken by the Centre is bringing off-budget borrowings into its books of accounts and treating the off-budget borrowings as a state's borrowing if they are serviced from the budgetary resources of the state, are in the recent direction.

The FRMB act 2003 aims to institutionalise financial discipline reducing India's fiscal deficit, improvement of the macroeconomic management and movement towards a balanced budget. The Union Minister has suggested that there should be an inverse correlation between fiscal deficit and bank credit. Thus, it is very crucial for states to have proper fiscal consolidation plans. **In the final 2024-25 Union Budget, the Finance Minister remarked that, " From 2026-27 onwards, our endeavour would be keeping the fiscal deficit each year such that the Central Government debt will be on a declining path as a percentage of the GDP."** The Centre's fiscal budget would be reduced to 4.5% of GDP in 2025-26 from its budgeted level of 4.9% in 2024-25. The Centre's debt-GDP ratio is estimated to be at 54% in 2025-26, assuming a nominal GDP growth of 10.5% in two years. However, there is a lack of only specified targets and this also implies abandoning of the Centre's Fiscal Responsibility and Budget Management (FRMB) 2018 debt GDP target of 40% for the central government. The states have also adopted their respective fiscal deficit Gross State Domestic Product ratio to the target of 3%. This might as well decrease the investment surplus for the private sector. If the debt-GDP ratio remains high, the ratio of interest payments to the revenue receipts would also leave less space for the states. So, the fiscal consolidation is an integral aspect of the fiscal federalism in the country.

5. **Disaster Fund Issues**

Tamil Nadu has recently approached the Supreme Court have approached the Supreme Court arguing that the Centre's action violates the Disaster Management Act of 2005. This is another arena of the tussle between the Centre and the States with regard to fiscal federalism. The funds for the disaster relief are available from the two sources- the State Disaster Relief Fund and the National Disaster Relief Fund (NDRF). As of January 2022, Operational Guidelines for Constitution and Administration of the National Disaster Response Fund (NDRF Guidelines), Rs 54,770 crores has been earmarked for the NDRF, from the fiscal year 2021-22 until 2025-26. A state that does not have enough funds in the SDRF and has faced a natural calamity beyond the coping capacity of the state government can submit a request for funds from the NDRF. Tamil Nadu has also asked the apex court for directing the Centre to pay Rs 37,902 crores in aid for the damage due to the Cyclone Michanung. Karnataka claimed that the IMCT had conducted a comprehensive assessment of the drought situation in October 2023, and the sub-committee of the National Executive Committee had recommended financial assistance for the state to the MHA in November 2023.

6. Impact of GST

The GST (Goods and Service Tax) is a concurrent subject with both the Union and the State governments having the power of levying taxes. The implementation of the GST also marked the departure from the competitive federalism to the system of cooperative federalism. Nevertheless, the GST has had a very deep impact on Indian Federalism which has implications for the distribution of the financial resources, revenue autonomy and the balance of power between the Centre and the States. The implementation and adoption of GST was a rare moment of fiscal cooperation cutting across party lines. The GST Council was aimed to be built as a forum for consensus building, cooperative federalism and democratic governance. The supporters of GST argue that the dual model of GST would help the states maintain their source of revenue for the implementation of their responsibilities under a federal structure. The dual GST model refers to a concept wherein the Centre and the States levy taxes on the supply of goods and services.

The implementation of the GST has led to the increase in revenue collection. **It has played a positive role in the facilitation of intra-state trade through the removal of the barriers.** A consensus has been agreed upon by the Centre and the States on the promise of the 14% growth rate and also a provision of compensation for any revenue loss during the GST implementation. [14]The GST compensation fund was set up for and the cess on the 'demerit goods' and the fund was expected to face a shortfall of 2.35 lakh crore by the end of this 2020-21.[15] These 'demerit goods' have been affected due to the pandemic, which resulted in a shortfall. As per the 42nd GST Council meet, the Centre would borrow the Rs 1.1 lakh crore on behalf of the states. It must also be noted that the Supreme Court has also invoked the spirit

[14] Suresh Seshadri, the Hindu Explains: What is the GST Compensation due to States?, September 5,2020, the Hindu, https://r.search.yahoo.com/_ylt=AwrKB1XjCpRmPYg8.xy7HAx.;_ylu=Y29sbwNzZzMEcG9zAzMEdnRpZAMEc2VjA3Ny/RV=2/RE=1721006947/RO=10/RU=https%3a%2f%2fwww.thehindu.com%2fbusiness%2fEconomy%2fwhat-is-the-gst-compensation-due-to-states%2farticle32531827.ece/RK=2/RS=2jwDfZpm3IjnG6q3Jhuk8i0Mf34-

[15] Government Extends Levy of GST Compensation Cess till 31st March 2026, EY, 27 June, 2022, https://r.search.yahoo.com/_ylt=AwrKB1URC5Rm10M8wEa7HAx.;_ylu=Y29sbwNzZzMEcG9zAzEEdnRpZAMEc2VjA3Ny/RV=2/RE=1721006993/RO=10/RU=https%3a%2f%2fwww.ey.com%2fen_in%2falerts-hub%2f2022%2f06%2fgovernment-extends-levy-of-gst-compensation-cess-till-31-march-2026/RK=2/RS=Zd4pxPTmtO23U5vWpNsrZAxfNOo-

of Cooperative Federalism stating that the Union and State legislatures have “equal, simultaneous and unique powers' [16] for making laws on Goods and Services Tax and the recommendations of the GST Council are not binding on them. The states no longer have the power of taxation rights except barring those on petroleum, alcohol and stamp duty. The current extension of the GST Compensation Cess till March 2026 cannot be said to be settling the issue of the GST Compensation between the Centre and the States.

On the other hand, critics point out that this has led to the centralization of the tax administration in the hands of the central government. It has also led to a more equitable distribution of revenue among the states. The GST system has multiple tax slabs and rates which has led to confusion among the tax payers and this is also an arena of dispute between the Union and State Governments with regard to the classification of the goods and services. During the Covid 19 crisis, the severe economic slowdown led to the loss of revenue for the states. So, the issue of pending GST compensation to the states which surfaced in 2019 has developed into a very contentious issue in federalism today. By the 279A of the GST Act Council, the Council consisted of the Union Finance Minister, the Union Minister for Finance, Ministers of Finance from every state for giving recommendations.the decision-making procedure of the GST Council is over-dominated by the Centre. There is also a requirement of a one-third majority of the total votes i.e, 25 votes. In the current structure, 22 votes are shared by 31 states and UTs with each state of UT having a vote of 0.709. [17]By the 279A of the GST Act Council, the Council consisted of the Union Finance Minister, the Union Minister for Finance, Ministers of Finance from every state for giving recommendations. There have been issues related to the GST such as the rate structure, inclusion and exclusion of commodities, revenue sharing from GST and associated compensation. Critics of GST argued that the regime will curtail fiscal federalism which would hinder the state for pursuing their independent ideologies. The essence of a federal polity is that the rule of different political parties and ideologies can form the government of different states and implement the different programs based on their ideology and economic trajectory.

[16] Krishnadas Rajagopal, Supreme Court says Centre, States have equal powers to make GST related Laws, the Hindu, May 19, 2022, https://r.search.yahoo.com/_ylt=Awr1QdV0C5Rmp5s8hgy7HAx.;_ylu=Y29sbwNzZzMEcG9zAzEEdnRpZAMEc2VjA3Ny/RV=2/RE=1721007092/RO=10/RU=https%3a%2f%2fwww.thehindu.com%2fbusiness%2fEconomy%2frecommendations-of-gst-council-not-binding-on-centre-states-supreme-court%2farticle65429432.ece/RK=2/RS=bLpBafd4spDCXzC_Az1jCiKZfik-

[17] Aanchal Magazine, Explained: Voting at the GST Council, The Indian Express, Jan 9, 2020, https://r.search.yahoo.com/_ylt=Awr1QdXBDJRmdLk8jwS7HAx.;_ylu=Y29sbwNzZzMEcG9zAzUEdnRpZAMEc2VjA3Ny/RV=2/RE=1721007426/RO=10/RU=https%3a%2f%2findianexpress.com%2farticle%2fexplained%2fexplained-voting-at-the-gst-council-6206947%2f/RK=2/RS=CYtR7sG7E5I5Ow.a6snLlIZvwq8-

It would lead to restrictions on the freedom for raising taxes for the purpose and curtailing the state legislature for spending its revenues.

In the GST, there has been a shift from the principle of the origin of the goods and services to the principle of the destination which has re-entered the power balance among the states. The federal fiscal transfer system has been designed based on the principle of the jurisdictional separation which is germane to the era of origin-based taxation. There is a great dichotomy between the operational tax regime and the principles of tax sharing that is not beneficial to fiscal federalism. Lastly, there has been a 133% rise in the collection of major cesses and surcharges as levied by the Union Government during the five year period between 2017-18 and 2022-23. The surcharge on the taxes and duties and cesses account for about 25% of the total taxes but are excluded from being distributed to the States. There is also a disconnection between the operational tax regime and the principles of tax sharing which has led to the fault lines in the political economy of federalism. According to the Constitution, the proceeds of the cesses and the surcharges are not shareable with the states. Post the introduction of the GST, the share of the cesses and the surcharges have increased exponentially. The high growth in the cesses and the surcharges has led to the lower tax devolution to the states, which means that there is a higher growth in the grants-in-aid and lower growth in the tax devolution to the states. The Finance commission in their report over time have observed that the cesses and the surcharges are meant to be levied for the meeting of the specific requirement and specified period of time and this needs to be capped. The issue is that the cesses are being levied which are included in the State list and there is no transparency mechanism for the utilisation of the proceeds of the cesses.

Recommendations

1. **Bridging the Inter-State and Intra-State Disparities**

   Firstly, there is also a need to address the lower absorptive capacity of the backward states. The income inequalities have been widening across the various states. The backward states such as Bihar, Jharkhand and Chattisgarh have surpluses on their revenue accounts and their fiscal deficits have been found to be lower than the permissible levels. This also reflects upon the fact that the backward states have not been utilising the market borrowings that have been allocated to them by the centre. **The centre may also create a Special Fund for the development of the backward states and placing it at the disposal of the backward states. There is a strong case for revisiting Article 246 and the Seventh Schedule for a definite division**

of powers, functions, responsibilities for many reasons. India's intergovernmental transfer system should be more equity oriented in nature. There is a need for a 40% floor level devolution as defined for the so-called rich state. This can be defined as a premium on the efficiency factor.[18] A ceiling is defined for every so-called poor state, say 150% against the contribution.

The issue of conditional vs unconditional grants: **The Finance Commission has recommended that there should be a linkage grants linked to the performance and the releases of conditional grants has been rather poor because of the stiff conditions imposed by the Union Ministers. It is also recommended that the state government and the Urban Authority concerned sign a tripartite memorandum of understanding (MoU) with the Ministry of Housing and Urban Affairs that should contain the baseline targets and annual targets for achieving targets for water supply, water conservative and solid waste management.** There can be a consideration for a surcharge of a special levy on the income and corporate taxes and the allocation of the proceeds exclusively to the states on the basis of the origin family. This would also lead to a healthy competitive federalism among states and while also improving the taxable income base.

2. **Expansion of the Revenue Options for the States**

Firstly, there is a need for the creation of an incentive compatible framework on fiscal responsibility. For example, a state which improves its own tax revenue by 10% year-on-year could be allowed to borrow an additional 0.5% of GSDP. Some of the measures that can be adopted include the interest-free loans to the states which may be linked to the reduction in the revenue deficit of the state. Secondly, the development of a forward looking performance incentive grants structure. There is the issue of the monetization of central Public Sector Units' lands. The state government has assigned lands to the Central Government at no cost or very low cost and the operations that take place on these lands, the revenues of which should be shared with the States. **The issue of sharing the proceeds of land monetization with the states. The State governments should be given more powers to levy income taxes.** The government should also implement the recommendations of the 14th Finance Commission which states that as India is a raw-material deficit economy, there should be more focus on the revenue sharing and expenditure underwriting. The fiscal architecture should be re-designed

[18] 15th Finance Commission Recommendations: Resource Allocation, 3rd Feb, 2021, https://r.search.yahoo.com/_ylt=Awrx.qLBDpRmAp07y9.7HAx.;_ylu=Y29sbwNzZzMEcG9zAzIEdnRpZAMEc2VjA3Ny/RV=2/RE=1721007938/RO=10/RU=https%3a%2f%2fwww.drishtiias.com%2fdaily-updates%2fdaily-news-analysis%2f15th-finance-commission-recommendations-resource-allocation/RK=2/RS=X4QHOROlFGWyZwFa63ABM9Nwojk-

based on the need for natural-resource sharing rather than the revenue sharing. There is a need for the augmentation of the Consolidated Fund of a state for supplementing the urban and the rural local bodies on the basis of the recommendations of the State finance Commission. The States also fail to frame to constitute the Finance Commission on time, which is a roadblock to the local bodies in the country, **so there should be a timely setting up of the State Finance Commission.**

Under the Mines and Mineral Development Act 1957, the Central Government is empowered to enhance or reduce the rate at which the royalty shall be payable with respect to any major mineral not more than once in a three-year period. [19]The taxation of mineral rights is included under item 50 of the State List in the Constitution. This is also subject to the regulation of mines and mineral development by the Union, subject to any law passed by the Parliament. The non-revision of the tax rates since 2014 have deprived the mineral bearing states which was the major source of revenue of the backward states. [20]There is a need for an immediate revision of royalty rates which has been fixed in 2014. **There is a need for technology-driven fiscal monitoring systems, such as the implementation of the blockchain technology for ensuring the transparency of the fiscal data including tracking revenue, expenditure and borrowing patterns. The setting up of a collective insurance fund for providing temporary relief during the economic shocks for better fiscal stability of the state.**

3. **Rejuvenated Role of Rural Local Bodies**

The 73rd and 74th Constitutional Amendment has provided a great opportunity for implementation of the decentralisation process at the local bodies. **There is a need for a new list consisting of the functional and financial responsibilities of the Panchayati Raj institutions and the municipalities (Urban Local Bodies). Secondly, the uniform financial reporting system comprising all levels of government such as the introduction of standard budgeting rules for all tiers and introduction of the accrual based accounting system.** As there is a wide disparity within the three tier framework of the Panchayati Raj system, there is a need for demarcation of their Own Source of Revenue (OSR)

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[19] The Mines and Minerals Development and Regulation Act, 1957, https://r.search.yahoo.com/_ylt=Awr1SaieE5RmzSc9ARa7HAx.;_ylu=Y29sbwNzZzMEcG9zAzEEdnRpZAMEc2VjA3Ny/RV=2/RE=1721009183/RO=10/RU=https%3a%2f%2fmines.gov.in%2fadmin%2fstorage%2fapp%2fuploads%2f642d055d669011680672093.pdf/RK=2/RS=JwJ83iyV95CiyCLqgfBvT0E2YmM-

[20] G.R Reddy, Issues Before the 16th Finance Commission, Forum For State Studies, Jan 29, 2024, https://r.search.yahoo.com/_ylt=Awr1RXfjE5RmPOc6iZK7HAx.;_ylu=Y29sbwNzZzMEcG9zAzIEdnRpZAMEc2VjA3Ny/RV=2/RE=1721009252/RO=10/RU=https%3a%2f%2fforumforstatestudies.in%2f16th-finance-commission%2fissues-before-the-16th-finance-commission%2f/RK=2/RS=Lh2t5NsUczpaji7MMmoNryAuOtg-

for the three-tier panchayats. There is a need for the independent working of the Panchayati Raj system. Some sources wherein the taxation powers can be devolved to the panchayats include the property cess, cess on land revenue, tax on profession, advertisement and user charges for the water and sanitation and lighting. The role of the State Finance Commission needs to be emphasised given their extensive role with regard to the devolution of the taxes to the local governments. **There is also a need for there to be a transfer of a percentage of the divisible pool of taxes after converting this share to the grant-in-aid under Article 275 and the volume of the divisible pool for the previous year which can be used for understanding the grant eligibility of the local bodies in that particular year.** For the own resource mobilisation by the local bodies, the present ceiling Rs 2,500 as a professional tax by a local body under Article 276 should be amended or omitted. The local bodies should also implement the Supreme Court proposal (Civil Appeal No. 9458-63/2003)[21] which stated that the Union of India shall be liable to pay the service charges, which would provide the source of their own resource mobilisation by the local bodies. The process of the implementation of the third tier of the government bodies has been varied in nature.

4. Review of the Off-Budget Borrowing

The FRBM (Fiscal Responsibility and Budget Management) Act 2003 was aimed at ensuring fiscal discipline by reduction of the fiscal deficits and the management of the public debt. Its implementation has faced difficulties due to the imbalance between the growth-oriented spending with fiscal prudence. Off-budget borrowings refers to the borrowings which have not been provided for in the Budget but whose repayment liabilities fall on the Budget. These are not scrutinised properly and not reported adequately. **The issue is that the State Public Sector undertakings raise the revenue from the markets but their servicing burden is a responsibility of the State Government. These practices need to be brought under the FRBM (Fiscal Responsibility and Budget Management Act).** The calculation of the fiscal deficit should also include the National Small Savings Fund (NSSF) for the extra-budgetary financing of the central PSUs and the central ministries. This would bring all the extra-budgetary transactions into the public domain. The 15th Finance Commission reported that the governments at all tiers should avoid any further additions to the stock of off-budget transactions and contingent liabilities which is against the norms of fiscal transparency and

[21] Payment of Service Charges to Local Bodies in Respect of Central Government Properties, Indian Council of Agricultural Research, Ministry of Agriculture and Farmers Welfare, 2022
https://r.search.yahoo.com/_ylt=AwrPri1dFJRmMQ88T7i7HAx.;_ylu=Y29sbwNzZzMEcG9zAzIEdnRpZAMEc2VjA3Ny/RV=2/RE=1721009374/RO=10/RU=https%3a%2f%2ficar.org.in%2fnode%2f8505/RK=2/RS=pPSqR94WDCHCKaUpNtCCCqvGRyU-

fiscal sustainability. The FRMB Act aims to achieve the general government debt to 60% of GDP by 2024-25.

There is a lack of review of the ongoing schemes with regard to the rationalisation of expenditure. Some of the states have ongoing schemes of the states, which are more than 40 years old. The states should also work towards the abolition of the office of the State Gazetteer which is a legacy of British rule. The spreading resources are too thinly and cuts down the gestation period of capital works, the FRBM Acts of many states that the total value of the sanctioned works including the spillover works by any department in a financial year shall not exceed three times of the budget estimated for the corresponding head of account for that year and my starving funds for ongoing projects which includes the consequent time and cost overruns. There is a need for transition to an accrual-based budgeting by both the Centre and the States.

5. Reforms in the GST System

There is a need to work on the pending reforms which would require comprehensive reforms in the areas of land, labour markets and the agriculture sector. There is a need for the rethinking of the architecture and the operational principles of the GST. The GST must have a comprehensive coverage and one single rate for both the goods and services. The adoption of the single rate, for example, 12% equally as shared as CGST and SGST is in tune with the international practices. There is a need ro a review of the tax-sharing principles which should be based on the consolidation of the indirect tax base by the Union and the States. There is a need for redesigning the statutory shuttering of indirect taxes. Currently, there is only IGST which excludes the no input tax credit, so there should be a normative basis for credit-in-transition unsettled IGST to be included in the divisible pool. Thirdly, the Grant mechanism should be redesigned. The States should also adopt the various tax analytics strategies and strengthen the compliance monitoring.

6. Revived Role of the Finance Commissions and Green Fiscal Budget

Some of the issues before the 16th Finance Commission are as follows: firstly, how much of the Centre's tax revenue should devolve to the states, second is the determination of the share of the each state in the divisible pool of Central taxes, third is recommending the grants-in-aid to the states which need assistance and lastly, recommending the measures for augmenting the Consolidated Fund of the State for the supplementing of the resources of Panchayats and the

Municipalities in the State. Firstly, the Finance Commission should be given a permanent status. There is a need for a broad consistency between the consecutive finance commissions, formation of the State Finance Commission every five years and promotion of competitive federalism in the states. There is a need for permanent status according to the Finance Commission. This would lead to the development of an apolitical body for providing stability and predictability in the fiscal balance. **There is also a need for the institutional relationship between the Finance Commission and the GST Council as it is needed for coordination and conflict resolution between them. A State Fiscal Council should be also appointed to frame the GST recommendations in accordance with their state needs. Empowering and Strengthening the Institutions such as the Comptroller and Auditor General of India (CAG) can lead to better oversight and accountability in the management of the devolved funds.** Though the states have been adhering to the fiscal deficit and revenue deficit targets at the aggregate level, there exists wide variations across the various states. The initiatives such as bringing in the off-budget borrowings as a State's borrowing if they are serviced from the budgetary resources of the state. The Finance Commission can play a crucial role in the incentivising of compatible fiscal prudence.

The 16th Finance Commission can play a crucial role in playing the role of a conventional fiscal arbitrator for harmonising economic growth with environmental imperatives. Climate Change is one of the pressing issues which would also become an important part of the fiscal federalism in the country and needs to be integrated into the tax devolution structure. Climate change would also impact the different regions of the country to different intensities. **This can be done through the establishment of a climate vulnerability and emission intensity of the states as one of the parameters for the tax devolution. This could also look at the performance based grants for the different sectors. These measures would set a fiscal blueprint for the sustainable economic development of the country.**

Conclusion : Fiscal Federalism 2.0

To conclude, there is a need to rethink India's current fiscal architecture with the aim of making it more suitable to the current needs of India. There has to be a balance between competitive and cooperative federalism for promotion of healthy competition among the states in India. The balance between equity and efficiency can be maintained by bridging the regional disparities in the country. The revitalization of constitutional bodies like the State and Central Finance Commissions will play a pivotal role in achieving fiscal equilibrium. New avenues for increasing the state's fiscal space have to be explored and empowerment of the urban and the rural local bodies. The proper functioning of fiscal federalism is crucial for the efficient governance and economic growth and development of the country. This will also go a long way in reining in the era of cooperative federalism in the fiscal landscape of the country. These reforms will be integral for India's next decade of growth and reform.

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