

Aug 30

Major issues influencing the framework of  
fiscal federalism in the country.

### Freebies

The recent truce between Centre  
and state is regarding their  
stance on Freebies and rising  
debt of states.

### Centre Vs state

→ Centre is of the view that states  
spend discretionarily on the welfare of  
welfare which is not contributing to  
long term growth of Economy.

→ states are of view that it  
is essential to improve livelihood of  
people.

### Issues

① GST - compensation, inclusion and  
exclusion of products and divisible  
pool of funds.

Case study: For example, Tamil Nadu receives  
only 30p for every ₹1 it gives  
to centre, whereas UP gets ₹2-₹3.



## ② Implementation of Central sector and centrally sponsored schemes.

RBI report:

→ State Finances - A Risk Analysis suggest that some 5 states are in extremely stressed position in terms of finance.

→ And debt - GDP ratio have increased substantially from 22% in 2013 to 32% in 2022 (Budget Estimates), for all states combined.

Capital expenditure

→ As we recover from pandemic there is a need for diligent policy, which will ensure positive returns in future.

→ Failure of this will resort to burden on states which borrow from outside due to tussle between centre and state, especially when different parties are in power.

Way forward

- states should adhere to FRBM act, 2003
- Inter state dispute should work efficiently to promote cooperative federalism.
- Mobilise more resource to capital expenditure and at the same time identifying right beneficiaries for welfare provisioning.
- should avoid blame game.