



## FEDERALISM AND INDIA'S HUMAN CAPITAL

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**(Mains paper 2: Issues relating to development and management of Social Sector/Services relating to Health, Education, Human Resources.)**

### **CONTEXT:**

- India has been ranked at the **116th** position out of 174 countries in the latest edition of the World Bank's annual Human Capital Index that benchmarks key components of human capital across countries.
- Despite Investing in human capital through interventions in nutrition, health, and education which is critical for sustainable growth, India's human capital indicators remain low.

### **Statics about India's human capital:**

- The **National Family Health Survey-5 for 2019-20** shows that malnutrition indicators stagnated or declined in most States. However, The Child nutrition indicators show a mixed pattern across states.
- **The National Achievement Survey 2017** and the Annual Status of Education Report 2018 show poor learning outcomes. This is a cause of concern as these statistics could worsen due to the COVID-19 pandemic.
- Despite of these worsen statics, there is little convergence across States. This is a cause of concern as these statistics could worsen more due to the COVID-19 pandemic.

### **Recent Initiatives by India to Strengthen Human Capital:**

- The National Health Policy of 2017 highlighted the need for interventions to address malnutrition.
- On the basis of NITI Aayog's **National Nutrition Strategy**, the Poshan Abhiyaan was launched, as part of the Umbrella Integrated Child Development Scheme.
- The latest Union Budget has announced a '**Mission Poshan 2.0**' and the **SamagraShikshaAbhiyan** has been the Centre's flagship education scheme since 2018.
- Ayushman Bharat Yojana, new education policy, TULIP: The Urban Learning Internship Program are other main initiatives to improve human capital.
- **However, India spends just 4% of its GDP** as public expenditure on human capital, **around 1% and 3%** on health and education respectively one of the lowest among its equivalent nation.

### **Cooperative federalism and Decentralization is the key to improve human capital:**

- Fiscally, the **Constitution assigns** the bulk of expenditure responsibilities to States; the Centre has major revenue sources.
- To address this vertical imbalance, the Constitution provides for fiscal transfers through tax devolution and grants-in-aid.
- The Centre can make 'grants for any public **purpose**' **under Article 282** of the Constitution.
- While fiscal transfers that are part of tax devolution are unconditional, transfers under grants-in-aid or Centrally Sponsored Schemes (CSSs) can be conditional.
- The public health is in the State List, the broader subject of economic and social planning is in the **Concurrent List**.
- **In 1976**, education was shifted from the State List to the Concurrent List through the 42nd Amendment.
- The placement of a subject in the Concurrent List, in effect, indicates the presence of overarching considerations that warrant the Centre's involvement.
- **Therefore, the increase in the States' share of tax devolution represents more meaningful decentralization.**
- International experience suggests that one reason why these interventions are not leading to better outcomes may be India's record with **decentralization**.
- Globally, there trends are backed by studies demonstrating a positive correlation between decentralization and human capital
- However, India has taken some steps towards decentralization. The Fourteenth Finance Commission increased the States' share in tax **devolution from 32% to 42%**, which was effectively retained by the Fifteenth Finance Commission.

### **Hurdles in financial federalism and democratic decentralization:**

- Despite some shifts towards greater State autonomy in many spheres, the **centralized nature** of India's fiscal architecture has persisted.
- The **Constitution under Article 282** of the Constitution is listed as a 'Miscellaneous Financial Provision', unlike Articles 270 and 275, which fall under 'Distribution of Revenues between the Union and the States'.
- The Supreme Court in *Bhim Singh vs Union of India* had observed that "Article 282 (grants-in-aid) is normally meant for special, temporary or ad hoc schemes".
- **The 73rd and 74th Amendments** bolstered decentralization by constitutionally recognizing panchayats and municipalities as the third tier and listing their functions in the Eleventh and Twelfth schedules, respectively.
- These include education, health and sanitation, and social welfare for panchayats, and public health and socio-economic development planning for municipalities.
- The **Constitution** lets States determine how they are empowered, resulting in vast disparities in the roles played by third-tier governments.
- The collection of property tax, a major source of revenue for third-tier governments, is very low in India under **0.2% of GDP, compared to 3% of GDP** in some other nations.
- The Constitution envisages State **Finance Commissions (SFCs)** to make recommendations for matters such as tax devolution and grants-in-aid to the third tier.
- However, many States have not constituted or completed these commissions on time, and hence, the Fifteenth Finance Commission has recommended no grants after March 2024 to any State that does not comply with the constitutional provisions pertaining to SFCs.

### **Imbalance created by Centrally Sponsored Schemes (CSSs):**

- There are issues in **the design of CSSs** as well, with the conditions being overly prescriptive and typically input-based.
- International **experience reveals that schemes with output-based conditions are more effective.**
- Moreover, CSSs typically have a cost-sharing model, thereby pre-empting the States' fiscal space.
- Centrally Sponsored Schemes have formed a sizeable chunk of intergovernmental fiscal transfers over the years, comprising almost 23% of transfers to States in 2021-22.
- This is incongruous, given **that many CSSs cover subjects in the State and Concurrent Lists, such as health and education.**

### **Towards a solution:**

- The **Centre needs to rethink** the nature of its actions. It should play an enabling role, for instance, encouraging knowledge-sharing between States.

- For States to play a bigger role in human capital interventions, they need adequate fiscal resources.
- The States should **rationalize** their priorities to focus on human capital development.
- The Centre should refrain from offsetting tax devolution by altering cost-sharing ratios of CSSs and increasing **cesses**.
- The **unconditional nature of these** vertical transfers should be effectuated in spirit.
- Concomitantly, the heavy reliance on CSSs should be reduced, and tax devolution and grants-in-aid should be the primary sources of vertical fiscal transfers.
- **The Panchayats and** municipalities need to be vested with the functions listed in the Eleventh and Twelfth Schedules.

### **Way forward:**

- For a true functionally and fiscally empowered third tier, the institute of democratic decentralization would keep with the constitutional spirit so that better outcomes of **human capital** across countries ensured.
- Ironically, **the States, too**, have become centralized and even many States do not clearly demarcate or devolve functions for panchayats and municipalities. This needs to be improved towards third tier in true nature and spirit.
- Thus by leveraging the true potential of our multi-level federal system, best possible human capital will be developed.