

POLITY AND GOVERNANCE

CHARTING THE PATH FOR THE SIXTEENTH FINANCE COMMISSION

Background: The Sixteenth Finance Commission is due to be set up shortly. Many critical changes have taken place since the constitution of the Fifteenth Finance Commission in November 2017 that includes COVID-19 and the subsequent geopolitical challenges. The combined government debt-GDP ratio had also shot up close to 90% at the end of 2020-21. Many States show large fiscal imbalances too.

The vertical and horizontal dimensions

The Fourteenth Finance Commission had raised the share of States in the divisible pool of central taxes to 42% from 32%. This was revised to 41% when the number of States in India was reduced to 28. However, the Centre could manage the situation because of the withdrawal of Planning Commission grants as the Planning Commission was abolished. There may not be a strong case for recommending any further increase in the States' share of central taxes in view of the Centre's large fiscal imbalances. Alongside, a re-examination of the role of non-shareable cesses and surcharges is required.

During 2020-21 to 2023-24 (BE), the effective share of States in the Centre's gross tax revenues (GTR) averaged close to 31%, which was significantly lower than the corresponding share of nearly 35% during 2015-16 to 2019-20. This was due to the inordinate increase in the share of cesses and surcharges to 18.5% of the Centre's GTR during 2020-21 to 2023-24 (BE) from 12.8% during 2015-16 to 2019-20. This heavy reliance on cesses and surcharges requires scrutiny by the Sixteenth Finance Commission. One option is to freeze the share of cesses and surcharges to some base number.

In the period under the Thirteenth Finance Commission, this share was just 9.6%. Perhaps, a 10% upper limit of the share of cesses and surcharges as a percentage of Centre's GTR may be recommended. To make it biting, the share of States must be increased if the proportion crosses 10%. Thus, there will be one proportion, say 42%, if cesses and surcharges exceed 10%, and another share of 41% if they are 10% or below. The formula may be nuanced by the Sixteenth Finance Commission with the help of the latest data. An issue of concern in recent years has been the poor performance of the Goods and Services Tax (GST) and the consequent decline in total divisible pool. Fortunately, this is not an issue now. GST collections have maintained good buoyancy in the last two years. GST still needs restructuring to make it a good and simple tax.

The share of individual States in the Centre's divisible pool of taxes is determined by a set of indicators that includes population, per capita income, area, and incentive-related factors

such as forest cover and demographic change. In the case of per capita income, it is the distance of a State's per capita income from a benchmark, usually kept at the average per capita income of the top three States that is used as a determining factor. This distance criterion implies relatively larger shares for relatively lower income States. At present, it has the highest weight of 45% — it had an even higher weight previously. Many of the richer States have argued for a lowering of the weight given to this criterion.

Features of Finance Commission

Article 280 of the Constitution of India provides for a Finance Commission as a quasi judicial body. It is constituted by the president of India every fifth year or at such earlier time as he considers necessary

Functions

The Finance Commission is required to make recommendations to the president of India on the following matters:

1. The distribution of the net proceeds of taxes to be shared between the Centre and the states, and the allocation between the states of the respective shares of such proceeds.
2. The principles that should govern the grants-in-aid to the states by the Centre (i.e., out of the consolidated fund of India).
3. The measures needed to augment the consolidated fund of a state to supplement the resources of the panchayats and the municipalities in the state on the basis of the recommendations made by the state finance commission .
4. Any other matter referred to it by the president in the interests of sound finance

However, due attention needs to be paid to the needs of the lower income States. These States are expected to provide a relatively larger share of 'demographic dividend' to India in future provided attention is paid to the educational and health needs of their populations. It may be useful to freeze the weight to distance criterion at the current level or even reduce it to 40%, but some upward adjustment in the resources transferred to the poorer States may be done through grants.

In fact, equalisation of the provision of education and health services should be prioritised in the overall scheme of resource transfers. Instead of using a large number of tax devolution criteria, the transfer of resources to individual States

may be guided by the equalisation principle using a limited number of criteria such as population, area and distance, supplemented by a suitable scheme of grants. The equalisation principle is consistent with both equity and efficiency. It is used in federations such as Canada and Australia. The basic consideration of reflecting needs, costs of providing services, and equity considerations can all be reflected through these three criteria, provided there is more fine-tuning.

Recommendations

The debt-GDP ratio for the combined account of central and State governments had peaked at 89.8% in 2020-21, of which the Centre's debt-GDP ratio excluding any on-lending to the States amounted to 58.7%, and that of States was 31%. While these numbers have begun coming down, these are still considerably above the corresponding Fiscal Responsibility and Budget Management (FRBM) norms of 40% and 20%, as in the 2018 amendment. In 2020-21, the Centre's fiscal deficit had shot up to 9.2% of GDP and that of States to 4.1%. In view of the large departures of the debt and fiscal deficit to GDP ratios from their corresponding norms and the reduction of the States' debt-GDP target to 20%, the 2018 amendment to the Centre's FRBM needs to be re-examined. This was also recommended by the Fifteenth Finance Commission.

The Twelfth Finance Commission had recommended a target of 28% consistent with an underlying nominal GDP growth of 12%. It is also clear that the adjustment needed for the central government is larger than that for State governments. At the

same time, a few State governments appear to have relatively larger debt and fiscal deficit numbers relative to their GSDPs. In this context, two concerns appear: these relate to the proliferation of subsidies and the re-introduction of the old pension scheme in States without a clear identification of the sources of financing and the resultant fiscal burdens. Often, such subsidies are sought to be financed by raising the fiscal deficit.

Reforms worth pursuing

One innovation which may be relevant in this context is to set up a loan council, as recommended by the Twelfth Finance Commission. This independent body should oversee the loan magnitudes and profiles of the central and State governments. The Sixteenth Finance Commission should examine the subject of non-merit subsidies in detail. However, exclusion of 'unjustified' subsidies while determining grants may cause the Finance Commission to be caught in political crossfire.

At the same time, one cannot afford to be relaxed with respect to subsidies and fiscal deficit. The Finance Commission should be strict about States maintaining fiscal deficit within limits. It should provide carrots to States maintaining fiscal deficit (for example including fiscal performance as a criterion in horizontal distribution) and sticks for those that exceed fiscal deficit limits (by suitably acting on the extent of borrowing allowed).

Correcting excessive cesses, freezing the weight for income distance criterion, and sharper monitoring of fiscal deficit are the areas that need attention

TWO HEALTH BILLS PASSED WITHOUT DEBATE IN LS

GIST: The Bills are aimed at repealing two existing acts and bringing healthcare to global standards

The Lok Sabha passed two key health Bills namely

1. The National Nursing and Midwifery Commission Bill, 2023 and
2. The National Dental Commission Bill, 2023

1. The National Nursing and Midwifery Commission Bill seeks to repeal the Indian Nursing Council Act, 1947 and set up the National Nursing and Midwifery Commission (NNMC).

Key features of the Bill are:

- National Nursing and Midwifery Commission: The Bill provides for the constitution of the National Nursing and Midwifery Commission. It will consist of 29 members. The chairperson should have a postgraduate degree in nursing and midwifery and have at least 20 years of field experience. Ex-officio members include representatives from the Department of Health and Family Welfare, National Medical Commission, Military Nursing Services, and the Directorate General of Health Services. Other members include nursing and midwifery professionals, and one representative from charitable institutions.
- Functions of Commission: Functions of the Commission include: (i) framing policies and regulating standards for nursing and midwifery education, (ii) providing a uniform process for admission into nursing and midwifery institutions, (iii) regulating nursing and midwifery institutions, and (iv)

providing standards for faculty in teaching institutions.

- Autonomous boards: The Bill provides for the constitution of three autonomous boards under the supervision of the National Commission. These are: (i) the Nursing and Midwifery Undergraduate and Postgraduate Education Board, to regulate education and examination at undergraduate and postgraduate levels; (ii) the Nursing and Midwifery Assessment and Rating Board, to provide the framework for assessing and rating nursing and midwifery institutions; and (iii) the Nursing and Midwifery Ethics and Registration Board, to regulate professional conduct and promote ethics in the profession.
- State Nursing and Midwifery Commissions: Every state government must constitute a State Nursing and Midwifery Commission where no such Commission exists under state law. It will consist of 10 members. The members will include representatives from the health department, from any nursing or midwifery college of the state, and nursing and midwifery professionals.
- Functions of the State Commission include: (i) enforcing professional conduct, code of ethics and etiquette, (ii) maintaining state registers for registered professionals, (iii) issuing certificates of specialisation, and (iv) providing for skill-based examination. Appeals against decisions taken by state commissions may be filed with the Ethics and Registration Board. Decisions taken by the Board will be binding on the State Commission unless a second appeal is filed with the National Commission.

- Establishment of nursing or midwifery institutions: Permission of the Assessment and Rating Board would be needed to establish a new nursing and midwifery institution, increase the number of seats, or start any new postgraduate course. The Board must decide on the proposals within six months. In case of disapproval, an appeal can be made to the National Commission and a second appeal can be filed with the Central Government.
- Practicing as a professional: The Ethics and Registration Board will maintain an online Indian Nurses and Midwives' Register, containing the details and qualifications of professionals and associates. Individuals must be enrolled in the National or State Register to practice nursing or midwifery as qualified professional. Failure to comply may result in imprisonment of up to one year, a fine of up to five lakh rupees, or both.
- Advisory Council: The central government will also establish the Nursing and Midwifery Advisory Council. The chairperson of the National Commission shall be the chairperson of the Council. Other members include representatives from each State and Union territory, Ministry of Ayush, the University Grants Commission, the National Assessment and Accreditation Council, the Indian Council of Medical Research, and nursing and midwifery professionals. The Council will provide advice and support to the National Commission in matters concerning nursing and midwifery education, services, training, and research.

2. The National Dental Commission Bill, 2023 was introduced in Lok Sabha on July 24, 2023. The Bill repeals the Dentists Act, 1948 and constitutes: (i) the National Dental Commission, (ii) the Dental Advisory Council and (iii) three autonomous Boards for regulating dental education and standards of dentistry.

Key features of the Bill are:

- National Dental Commission: The central government is required to constitute a National Dental Commission consisting of 33 members. It will be chaired by an eminent and experienced dentist. The Chairperson will be appointed by the central government, upon the recommendation of a search-cum-selection committee. The Search Committee will be chaired by the Cabinet Secretary. Ex-officio members of the Commission include: (i) Presidents of the three autonomous Boards, (ii) the Director General of Health Services, (iii) Chief of the Centre for Dental and Educational Research, All India Institute of Medical Sciences. Part time members of the Commission include: (i) faculties of dentistry from government institutes and (ii) representatives of states and union territories.
- Functions of the Commission include: (i) regulating governance standards for dental education, examination, and training, (ii) regulating dental institutions and research, (iii) assessing infrastructure requirements in dental healthcare, and (iv) ensuring that admissions to Bachelor of Dental Surgery happen through the National Eligibility-cum-Entrance Test (NEET).
- Autonomous Boards: The central government is required to constitute three autonomous Boards under the supervision of the Commission. The Boards are: (i) the Undergraduate and Postgraduate Dental Education Board - responsible for determining education standards, developing curriculum, and granting recognition to dental qualifications, (ii) the Dental Assessment and Rating Board - responsible for determining compliance assessment procedure for dental institutions, granting permission to establish new institutions, and conducting inspections and ratings, and (iii) the Ethics and Dental Registration Board - responsible for maintaining online national registers of dentists/dental auxiliaries, suspending/cancelling licenses, and regulating standards of conduct, ethics and the scope of the practice. Establishing a new dental institution would require prior permission of the Assessment and Rating Board. Qualifications in dentistry recognised under the Dentists Act, 1948 will continue to be recognised.
- State Dental Council: Within one year of the enactment of the Act, state governments are required to institute State Dental Councils. The Councils are required to receive grievances related to professional/ethical misconduct against registered dentists. They are also required to maintain state registers of dentists/dental auxiliaries. The National Commission may also direct a State Council to carry out provisions under the Bill. State governments will appoint the Chairperson of their respective Dental Councils. Two or more state governments may form a Joint Dental Council to discharge the stated functions.
- Entrance examinations: Admission to the Bachelor of Dental Surgery course will be done through NEET. The Commission will specify the manner of conducting common counselling for undergraduate and postgraduate admissions. A National Exit Test (Dental) will be held in the final undergraduate year for: (i) granting licence to practice dentistry, (ii) enrolment in state/national registers, and (iii) for admission to postgraduate dental education. Until the passage of the Bill, postgraduate admissions in Master of Dental Surgery (MDS) will be conducted through NEET.
- While clearing the National (Exit) Test would be sufficient in granting a license to practice dentistry, the practice would have to be registered in the state/national register before commencement.
- Dental Advisory Council: The central government is required to constitute a Dental Advisory Council. The Council shall advise the Commission on education, training, and research standards, and enhance equitable access to dental education. The Council will also be the primary platform through which the states/union territories can raise concerns before the Commission. The Council will be chaired by the Chairperson of the National Dental Commission. Ex-officio members of the Commission will also be ex-officio members of this Council.

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SC ASKS CENTRE, SIX STATES TO RESPOND TO PLEA ON LYNCHINGS

CONTEXT: The Supreme Court has asked the Centre and the six states - Maharashtra, Orissa, Haryana, Rajasthan, Bihar, and Madhya Pradesh - to respond to the plea within four weeks. The plea was filed by the National Federation of Indian Women (NFIW), a non-profit organization, which has been tracking incidents of mob violence in the country seek a direction to the government to take steps to prevent mob lynchings.

The plea highlighted the fact that there has been a sharp increase in the number of mob lynchings in recent years, and that most of these incidents have been motivated by communal hatred. The plea also pointed out that the existing laws are inadequate to deal with the problem of mob lynchings, and that a

new law is needed to specifically address this issue.

The Supreme Court asked the Home Ministry to meet with the Department heads concerned of States and provide an updated status on measures taken by them to comply with the preventive remedial measures directed by the Supreme Court on its July 17, 2018 judgment in Tehseen Poonawala case. The judgment had directed States to form Special Task Forces to collect intelligence on likely incidents of hate speeches, mob violence and lynchings in districts. The judgment had made it clearly the duty of the Central and State governments to take steps to stop the dissemination of explosive messages, videos, etc.

NO PROPOSAL TO AMEND ANTI DEFECTION LAW

CONTEXT : In a statement made on Friday, Union Law Minister Arjun Ram Meghwal informed the Lok Sabha that there are currently no plans to amend the anti-defection law.

BACKGROUND: Mr. Meghwal provided a written response to an unstarred question posed by BJP member Dharmendra Kashyap. The question inquired about the government's intentions to enhance the Tenth Schedule of the Constitution. In his response, Mr. Meghwal stated that there were no plans to amend the anti-defection law.

WHAT IS 10TH SCHEDULE OF CONSTITUTION?

The Tenth Schedule of India's Constitution is designed to prevent the defection of elected and nominated members from a political party. It includes strict provisions to deter legislators from switching to other parties, aiming to curb this practice.

The Tenth Schedule of the Indian Constitution is commonly known as the "Anti-Defection Law." It was added to the Constitution in 1985 through the 52nd Amendment Act. The main purpose of the Tenth Schedule is to address the issue of political defections by elected representatives.

KEY FEATURES OF THE TENTH SCHEDULE:

Disqualification: The schedule lays down the grounds on which an elected or nominated member of a legislative body (Parliament or State Legislature) can be disqualified for defecting from their political party.

Defection: Defection is defined as voluntarily giving up membership of a political party or voting or abstaining from voting

contrary to the party's directions.

Role of the Speaker/Chairman: The power to decide on disqualification cases lies with the Speaker (in the case of Lok Sabha or State Legislative Assemblies) and the Chairman (in the case of Rajya Sabha or State Legislative Councils). The decision of the Speaker/Chairman is subject to judicial review.

Exceptions: The Tenth Schedule allows defection in certain circumstances without attracting disqualification. For example, if one-third of the members of a party decide to merge with another party, defection will not lead to disqualification.

Time Limit for Disqualification: The law specifies a time limit within which the Speaker/Chairman must decide on disqualification cases.

Nominated members: The Anti-Defection Law, which is enshrined in the Tenth Schedule of the Indian Constitution, is applicable to both elected and nominated members of legislative bodies (Parliament and State Legislatures).

PARLIAMENTARY DEVICES TO ENSURE ACCOUNTABILITY

STARRED QUESTIONS in the Indian Parliament require an oral answer during the Question Hour, with MPs present in the house.

UNSTARRED QUESTIONS: Unstarred questions do not demand an oral response but are answered in writing by the concerned ministries and later provided to MPs.

Both types facilitate accountability and information exchange in parliamentary proceedings.

ECONOMICS AND DEVELOPMENT

GOVT. ALLOWS INDIAN COMPANIES TO LIST ON FOREIGN EXCHANGES THROUGH IFSC

CONTEXT: The Union Minister of Finance Nirmala Sitharaman hinted allowing Indian companies to directly list their shares on foreign exchanges operating at the GIFT City-based International Financial Services Centre (IFSC) in Gujarat. The government has taken a decision to enable direct listing of listed and unlisted companies on the IFSC exchanges. The FM had made an announcement on this during her budget speech of 2021-22.

The finance minister was in Mumbai to inaugurate a Limited Purpose Clearing Corporation (LPCC) mechanism called AMC Repo Clearing Ltd. (ARCL) and the Corporate Debt Market Development Fund (CDMDF) which will help in the development of a vibrant corporate bond market in India.

AMC Repo Clearing Ltd. (ARCL)

1. Provide clearing and settling corporate bond repo

transactions and develop an active repo market.

2. Allow market makers to access cost-effective funding for their inventory, bondholders to meet their short-term liquidity needs without having to liquidate their assets, and entities with short term surpluses to deploy their funds in a safe and efficient manner.

Corporate Debt Market Development Fund (CDMDF)

1. Purchase and hold eligible corporate debt securities from participating investors (i.e., specified debt-oriented MF schemes to begin with) with a fund's worth over ₹33,000 Cr. during fall in market operation and sell these securities as markets recover.

BACKGROUND: The first International Financial Service Centre (IFSC) in India has been set up at the Gujarat International Finance Tec-City (GIFT City), a multi-service Special Economic Zone (SEZ) located at Gandhinagar. The SEZ Act, 2005 allows setting up an IFSC in an SEZ or as an SEZ after approval from the Centre. The office of IREDA at GIFT City, Gandhinagar, will be classified as an overseas office, allowing the IREDA to avoid foreign exchange hedging costs.

SIGNIFICANCE: Gandhinagar can emerge as a global financial centre. The IFSC at Gandhinagar provide trans-border financial products and services to customers outside the jurisdiction of the domestic economy.

INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY

TYPE: Statutory organisation.

STATUTE: IFSCAA Act, 2019.

HEADQUARTERS: GIFT City.

MANDATE: Develop and regulate financial products, services and institutions in the IFSC in India.

SERVICES OFFERED BY IFSC

Fund-raising services for individuals, corporations and governments.

Asset management and global portfolio diversification undertaken by pension funds, insurance companies and mutual funds.

Wealth management.

Global tax management and cross-border tax liability optimization.

Global and regional corporate treasury management operations.

Risk management operations such as insurance and reinsurance.

Merger and acquisition activities among trans-national corporations.

U.S. ANNUAL INFLATION SLOWED IN JUNE; Q2 LABOUR COSTS COOL

CONTEXT: The annual inflation rate in the US slowed to 3 % in June of 2023, the lowest since March of 2021 and compared to 4 % in May and expectations of 3.1 %.

The slowdown is partly due to a high base effect from last year when a surge in energy and food prices pushed the headline inflation rate to 1981-highs of 9.1%. Energy cost slumped 16.7%, with prices falling 36.6% for fuel oil, 26.5% for gasoline, and 18.6% for utility gas service. Electricity prices increased by 5.4%.

Inflation slowed for food and shelter. Smaller price increases were also recorded for new vehicles, apparel, and transportation services. The cost of medical services fell by 0.8 % and prices of used cars and trucks declined 5.2 %. The core inflation rate dropped to 4.8%, the lowest since October of 2021.

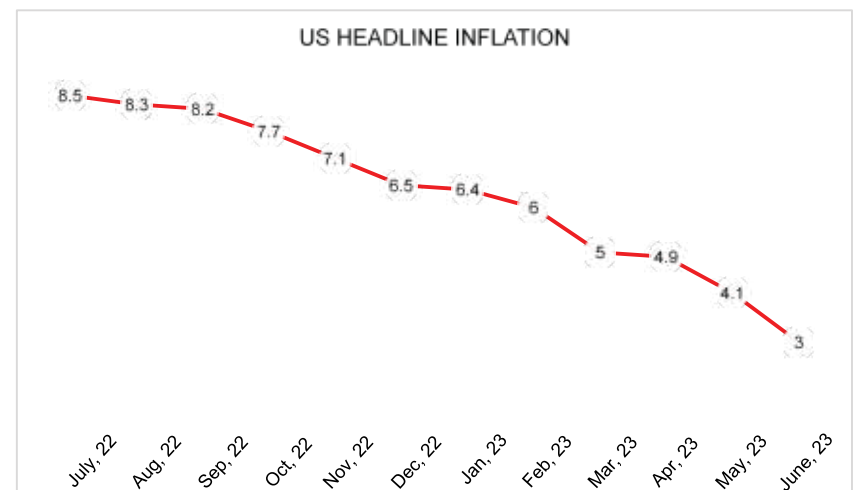


FIGURE: Line chart representation of the US Headline inflation rates. Source: US Bureau of Labour Statistics.

INTERNATIONAL RELATIONS

INDIA, JAPAN WILL WORK TO STRENGTHEN 'PEACETIME COOPERATION'

CONTEXT: Indian External Affairs Minister S. Jaishankar and Japanese Foreign Minister Yoshimasa Hayashi had met at the India Japan Forum, in New Delhi as part of 15th annual India Japan Foreign Ministers Strategic Dialogue. The Japanese Foreign Minister was in India as part of a six nation tour to South Asia and Africa.

BACK GROUND: During the period of heightened tensions

between the U.S. and China in the Taiwan Strait, India responded with a statement urging restraint. The tensions in South China Sea and Taiwan strait had increased following U.S. Speaker Nancy Pelosi's Visit to Taipei in August 2022. China had objected to that visit citing it as a violation of Chinese Sovereignty. During this time China had conducted military exercises in the Taiwan Strait. Japan is the current President of the G7. India, Japan,

United states of America and Australia are part of the Quadrilateral alliance which share collective Interests in the Indo – Pacific.

JAPAN AS AN EXEMPLAR MODERNISER

The External Affairs minister had praised Japan as an exemplary moderniser which is a role model for India. He highlighted India Japan Cooperation and credited Japan with Maruti – Suzuki, collaboration for passenger cars, Metro rail services in Various India Cities, and high speed rail projects under construction in various cities. The External Affairs minister observed that, by strengthening peace, stability and security in the region, both nations can ensure that the worst fears of the region

would not be realised.

The Japanese External Affairs Minister also commented on the wide-ranging collaboration with India including security collaboration. The Minister noted that the first ever India – Japanese joint fighter exercise was held in January 2023.

SIGNIFICANCE

Both leaders had side stepped a direct question from the journalists on possible India-Japan cooperation in case of a Chinese military action against China. But addressed in general terms that there is substantial cooperation amongst two Asian Powers to ensure peace in the region.

WANG YI PLEDGES TO 'DEFEND SOVEREIGNTY'

CONTEXT: Chinese Foreign Minister Wang Yi pledged to “defend sovereignty” against “unwarranted interference” from the United States. The speech comes amid growing tensions between China and the US. The two countries have been at odds over a number of issues, including trade, Taiwan, and the South China Sea.

“China would not “bow to pressure” from the US or any other country and would “continue to uphold the principles of peaceful coexistence” and “work with other countries to build a better world” – Wang Yi Director, Office of the Central Foreign Affairs Commission



ECOLOGY AND ENVIRONMENT

MERCURY RISING

Scientists from the World Meteorological Organization (WMO) and the European Commission's Copernicus Climate Change Service described conditions this month as “rather remarkable and unprecedented”, with July seeing the hottest three-week period on record. Average July temperature so far has been 16.950 C, 0.20 C warmer than in July 2019 — a record in the 174-year observational data of the European Union. The abnormal elevated temperature has resulted in temperature in northwest China touching 520 C; wildfires in Greece and the baking heat in the United States' Southwest.

It was widely expected that temperatures would be warmer than that in the last three years, when La Niña prevailed with Sea Surface Temperatures (SSTs) on the rise and the Central Equatorial Pacific Ocean transitioning from La Niña conditions to El Niño conditions. The extraordinarily high rains in north and western India, while largely due to prevailing monsoon conditions, were also due to the warm air increasing atmospheric capacity to hold moisture resulting in short torrential bursts, causing floods and devastation.

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