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Flagship Seminar Series on India's public finances I Part 1:
India's overall fiscal architecture

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Formerly Brookings Institution India Center

Panelists

Mr. N.K. Singh - Chairman, Fifteenth Finance Commission. He has also served as Chairman of the Fiscal Responsibility and Budget Management Review Committee and as Member of Parliament in the Rajya Sabha.

Dr. Shankar Acharya - Honorary Professor at the Indian Council for Research on International Economic Relations (ICRIER).

Mr. Anoop Singh - Distinguished Fellow, CSEP and Member, Fifteenth Finance Commission.

Moderator

Rakesh Mohan - President & Distinguished Fellow, CSEP

Watch the event video here: https://www.youtube.com/watch?v=zSUEZXnCV1c

The following is an edited transcript from the event.

PROCEEDINGS

Rakesh Mohan: One, it was of course a very special finance commission report in the sense of the current COVID times, so it was a very, very difficult task. And of course, Mr. N.K. Singh chaired. So, given that it's a very complex report with lots of issues in it, even though we will be doing a three-part series, we would still just be touching on the periphery of the report. So, today is this overall architecture of the report, overall view of the report as presented by Mr. N.K. Singh.

The second one will be next week, same time, same place, 15th of March. That'll be on Fiscal Federalism and Human Capital. The moderator will be Mr. Montek Singh Ahluwalia. The speaker will be Mr. Anoop Singh and the discussants will be **[inaudible 00:01:03].**

The third one will be on the 22nd. That is again the same time, on Monday 22nd. The speaker is **[inaudible 00:01:12]**, the moderator will be Mr. Anoop Singh, and the commentators will be **[inaudible 00:01:18]**.

Now, I won't take much time, but I do want to introduce the speakers Mr. N K Singh of course, as I mentioned, the gentlemen within finance commission. He also, served as chairman of the Fiscal Responsibility and Budget Management Review Committee, and of course, a member of parliament. Prior to this engagement, N.K. had an absolutely distinguished career as a member of the IAS and included positions, the Ministry of Finance as Secretary, Revenue and as Expenditure Secretary, and then Secretary of the Prime Minister, **[inaudible 00:02:00]**. He was also, of course, closely involved with 91 policy reforms right through the 1990s. And he was among the principal **[inaudible 00:02:08]** negotiations of the World Bank and the IMF during that time.

I should also, mention that he's recently released his absorbing autobiography. If I get N.K's permission, I can exhibit it. "Portraits of Power" and the title itself illustrate his career being near the center of policy making for almost 30 years.

So, that I don't disrupt the discussion, in the middle of that we also, introduce our two discussants. The first discussing is Dr. Shankar Acharya. He has served as a member of the 12th Finance Commission. He also, was a member of Securities and Exchange Board of India and the National Security Advisory Board among other positions. His last position was Non-Executive Chairman of **[inaudible 00:02:57]** bank of its first 12 years of existence. And it's a success. I think it was a great deal to his, as always, amazing chairmanship. He was Chief Economic Advisor to the government of India, the Ministry of Finance from 1993 to 2000. I think the longest tenure of any Chief Economic Advisor. The record is probably going to remain on broken for a long time to come. And of course, he has a range of publications and macro growth policy, growth, international economics and public finance. From my personal point of view is undoubtedly the foremost, most balanced and respected commentator on macroeconomic issues in India. So, we're very lucky to have a sage like you today.

The third discussant is Mr. Anoop Singh. He's currently a distinguished fellow at CSEP and was a member of the Green Finance Commission. He had a long career at the International Monetary Fund, IMF, where his appointments included being Director of Asia Pacific Department, which covers all of Asia and the western hemisphere, which covers all of Americas. He's also, been special advisor to the governor, Central Bank of India sometime back. He also, taught at Georgetown University in Washington, DC as an adjunct professor and has worked extensively in the Macro Economics Surveillance and Crisis Management issues.

As director of the two departments in the IMF and throughout his career at the IMF, he was among the key trouble scooters for almost 30 years of the IMF and was instrumental in bringing macroeconomic stability and fiscal discipline in a host of countries. And is known for his heart driving pressure on countries to reform when they get into crisis. So, again, I think the Finance Commission was lucky to have him and we are subtly lucky to have him.

So, N.K., may I request you to give your opening address? And if I may just put some few broad questions, which you may or may not include in your address. First, what are the key challenges that you had in the Finance Commission during these particularly difficult times? And in the light of many subsequent developments, one question is, has the role of the Finance Commission somewhat got muted by ongoing developments? For instance, I found that your conclusion that the Indian tax GDP ratio is about 5% lower than what it should be, is really striking and that it has been rock solid for a decade. So, that really leaves very little room for both horizontal and vertical distributions. I assume that is among the key challenges that we've had.

Also, of course, the key challenges of Indian Federalism, how has it actually worked in practice and do we need constitutes and other changes? On fiscal issues, how do you see the emerging scenario on the symmetry between the center and the states? I leave it there and maybe ask you some more questions later. But of course, you're free to speak to give us a broad overview and the key findings and issues that you addressed in the Finance Commission report. Thank you N.K.

N.K. Singh: Well, thank you very much Rakesh. First and foremost, my profound gratitude to your organization, now, the CSEP under your distinguished leadership as the president of this organization. Which has taken off from already very credible start, given the fact that you have been able to in a short period of time, galvanized some of the best minds to deliberate on issues, which represent some of our important contemporary challenges.

Also, Rakesh, my gratitude for having convened this three-part interaction to a webinar, which I'm sure would be enhanced the degree of understanding of the challenges and also, the opportunities grasp, the opportunities missed by an unusual 15 finance commission, which we chose to call a finance commission in COVID times. And unusual also, because unlike most finance commissions with the exception of one, we have given an award for six years, but the first year we have given for the 2021 and thereafter the report, which you submitted represents five years from 21 to 26. Which means that the next award will only begin to kick in the year 27.

So, as you pointed out, you have raised some very pertinent issues, which I will try to very briefly touch upon. I intend to, since you have a separate session on the fiscal issues directly, I'd like to take this opportunity with your permission to speak on some of the more general issues on the issues of the center stage relations, more importantly, the evolution of India's Federalism

As we know that India is a union of states, and not a confederation of States. It's a union which is indestructible, although the states are distractible and can change their contours, it has a written constitution which sets out this Federation model. There are division of powers. Each state has a separate legislature. It has a separate judiciary, the high court, and we really function in a bicameral framework. Many states do not have of course the upper house, but quite a few states continue to have their upper house, some abolished it, but they revived it. But as far as the central government is concerned, both the **[inaudible 00:08:59]** and the **[inaudible 00:09:00]** are permanent features of our legislative framework.

I think that the origins of India's evolution federalism owe its origin to the Government of India act of 1919, which broadly laid down the revenue heads between the center and the states. This was an important thing. And then it was given more tangible content in the Government of India act of 1935. We stopped off the sharing of center's sources for the first time, and also, mentioned for the first time, the entire issue of what is known as the grants and aid given by the consolidated fund of India is in charge in the consolidated fund of India for helping the states. But this provides therefore the basic federal structure of the union.

So, within this framework, as we go forward, there are five complex issues, which we need to navigate. First, in the division of functions within the center and the states, this function, as we all know, it laid out in the seven schedules of the constitution, which lays down what the obligations of the center, what are the obligations of the state and what are those in the concurrent list? Over a period of time to concurrent list has got somewhat enlarged. For instance, by default, the 2nd constitutional amendment, forest and education got included in the concurrent list. In addition, parliament has enacted stand alone legislations in the area of food, the food security act. In the area of employment, the Riga act. In the area of education, the right to free education act. And these stand-alone legislations, some extent also, have a bearing on the working of what was originally designed to be the seven schedules demarcating the functions between the center and the states. So, to some extent, this has been further complicated by the use of article 282 of the constitution under which. Now, currently I took the reckoning. There are 211 centrally sponsored schemes arranged under 29 umbrella schemes. Many of these are in areas which are in the domain of the states. As we go forward, I think that it is fundamental to the functioning of India's federal policy that we review working of the seven schedules in the light of the changing patterns of government, in the light of the fact that the government has become increasingly more and more presidential and less and less Westminster model. This is So, in the center and the states, and in certain sense, therefore that has a huge bearing and impinges on the ways in which the article 282 of the constitution can be read with the seven schedules. I have therefore believed that we need fundamentally go back to the drawing board and look at what is the kind of a seven schedule which would be relevant looking at today's contemporary challenges, electoral expectations and the nature of the governance rubrics.

Third important challenge. As at first, I told you the Seven Schedule. The second is I mentioned the Review of Article 22 of the Constitution. The third important challenge is in what way do we fully factor in the 73rd and the 74th constitution amendment. These of course, as you know, led to the creation of the third tier, the urban local bodies and the Panchayat institutions expected to have independent functions in terms of functions, functionaries and finance, all the three being assigned. Now, as we look at our past experience, all that the constitution provides is that the Finance Commission of India, each finance commission will make recommendations on how to augment the consolidated fund of the state based on the recommendations of the state finance commission to be able to assign finances for the working of the third tier. In practice, this has not happened. State finance commissions have not been set up, but if they have been set up, they have been total lack of alacrity in following up their recommendations. Or wherever the recommendations have been followed up, these have not been laid in the legislature, in short, the entire area of the state finance commission is mired in uncertainty.

In the light of this, should the finance commission continue to assign large resources to the third tier? We have in order to obviate uncertainties and lack of predictability. Hope the states have noticed, but we have not only assigned, we have substantially increased the amount of the devolution to the third tier, from what was given by the 14th finance commission. We have done So, within the framework of certain obligations, which are cost. But is this a satisfactory arrangement? Shouldn't the states be expected to live up to what the constitution expects them to live up, namely reactivate the state finance commissions? That's another important area, working as you go forward of the 73rd and the 74th constitutional amendment.

The fourth important area, which I want to focus on, is the working of the GST council. As we know, part 12 of the constitution assigns powers of taxation and assigns responsibilities on taxation to the states. However, the constitutional amendment which came about has really to a very large extent subsumed a lot of these taxation powers and the autonomy of the states in regard to their own sources of revenue within the overall fabric of the GST which is to be shared between the center and the states. Whereas it is true that the GST council has the representatives from the state, the finance ministers of each of the states, or sometimes the chief minister are members of the GST council. The fact remains that wherever we have gone, several other states certainly have mentioned to the finance commission that our flexibility in regard to taxation has now been subsumed in the GST council. And while conceding that their finance minister, the member feels that one member inadequate to be able to deflect the decision in one area or the other.

Complicated with this is to address another question, which you specifically asked me, the new challenges of the finance commission. One challenge of course, is the relationship between the GST council and the finance commission. The GST council is responsible for all indirect taxation in a complete kind of way. The finance commission, when it does its calculations, is also, concerned in a very substantial matter to projecting state finances, state by state before based on normative kind of parameters, which we introduce. We fix what is known as the revenue deficit grant for the state. So, the working off the finance commission is integrity related in the decision-making process of the GST council.

The finance commission of the body is much older. It was created in 1949 as an interim finance commission. From 49 to 52, it works as the interim one on the C.D. Deshmukh. Since then, we have been a continuing legacy of which the 15th finance commission, I have been privileged to chair. But as you go forward, what we must work out a working relationship between the finance commission and the GST council. Both these have their own domain and both these are constituted entities. To some extent, that is an open challenge.

Last one, which I will mention before I address your questions very sharply are the issues, fiscal related issues. As I can see on fiscal related issue over the period of time, there are two big issues which remain unresolved. Apart from this issue of what kind of a consolidated fiscal roadmap or a debt trajectory would be appropriate for a country given India's per capita income and So, on. Apart from addressing those holistic issues, two issues continue to be dominant. One, the lack of fiscal institutions in India. Whether it be by your fiscal council or by any other institution, the fact that we are one of those countries which while having some kind of a fiscal architecture does not have independent fiscal institutions is a factor that needs to be kept in view. And incidentally, since the world in general, investors, rating, agencies and others, focus not on the fiscal or the debt trajectory or the central government alone, but of the general government, which includes central government and the states, will need to have an institutional framework which will cover both these as important partners. So, this is one aspect I like to mention.

One final aspect. Asymmetry of powers between the center and the states. What are the asymmetry of power? As far as the central government is concerned, clearly, while accepting the fiscal roadmap, they often on account of very good reasons, contingencies of circumstances, had to take recourse to escape clauses and trigger escape clauses, and then they take the Parliament's approval for deviation from the fiscal roadmap. But nonetheless, there's a built-in attitude, which understandable that the central government has in seeking higher equals to market borrowings under exceptional circumstances. Without going to the merits of this, no such similar arrangement or devices available with the states that each of the states which we know after the amendments which they introduced are governed by the old fiscal responsibility act. And the last fiscal responsibility act which the states had undertaken was of course, quite some time ago. And among other things they will have to rework that out in the light of the 2018 recommendations. We accepted that government in their finance bill.

But the asymmetry comes from article 293.3 of the constitution. Namely what? That they will need the permission of the central government to contract any market borrowings. Now, this is quite understandable because after all the overall macro stability of the general government is the obligation under the constitution of the central government alone. But nonetheless, in practice, the asymmetry in the recourse with the central government can take additional flexibility in a fiscal apparatus is not available as a recourse or narrowly to the states. We need to therefore see that as we look to a newer framework, apart from fiscal institutions, what you need to apply to both the center and the states, you would need to see given today's circumstances, what kind of symmetry can be brought about.

We have, in some ways sought in our recommendations to mitigate this by giving a fiscal range instead of a fiscal point by permitting the states an extra one percentage point from whatever they took on as obligations under the state level of RBM, looking at the current pandemic, and then allow them also, recourse to half percent point to GDP in the event of their accepting certain important conditions in the reform of the power sector. What we need to formalize this arrangement as we go forward, not these recommendations which we have said, because these have been accepted by the central government, but the general principle of fiscal institutions and the general issue of the asymmetry in the powers as we look at a long-term arrangement on the fiscal consolidation roadmap.

So, I have outlined briefly some of these important challenges which go beyond the fiscal issues, which relate to federalism in general. And then I need to therefore address in one minute, the three questions which you posed. The first question is the key challenges which we faced. The first critical challenge which we faced, which you all know is the pandemic itself. Being band when we were beginning to look at the finance commission's recommendations and what it needed to do for us to go back to the drawing board on some of the key parameters which we had assumed, inject a degree of uncertainty and inject the lack of predictability as we began to project a five-year trajectory on growth, on taxation and availability of resources.

The second challenge which we faced was that for the first time after 40 years, the census data, which this commission was asked to use was the figure or 2011 population. So, this led to a high degree of fears and suspicions of many states which had performed very well on the demographic front, or whether the use of the 2011 census data would impair what they were legitimately expecting as devolution of the finance commission. That was a challenge. We sought to balance this by introducing changes in the horizontal formula itself, by injecting two components, namely a demographic management, and rewarding them by assigning a 12 and a half percentage for improved demography, and second, in terms of rewarding them for tax efforts. So, the horizontal formula, the challenge of balancing between three components between need represented by population, geographical area and forest cover. between equity by assigning the weight on per capita income by some reckoning, not high enough, but in our view reasonable enough for 45% and third, or recognizing and rewarding efficiency in terms of demographic management and on tax efforts. That was what the horizontal formula was.

The issue of whether or not we had the latitude to go up or down on the 41%, we must recognize that on that issue, all past finance commissions had made incremental changes. So, for a long time you remember the divisible tools ingredients were also, very different. Before 2000, the ingredients did not include all taxation after the 80th constitutional amendment introduced in 2000, the divisible tools definitions changed to all taxes, which include the corporate tax, customs duty and everything, but it kept the issue excess and surcharge out. But that really is another debatable issue on what needs to be done by this way of excess and surcharge. That's not a subject in the domain of the finance commission, but sure enough, considering the fact that from the GRR, the Gross Revenue Receipt of five years, that you calculated 153c Lac Rose to what was known as GTR, the Gross Tax Revenue, which then came down to 134 Lac Rose which would take out excess surcharge and cost of collection, the divisible tool aimed only 103 Lac Rose, which is what we looked at from the GTR... As we go forward, this will be one other important challenge.

The 41% issue as I told you, that each finance commission had made an incremental upward movement accepting the 14th finance commission, which have pasted the 42%, which we felt in the interest of predictability, continuity and eliminating uncertainty, we kept it at that level, just taking out 1% on account of the creation of German Kashmir into two union territories. So, we have kept consistency, predictability, and stability in doing that. We had two options recalibrating down, partly the union government who have expected that. We had the adoption of increasing it in upward direction, which was an important demand almost by all state governments, but in interest of predictability and stability we left it at the figure of 41% or 42%, which had been left by the working finance commission.

Then finally, this was the complex commission. Rakesh, the president had shown to assign a term of reference, which in many ways covered a much wider spectrum of issues than any other finance commission by way of monitorable performance criteria. And you would expect to give our opinion on which we have also, addressed in our recommendations. And final feature as I mentioned, unlike any commission in the past, having examined the state's finances in some depth and also, the finances of each of the key ministries of the union government, we decided to have the report in four volumes. The first volume, which contains the main report. The second volume, which is the statistical companion. Volume three entirely devoted to the union, namely the key union ministries on which we have suggested some illustrative reform program and the guidelines for further changes. And volume four entirely devoted to the states. Each of the states have subjected to very critical and in-depth financial analysis. And we have given a roadmap for the economic development process of each of the states, which are therefore differentiated in multiple ways.

It is from this that we came with also, a differentiated debt and a fiscal trajectory for each of the states, which are around the overall figures, but we have given each of the states the kind of analysis which they certainly deserve and which they certainly expected. So, these were the kinds of special challenges, which we faced. One last word, you have mentioned that the tax to GDP ratio and the potential is at least less than 5% of GDP than what it could be. Yes, we're very acutely conscious of this. And yes, we were acutely conscious as you say that this made the available resources and other shrunken one on which we had to do the exercise or the divisible between the union and the states and among the states. And this is an issue which we have dealt it rather extensively in a chapter designed to resources. That chapter on resources addresses the issue of the far-reaching changes which you have suggested not mainly in processes and procedures or an improvement of the technology platform, but on the architecture of the GST itself, namely the entire issue of inverted duty structure, broad banding and raid, elimination of exemptions and making it really a simple tax for all stakeholders who are participants in this GST exercise. So, we have given a framework for GST changes, we have given a framework on the direct taxes, and we hope that these recommendations in a separate chapter on resources will receive some consideration.

Only one more word, one more unique thing which we did. Our chapter in disaster management, but perhaps is the most holistic chapter So, far. It addresses for the first time some issues which have been left out, like issues of mitigation, like issues of capacity building and like a more optimum sharing of the burden of the center and the states. And the chapter on disaster management, we have calibrated based on the best international practices and based on a lot of inputs which we that have received for people who are domain experts in the area disaster management.

On the third tier, I will make some of my observations perhaps in the Q&A session. But thank you very much, finally for this opportunity, I've laid out the broad framework of what we have recommended, laid out the framework of Federalism, beyond Fiscal Federalism and some of the issues which we need to deal with, deliberate and arrive at a consensus as you go forward. Thank you very much, Rakesh.

Rakesh Mohan: Thank you very much, indeed N.K. for this pharmacist, So, masterful and eloquent and succinct summary of a very complex report. I know how difficult that is to do, So, thank you very much indeed for doing this So, well. And something that is very understandable, I think, by any informed observer. So, thank you. Before I ask Shankar Acharya to make his intervention, just an announcement that for the Q&A, just please pose your questions to the Q&A tab in the zoom dashboard. And then we will come to that at the end of the interventions.

So, Shankar, let me now just ask you, once again, give you a few prompts. Of course, you're free to say whatever you like in response to N.K's presentation and otherwise. But the first question is somewhat one that is common when I asked N.K, which has to do with the stagnation that actually the GDP ratio. And connected with that, given that actually GDP ratio has not been wind. And also, there seems to be very little indication of buoyancy in the coming years. How that has made the tax devolution issue more difficult with the increasing tax devolution from the center to the states in the last many commissions. And then of course, that has led to the massive increase in excesses and surcharges, which also, N.K. just referred to. And the number he gave, I think, if I remember correctly, it means almost like a 25% to 30% reduction in the divisible tool from the actual tax revenues of the center.

Second, we really welcome, again, N.K. mentioned towards the end, the recommendations on simplifying the GST and the need for reform of GST, both for restoring the GDP ratio of center and the states. So, the question is how is that, how serious is the problem that he mentioned with states complaining about not having enough flexibility now because of the GST and not having enough power over their own revenues? And how has therefore, how the introduction of GST effected the task of the finance commissions?

And finally, third, this issue, again, which N.K. referred to is the increase in grants to local government. And that has remained in some sense, the Achilles heel of the Indian fiscal system that we have just from some work that we have done as he said, it remains just about the lowest, if you did third tier GDP ratio, is among the lowest, even among emerging market countries. So, your comments on that?

Shankar Acharya: Thank you Rakesh. Well, first of all, thank you very much for inviting me to this panel and for your very, may I say friendly introduction, especially if your last sentence description of me as a balanced commentator on Indian economic affairs. Yes. I just get my weighing balance in order. And I would also, say that thanks for giving me this opportunity in a way to kind of interact and interrogate the chairman of the 15th Finance Commission, an old friend N.K. and another old friend and a distinguished member of the commission, Anoop Singh. So, I really appreciate that,

Rakesh Mohan: Wait, let me just interrupt one second to say that both you, Shankar and Anoop, don't hesitate to put some hard questions to N.K, which I'll ask him to respond to.

Shankar Acharya: Okay. Well, N.K. note that, that I've been invited to be tough. Okay. Well, first of all, N.K., I must thank you for writing a wonderful report. It is real education for me, and to some extent also, a reminder to eight or nine years back when I served as a member of the 12th finance commission headed by our good friend Dr. Andrew Rajan. But I want to also, emphasize for all those who are viewing, having been a little bit on the inside of finance commissions a long time ago that I think your commission N.K. and Anoop and others, you had a specially daunting task during this, and N.K. mentioned this, but I want to really say that that's absolutely true. And this is, if you recall, I mean, even before COVID struck, COVID plus locked down, I think, the economy was suddenly slowing rather sharply between 2017 and 2019 end. And I mean, I won't go with the numbers, but that's well known. And I think that created very difficult situation for the ongoing finance commission's work, because you get these projections from the center and states of what their finances are going to be like looking five years ahead. But as N.K. knows, if in the meantime, the entire growth trajectory of the economy has changed rather dramatically, then what has come to you from the governments constituting the Federation or the union rather, is not that meaningful as it should be. So, I think that was a very daunting challenge. And of course, COVID complicated matters hugely in terms of the impact on the economy. So, I think that I have to give huge credit to you, N.K. and Anoop and others on the commission for having risen to the challenge of these special hurdles that you had to contend with.

Let me also, say that, that **[inaudible 00:39:43]** you just gave N.K. was really tremendous, especially for someone who's not necessarily school in fiscal federalism in the Indian context. It was really a marvelous kind of educative thought. Turning to the questions Rakesh that you put to me. And they are sort of in a sense, a little bit of cherry picking there. I'm not trying to cover the whole report N.K., So, you have to forgive me for that. This issue of what's happened by way of the tax devolution ratio as N.K. pointed out that initially for many years, rather, it used to be increased or let's say ever since, I think it was the 10th finance commission which made it all shareable taxes, called big ones, shareable by the same percentage. And since then, every successive commission, including ours of the 12th, changed it by one or two percentage points max. And that brought it up, I think at the end of the 12th commission to about 32%, if memory serves me right. Not 12th, but by the 13th, it came to about 32%.

And then from 32% jumped to 42% because of the award of the 14th finance commission. I mean, I think the chairman of that commission too is a personal friend. I don't want to now say that what he did was wrong or anything. It's just that I think it kind of, particularly with the benefit of hindsight, it complicated the tax system set of issues enormously in the following sense that when you suddenly change the devolution percentage by 10 percentage points from 32 to 42, the central government is faced with an enormous challenge of how-to kind of manage its business with often giving that order of increase in devolution. And those of us who spend time like N.K. and myself and you and Rakesh, in central government for a long time, especially the finance ministry, the natural response of the government predictable, I would say in a way was a huge swing in favor of revenue instruments, which were not shareable under the constitutional formula. So, that, I think if you look at the trend by any ratio, what happened to the revenue from excess and surcharges, which are not shareable under our constitutional formula to any aggregate where the gross tax revenue or gross revenues, current revenues, or GDP, or whatever, that shot up in the last five years. Please correct me N.K. if I'm wrong, but I think you have a table somewhere in the main volume, which points this out very clearly. It's not that it hadn't increased earlier, but it didn't ever increase by the kinds of amounts that we saw between what was it? 2014 and 2019, 2020, or thereabouts.

And I think that this had two consequences in my view, which were perhaps not desirable. One, governments choose instruments, which were not necessarily the right instruments for taxation. And there were excesses and surcharges were often distortive. I mean, take just one example. I don't want to go through a whole lot that in the personal and corporate income tax things, I think the personal income tax, we talk about there being three slabs. Every time you put on a surcharge, essentially you get another slab. And that's, what's happened over time. And it's happened in spades, I would argue in the last five years because of this challenge that was posed to the central government by that jump in the tax devolution. And I think this has essentially created distortions, which I think are not good for the whole system. And I mean my question. You asked me to ask a hard question to N.K. Well, my hard question to N.K. is, is there a viable solution, given our constitution, given our various other non-constitutional traditions and So, on, and given the legitimate needs of the center and the states? In other words, in your commission's recommendations, you have clearly, as you said, for reasons of stability, not chosen to say reversed part of that 10-percentage point increase at all, other than the 1% for the organization of Kashmir. In other words, 42 equals 41, and it stays there. If I understand it correctly.

Theoretically, your commission had, if you like, the possibility theoretically, or going down to, I don't know, 36%, 38%. And say that "Look, you've tried the other thing, it creates its own problems of the excess and surcharges shooting up, distorting and So, on and So, forth. Let's just do it the way we used to do or a little less of the devolution ratio and So, forth. I fully empathize with the view which says, "Look, in the COVID year where the states have been hit So, hard that since they are the frontline spenders of our system, to do this is, probably politically unthinkable." So, I am not saying that it could have been done this year, but I think the problem remains. And so, looking ahead, my question to N.K., okay, your 15th finance commission was in a particular point in time and it couldn't do this sort of thing. But how else do we solve what I think is a genuine problem in the future? So, that's my first point and question.

Second. Well, I have mentioned that as N.K. pointed out, one of the things that this commission has done is that it gives a lot of weight to its discussion, analysis and So, forth to the reform of the GST. And we have to remember, this is the first finance commission after the GST. GST did not exist in the previous 14 finance commissions. I think that this commission is entirely right in kind of saying the kinds of things that are said, because I think it's absolutely necessary to make the GST much more productive without being more distortive in the years ahead for two different sets of reasons.

One, that the tax to GDP ratio, both for the center and the states is well below what it ought to be. And I think one of the reasons, not all, there are many other reasons, but one of the reasons is that the GST in the way that it was finally implemented in 2017, in terms of the rate structure, in terms of the exemptions and various other practicalities, did not turn out to be revenue neutral. In terms of the center and state taxes, it replaced or subsumed if you like, that's my understanding. And I think that's brought out by the numbers in the commission's report as well. So, that it compounded what was perhaps already a problem of the tax ratio, not being high enough from a macro perspective for a country at India stage of development.

Secondly, I think there was a special problem from the point of view of federal fiscal relations which rose because of this weakness or set of weaknesses of the GST. Which is that in subsuming the taxes of the sentence states into the GST or replacing them, whatever is the correct word, the states lost their most productive tax. Which in the earlier days used to be called the State Sales Tax and then became called State tax. So, all the sort of kind of lecturing that one does from the central's perspective of look, improve your own revenues performance. However, how should I say, unpleasant it was for states to hear it, prior to 2017 was I think, kind of a rubbing salt in the wound after 2017. Because they had given up as part of a compact, if you like, their most productive tax on the presumption, presumably that the GST council in its wisdom would run it in a productive way for the benefit of both center and states when it came to the revenue yield as well as economic consequences. My view would be, it hasn't run like that, unfortunately. And therefore, as I would wholly support this finance commission's analysis and recommendations for early and tighter relook and reform of the GST structure. And in not just broadly, but in its details to solve what I see are sort of two related, but separate problems.

Rakesh Mohan: Shankar, just a couple of minutes more if you could.

Shankar Acharya: Okay. Very quickly. On the third point that you asked me, I think, which is on the local government transfers. I think, pretty much all the transfers that I could see have gone up, not just in absolute terms, but as ratios. And my view is particularly on the local government. I welcome that. I also, note the high degree of conditionality, which normally one doesn't necessarily like. But I think the institutional changes, they're being treated off for, in the sense of say, each state having to do the state finance commission report, as well as some other kind of presenting accounts properly and all that sort of stuff is what buying in a, if you like, in a holistic way, in terms of the often form of conditionality in return for more transfer. Which is what roughly something like what we did in the 12th finance commission, when we also, gave higher transfers in return for states doing - we gave them, not transfers, we wrote off debt. I mean, the recommendation was, write off lots of state debt in return for each state having to prepare and pass its respective FRB act.

One last point on expenditure transfers recommended by this commission. I have to confess that I have some discomfort with the ones that N.K. that you and colleagues have proposed for center specific and state-specific ones. Because from my perspective, I think they're perhaps a little too intrusive and micro managerial, but that's perhaps a personal view and obviously you didn't share it. Last sentence, fiscal architecture, wonderful stuff said in there. And I just hope somebody is listening.

Rakesh Mohan: Thank you. Well, thank you very much Shankar for those usual balanced yet trenchant remarks. And I hope N.K. has noted your question, which we'll come back to after. So, Anoop, let me now request you to make your intervention. So, you've got a perfect segue with Shankar ending with the fiscal architecture issue, which N.K. also, referred to in terms of fiscal institutions. So, I would like to ask you to call on your long IMF experience with So, many other countries. What have other countries done in building the sort of pillars in some sense some institutions, real fiscal architecture? And in the greater thing, if you illustrate from other countries, perhaps comparable countries and where India stands in comparison? And what are the priority areas where we need to act on these pillars of fiscal architecture? And of course, I would add how feasible would it be to implement the suggestions that you have? And if I can just add one more thinking in some sense how you'll answer this, that where you, if God forbid, we were actually going to the IMF in these current circumstances, and you were putting conditionality on us, on our fiscal activities, what would you have said?

Anoop Singh: Okay, thank you. And I enjoyed hearing the post N.K. and I'm not going to raise questions of him. And I will talk a bit on the fiscal architecture though. Shankar made the short point as anybody in the screen? So, let me just make a really few points leaving you with some thoughts for the future. Now, looking back in time, when I joined the finance commission as N.K. asked me to do it. In that early meeting I asked a very naive question. I asked, "Is there a revenue commission or are we going to be the revenue commission?" So, he said, "Of course not, don't you know that it is the GST council." So, my thought was, if India does not have a revenue commission or something of that sort, given where our tax revenues are, as we've spoken about that, how can the finance commission work?

Now, that's where India is in terms of its tax ratio. I frankly, I am not surprised that the center wants to impose excesses and surcharges. I am the last person to **[inaudible 00:53:47]**. But when a tax ratio of the general government remaining around 17% of GDP for the last 20 years, it is impossible to **[inaudible 00:54:00]**. The center has a right to resist, they will do so. The other part of it is spending, expenditures. It makes even more important the quality and the efficiency of spending. If you haven't got the revenues, what do you spend on? It is really impossible and people haven't really focused on this in the terms of preference that we got. We were asked to look at ways to improve the quality of public spending and look at the equity, efficiency and transparency of public spending. This is even more critical when our revenues are as they are.

Now, my next point is the world is in a different stage right now because of the pandemic. Whether we do or do not have fiscal architecture of the kind that we should have had, I think it's not that important. What is more important is where we are going in the next five years, even if he had had a fiscal architecture and the pillars, which we have not had beyond the FRBM, which N.K. was responsible for, he hasn't gone beyond that, it would have to be redone now. Almost all the major countries are now relooking at their fiscal architecture. The fact that we haven't had one in some ways is helpful. We can now start to look at the next five years.

I would say in my perspective of India's public finances, I'll make two points. It's not So, much what our debt ratio will be five years from now. Of course, it's important. What is more important is the architecture that underlies it and then have their distortions in numbers, which mean you can't believe the numbers you have on spending and financing. What do I mean? I will see one of the most important events that have taken place recently is what the finance minister did in the budget. She openly brought online on the budget of **[inaudible 00:56:33]**. And I think she kind of, I say kind of, I think she kind of said a fee for food and certain subsidies, it will not happen again. It means that our deficit is not 3.5 or 4 or 3.6 or 4.3. It's actually 9. And it's partly because a lot of off-budget financing was responsible for spending, not recognized. I think that is the first very important step forward to make the covenant for old spending. It's not just the financing of spending, it's also, what you spend on. If I was a ratings agency person, I'd be equally in interested, even more interested in what are you spending on? Now, what the finance commission report had brought out periodically, systematically and one of four is a nature of what is called committed spending of the center and even more the states.

Committed spending is what is used, rightly I presume, to justify what the commission has done for the revenue deficit grounds. That committed spending is not building human capital. It's not capital expenditure, it's committed spending on interest and wages and pensions and things of that sort. So, I would say any country needs an architecture that looks at the efficiency and the transparency of what is happening. I think an important step forward has been taken, by the finance minister, is being done for certain categories of spending, I presume it would be done for all. Secondly, it equally matters for expenditures. What I mean is, are there capital expenditures taking place and which are registered as capital expenditures? But if they're not, they're making up for operating losses of the past, such as for railways, but even more important in the center, are all the states of India. So, I will say any country would need pillars of architecture, not just institutional surface we need as N.K. said, if it's a council, but rules on public financial management. So, when you see an aggregate, you know what it is and what it defines.

My final point is India has come a long way in its international financial standards. The RBI like most central banks in the world have committed to certain standards of financial stability. They are not going to change the number for the official target without telling you. They're not going to tell you the number for WPI if it's a CPI. We have a pretty internationally accepted set of financial standards. In any country, the government and the central bank have to work together. For the RBI to do its job, they need to know exactly what are the fiscal impulse, the fiscal stance of the general government of India, not just central government. Therefore, what I'm seeing is the architecture needs to move forward. It needs to include the states. The process is very complicated because taking it forward means you need to have a process where that all the stakeholders are going to be involved in looking at both kind of public financial architecture in their needs. And I think we have to make use of the pandemic, recognizing many countries are doing this now, and this is the time for us to do it the next one to two years. So, those are my only comments at this point.

Rakesh Mohan: Thank you. Thank you very much Anoop, again, bringing some international perspective and also, view on the fiscal architecture that is in some sense, realistic and bringing out some of the very key issues that governing a fiscal situation to do with committed expenditures, et cetera. And I would just add in that context that I must say that I mean, somewhat taken aback which hadn't quite followed So, closely that interest payments now account for something like 45% of tax revenues. And so, one of my questions there actually N.K, or any of you is that one of the things that the FC has recommended is the continuation of the public debt to GDP ratio as the government debt GDP ratio, as the anchor for the medium-term fiscal consolidations or stability. Now, one thing that's happening in the advanced economies in particular, is it because of the extended very low interest rates, that issue is being reexamined? So, in a sense, people are saying particularly in the light of COVID expenditures that have been done and increased public deficit, that you can actually go with a higher debt to GDP ratio. The question in some senses that in that context, A) will our interest rates also, remain lower than before, therefore we can do something similar? And B) isn't interest payment to tax revenue a good metric as an anchor for medium term fiscal stability. But N.K., let me just give you the floor for maybe five or seven minutes to respond to anything you might like from Shankar's and Anoop's comments.

N.k. Singh: Well, thank you very much. And since I'm not speaking immediately after Shankar and Anoop have spoken. Thanks, Shankar, for those very generous words about 15th finance commission, who's coming from a keen analytical person of your domain knowledge is indeed a very, very heartwarming and welcome. Shankar, you have made some important points, some impossible ones to address. The first one on the issue of what were the options available that while looking at the fact that that excess surcharge is something which is staring at our face. Could we in recognition of the inevitable reality that if a lot of the fiscal space of the central government had been foreclosed by it increased from 32% or 31%, 32.5%, you're absolutely right, to 41%, 42% recognizing that the central government was therefore provoked into increasing the incidence excess and surcharge. And that if we had therefore chosen to face it down in the area of, let's of say 38, which would also, have been huge quantum change from what it was, 32.5 to 38, would that have led to a decrease in the incidents of excess and surcharge?

To some extent, this is a very hypothetical question and difficult to understand. But we had to take note of the fact that as the constitutional provision existed, there was no guarantee that in whatever manner we would have recalibrated it down, there was any guarantee that the excess and surcharge would have been recalibrated in a downward direction. Where Shankar, you are absolutely dead right on the numbers and the target is that excess and surcharge in 2011, 10, 11 was 10.4% of the GTR. It increased dramatically to 19.9% in the BE of 2021. So, in that 10-year period, it's virtually a doubling from 10.4 to close to 20. Of course, to some extent that 20 is a bit different optics because embedded in this is about three percentage point, which goes by way of GST compensation says whose gains are entirely available to the stage. So, you recalibrated for that number and that will come to an end in July 21 of this year when the five-year-old guaranteed 14% comes to an end. The excess might stay for longer because of the legacy debt, but that's a separate issue.

So, even if you take neutralization on account of the compensation says, the 10.4 would have gone up to in the region about 16.5, which is a very, very substantial increase. So, one alternative which I toyed with and I found it very unpractical is whether I could make the 41 contingents on some frozen number on debt and surcharge that in case the debt and surcharge exceeds this, this 41 would then subsequently go up to 42 or 43. However, if you do choose to reduce the excess and surcharge, this 41 in year could come down to 38 or 39, I did toy with the possibility of not one absolute number for the full five year, but variable numbers made conditional. Having considered the options, I found it rather complicated to be able to proceed on that trajectory. And alas had to feel that in the interest of transparency and greater clarity, not creating more and more uncertainties for the states, leave it as I did.

But, as you rightly point out, what are the viable solutions forward? One interesting point solution that, **[inaudible 01:08:25]** or when he wrote in the piece on the Hindu on the finance commission's recommendations, he said, "41 42 is just right, but should have a condition that the excess and surcharge should not exceed X proportion of for closing the GTR." And that the current one, if recalibrated on account of the GST compensation, says you should get phased out to 16, should not exceed X. And that this could then be a frozen number and made contingent in some way in relation to debt and surcharge, being a certain fixed proportion of the grass tax receipt.

I don't know, we toyed with all this, but you have asked a very pointed question towards the end of your, "What are the viable solutions?" And use the word "Viable solution." Well, I see no viable solution except a constitutional amendment. In the 80th constitutional amendments which enlarge the ingredients of the dividable tool, took off excess and surcharge from being reckoned toward that divisible tool. If that constitutional amendment was introduced to recognize excess and surcharge or some proportion of the excess and surcharge above a certain point to be part of the divisible tool, it would certainly allow greater flexibility to successive finance commissions subsequently to be able to calibrate the framework and the roots of the thing. Short of that constitutional amendment, anything else that we do will be a subterfuge. It shouldn't be after all Shankar, a cat and mouse game, that every finance commission raises the devolution number and is then neutralized simultaneously by an increase in the excess and surcharge, leaving the states where they were, nor the opposite way. I think frankly, fiscal federalism needs greater continuity and must be embedded in greater trust. And this is one of the touchstones, the behavior of this, which will be a touchstone for the continuation of reinforcing of the broad parameters or continued federal trust. Stop there on your first point.

On your GST, thanks for saying all those things. And thanks for suggesting that we must aim at what it was conceived of. You are part of the whole process Shankar, if you remember the 1991 quarterly performance criteria, and the structural reform benchmarks, looking at some of the old notes in a different context. And I found that they did talk about a deep rationalization of the excise structure and looking at different states, having different excise rates and whether we could move to it. So, in some sense, it was a concept which was ingrained at that time. And then subsequently, I don't know, just to tickle your memory Shankar when as the new secretary, I did try to suggest what that revenue neutral rate could be. At that time, it was working out to be in the ballpark of around 15% or So, of what the revenue neutral rate can be. I don't want to enter into a debate of what is today, the revenue neutral rate, but yes, certainly we must move towards the drawing board, redrawing the architecture of the GST beyond procedurals and process changes and others, some of which have been done and you see some of the benefits.

But the question is, who will and how will this be done? Obviously, we have to leave it to the GST council. I'm very, very enthused to see that the initial reaction to the Ministry of Finance and the Finance Commission's recommendations on some of these have evoked a very positive response. I am equally enthused to see that they propose that the GST council should to take on some of these issues at their next meeting or at a very early meeting. And I think therefore we need to keep the public awareness alive that we want to really make the GST what it was intended to be, a win-win game for all stakeholders, for consumers by way of simplicity and predictability or tax rates. By way of states being able to receive a much higher - some of the states of course became part of the GST because they genuinely believed that revenues would increase significantly or the central government who believe that the GST was implemented as far as the revenues are concerned on the indirect tax front, they would be a huge net gainer. So, we need to move towards, and these do not necessarily mean increasing the rates, but this certainly mean that you need to recalibrate them, you need to move towards a much fewer rate structure, even if one rate is perhaps too much of an ideal. But certainly, I think the broad banding of this is necessary apart from some of the other things like doing away some obvious things like inverted entity structure and So, on. So, I'm fully with you on that.

On the last one, which you mentioned Shankar on local government and in terms of... I'm grateful that you found that some of the conditions which you have booked by way of let us say audited accounts and by way of rejuvenation and greater predictability of state finance commissions, have found a full endorsement by you. This is exactly what we have recommended. And of course, one component which we have that recognizing exactly Shankar what you said that many of the obvious sources of revenue have been taken away from the third tier, making them therefore hopelessly dependent on the state government, which mitigates against that independence, the basic spirit of the 73rd and 74th constitutional amendment, find new creative ways of revenue. That is why we did devote a lot of attention to the need, to have some methodology on property tax and some methodology on the fixation of property tax. And some way this can be indexed at least to the state GDP growth. Something on which we had divergent opinions, that is something which we have also, done.

And in regard to the others, they are all for instance, consistent with the important national priorities. We have for the first time done something, I don't know, Shankar if you notice that recognizing and drawing lessons from the pandemic, for the first time that we have made a grant, which was accepted by the government, that 8,000 crores for incubation of new cities as part. I recognize that hardly new cities have come up in India. Only old cities have gotten more and more congested and it takes a pandemic like that to remind that dispersal of people is necessary, both in terms of better quality in terms of better life quality and dealing with away from the sort of infectious things which happen in a pandemic. So, that's also, which we have done and note the other priority,

The last issue on state specific and sector specific. I think that the jury is open. But let me put it Shankar another way to you. If you look at the totality of the picture. If what is left by way of the divisible pool was shrunk from 135.4 Lac Rose from the GTR to only 103 Lac Rose. And in what 41% we're going to give them 42 Lac Rose, then we felt that in order to maintain, looking at the rising incidents of excess and surcharge, which was something staring at us on our face and we could not ignore that, we give a 10 Lac Rose or a little above five-year grants of which 4.22 Lac Rose, Shankar, went to the third tier, 2.95 Lac Rose went to, by way of RDG. Definitely, deficit grant, because we found there that in spite of the demographic performance being made and criteria in the horizontal evolution, some of the states continued to have huge problem in terms of meeting skippable expenditure by way of enormous, which we had fixed. And So, 2.95 Lac Rose as you can see some of the states which have benefited are not the obvious ones which look to be a rather backward in terms of per capita income criteria, like **[inaudible 01:18:12-13]** and some of the other states have that kind and some states which had legacy problems. Then you add to that the 4.2, the 2.9, the disaster management, what is really left by way of state specific and by we have sector specific is a small amount.

On the sector specific, it was addressing some important terms of reference. So, if we look at the big number on the sector specific, the bulk of it, which we have recommended is for the continuation of the agricultural reforms, incentivizing states, which would get the property records and track, which will move towards a crop diversification, which would economize on the use of water, which will improve the quality of the crops in terms of how protein yielding, encourage the use of agro and agro experts outside and discourage the imports or some of the stuff which can be grown in India, like palm seed and oil seeds and So, on and So, forth. And so, a large proportion of that has gone in that, 45,000 crores. 30,000 crores went to something which we felt was necessary namely, the health sector by way of incentivizing. So, add the two together, that's the bulk of it out of that, what has gone to the states. Anyway, I should mention that what we gave to the third tier, 70,000 crores out of that, we have earmarked for the health sector, which is primary health centers, district hospitals, municipalities, infectious diseases, ward, laboratory testing, and So, on. And these 30,000 crores which we have suggested was an add on.

Now, none of this has been rejected, but what I believe is being done is to subsume them enlarger centrally sponsored scheme analysis, which is currently underway. I'll stop there on your comment on the sector, state specific and turn for a minute to Anoop's important points

Rakesh Mohan: N.K., before you start there, let me just put two see questions come from the audience, then you can answer Anoop and those together.

N.K. Singh: Sure. Whatever you want.

Rakesh Mohan: Before the time gets over, if you don't mind?

N.K. Singh: Oh, I see. Okay, fine.

Rakesh Mohan: Just two questions that come up. One actually, you've already answered. It's from a former colleague **[inaudible 01:20:40]**. And where he basically said that the chairman is right in saying that sharing excesses require a constitutional amendment. But then he added a better advisory subject may have been helpful. So, that's more like a comment more than a question...

N.K. Singh: But thanks, Jagmohan for sparing your time. It's always a pleasure to have you in any such. Who knows about many of these things better than you, Jagmohan? I'm a huge admirer of yours. Okay.

Rakesh Mohan: And then another from another friend, Raju **[inaudible 01:21:17**]. There's the old chestnut that we talk about low tax GDP ratio. Basically asked, raising the issue that, is he believes a strong case to bring agriculture and come above a threshold into the tax net and giving really, really high, especially one crore per annum. So, the question in A is feasible, I would imagine that question B, would that make much of a difference to the tax GDP ratio?

And then we have another question from Admiral **[inaudible 01:21:50]** that says that this was under the discussion, the 14th finance commission, can there be anything that finance commission could do in terms of quality of expenditure and resource allocation, but limited expenditure by state and populous schemes.

And finally, another panelist with other attendees' name, considering the move towards the presidential more governance that you mentioned N.K. from the Westminster system, is this for the better?

N.K. Singh: Well, let me put it this way...

Rakesh Mohan: It's question, you understand? But I thought I just put them in So, that you can give your final copy.

N.K. Singh: Yes. So, thank you So, much. Perhaps, you'd like to give me five minutes?

Rakesh Mohan: Yes. Absolutely. Sure

N.K. Singh: So, first I think Anoop, we were together, you speak the same language. The last chapter in the commission's report addresses in many ways, the issues which you had mentioned Anoop. And what do we do in terms of the overall framework of rules of public financial manager, one system? And we have all mentioned this together. We have signed off together. Hopefully this will receive in the fullness of time. And I'm using the word fullness of times, because both of us discounted that in the current scenario of grappling with the pandemic, it's unlikely to receive too much public focus. But of course, we are talking in terms of a medium-term horizon. And therefore, yes Anoop, I agree with you. I also, agree with you that when you talk of general government, we need to talk of both the center and the states. It is much easier for the central government to enact a framework, but it needs to be applicable to and acceptable to the states. Acceptable because, accepting for the accrued instrument of 293.3 is nothing else, no other instrument exists, which can compel them to be able to do so. And if, even about this 293.3, I did mention in my overarching comments, the fact of lack of symmetry, the way in which the fiscal rules apply both to the center and the states. So, I would stop there Anoop, except to say that you have someone who fully agrees with you and we are both together when we signed off on this report.

To Jagmohan's question. Jagmohan, as I mentioned to you that, thank you for re-reminding us that if the issue of excess and surcharge has to be addressed, it requires basically a constitutional amendment. I do mention, Jagmohan that could we have done something else? So, then the question came to writing a good poetry on this issue. You are aware that the 13th finance commission had done that, the 14th finance commission had also, done that. We have written bits of poetry. If you read paragraph 3.63, paragraph 3.8, paragraph 4.25, paragraph 4.26. These are forms of poetry in which you recognize the fact of this excess and surcharge increasingly becoming a much harder and hard proportion of the GTR. And also, we did one better. We did one better in the sense that we have frozen in the permissible numbers at 18.4 for the full level period, shoving it in a downward direction from around 20%, which exists now. And you recognize that out of this, of course, three percentage points and a half will go away after 21 when the guaranteed period comes to an end.

Of course, by the way, of this guarantee, period coming to an end, I should have really, Rakesh, commented and allow me to do So, now. It perhaps as a grand bargain, when Steve's accepted the constitutional amendment and we're actively partnering it, the fact of a guaranteed revenue of a 14% rate of return, irrespective of what happens, was it not an onerous responsibility? Of course, when the economy does well, the compensation excess is overflowing, it's much easier to discharge these obligations. But then things look a little more tricky, the 14% is written as a stone, we had the problem of how the whole issue of compensation excess was going to be calibrated in the period of our entire period of our award. We have of course assumed that this comes to an end in July, but we have taken that the past legacy, yet, with the central government has in nowhere retracted or anyway, sought to wriggle out that. These tests will be continued in such time as the past liability is not fully extinguished. We have therefore reckoned for the extinction of this past liability by taking this as part of the state's anticipated revenue during the period of our...

Mr **[inaudible 01:27:45]** question on agricultural income tax. We looked at various things. It is entirely in the domain of the states. It is for the states to take a view. Because, agricultural income tax under the constitution, the subject, which is agricultural income, is a subject of the states, and therefore incidence of agricultural income tax is something that they would want that. There's nothing to prevent them, but they would have to take a view.

On the general question of Admiral Lutra on much better and vastly more improved monitoring on expenditure outcomes. By the way, I thought that Admiral Lutra would have commented on unusual recommendations that you have made on the defense sector. Which I thought I would mention the fact that, not only we made it, but for the first time the central government accepted in principle the creation of a non-lapsable fund for defense. And this is to bridge the asymmetry in the finance cycle and the procurement cycle. But of course, we have given a model for financing. The central government would like to consider that model for financing. But I think that the long pending demand of the defense forces for a non-lapsable fund has found an acceptance.

On the expenditure outlet, and there's something that goes back to what Anoop said, "Do we need a permanent expenditure commission? Do we need a permanent finance commission? Part of the asymmetry rises that the GST council is in perpetuity. The finance commission is not in perpetuity. The ability therefore to recalibrate entire issues or devolution to states based on the expenditure outcomes. And I'm here thinking of though Australian example, Australia has a permanent grants commission. Australia has also, a permanent expenditure commission, which calibrates the grants based on expenditure outcomes at the end of each fiscal year. Other countries like South Africa have also, a permanent finance commission. We are a unique country, in which under article 280, this is a commission which is to be set up by the president every five years. That's all that it says, and it's silent on the rest. Of course, it lays down what this commission is supposed to do. But we need to rethink and go back to the drawing board that based on best international practices and example. What kind of a long-time framework on fiscal finances would be appropriate? And this will include not only on the working of finance commission, on expenditure commission, on fiscal roadmap, particularly if you're asked to make dictions and projections for a period of five years.

And thank you Shankar for reminding and thanks Rakesh for reminding us of the onerous duties of this commission. Some point in time, I almost taught with my colleagues sharing the view that we need to believe not only in economic modeling, but more than a touch of abilities to be an astrologer on how the numbers were likely to behave over a period of five years or so, looking at current uncertainties for India and uncertainties globally. And that under these volatile and uncertain times make a prediction and a projection in the world was indeed surely, truly very, very problematic. We have no option, bitten the bullet, we are likely to prove wrong. The consequences of proving wrong are going to be rather troublesome. That is why it brings me back to what I said, inability of the Indian constitution to provide a recourse mechanism for any midterm correction is a serious informative in the scheme of things.

Because, if you go horribly wrong, which is possible. We may go horribly right, which is also, possible. Which we claim that. But in either way, there is no recourse which the constitution provides. That is why we need to, Admiral Lutra, think ahead in terms of what kind of a framework policy will be appropriate for the kind of economy and the kind of uncertainties that lie ahead and the kind of prospects for a higher growth trajectory of which we must all optimistically join and we must optimistically reinforce. Thank you very much, Rakesh.

Rakesh Mohan: Thank you. Thank you very much indeed N.K. On a lighter note, what makes you think that economists are that different from astrologers as far as forecasting is concerned? So, I think you had a good set of astrologers with you in the commission. Just remains for me to thank you N.K., first of all, for giving us a real lesson in public policy making, giving us first a very broad view based on the constitution and in some sense, educating us on the many constitutional features that we have that govern our fiscal system and within which of course finance commission is part of. And then of course your amazing grasp of detail, having myself chaired a number of national committees, I can tell you that I would not have remember in detail the kind of detailed you remember from the report from various reports that I have done if I was in a similar session after committing my reports. So, thank you very much indeed for this real lesson and how public policy making is done and how much detail is important in doing what we do.

Shankar, thank you for again, really coming to some of the very pretty important points that have come out of the first commission report. Of course, there are many, many other issues that could be discussed, but I think N.K.'s response to your issues illustrates how important your questions were and the point that you made. Thank you very much, again, Shankar for giving us your time.

Anoop, of course your sort of doubly insight in the sense of having been a member of the finance commission and distinguished fellow of CSEP. So, I don't have to thank you as much as I did to N.K. and Shankar, but nonetheless, thank you very much. But actually, thank you for setting up these sessions.

And to the audience, thank you for being with us. And I said, two more opportunities. Same time, same place, next Monday, and the following Monday, 15th and 22nd.