

Spirit of cooperative federalism is essential for GST to succeed

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With States' finances in the doldrums after the second COVID-19 wave, Kerala Finance Minister K.N. Balagopal has urged Union Finance Minister Nirmala Sitharaman to allow States to borrow up to 5% of their Gross State Domestic Product (GSDP) this year, without any reform conditions. The GST regime needs urgent fixing as revenues are declining and the structure and functioning of the GST Council needs more democratisation, he said. Excerpts:

The Centre recently released ₹75,000 crore of GST dues, of which over ₹4,100 crore was to Kerala. Will this alter your borrowing plans?

■ I personally met the Union Finance Minister that day when they released around ₹4,200 crore to us. Even though it is belated, it is good. Due to the financial crisis in the State due to the second COVID wave, whatever money we are getting from these means are not enough for facing our requirements.

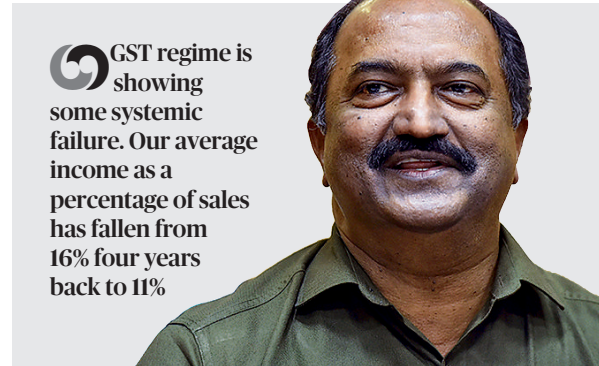
Actually, the financial situation for the last five years has been stagnant, not only for Kerala but other States also. The annual borrowing limit this year has been fixed at 4% of GSDP, but only 0.5% of this is untied. An equal amount is permitted for achieving certain levels of capital expenditure and, separately, for undertaking electricity reforms. We are now discussing the latter but it's difficult to meet all these formalities. So we have urged the Finance Minister to allow

States to borrow up to 5% of GSDP, without any conditions, but they have not accepted that. So our options are limited in this scenario.

Our expenditure is increasing because of COVID expenses and special schemes introduced to help people and income has stagnated for the last few years. Without increased borrowings no State can survive, at least in the present situation.

Last year's compensation dues are still pending and the FM had promised a GST council meet to discuss all compensation related issues. What is your stand?

■ The compensation issue is a serious one. We have already asked for States' protected revenue under GST to be extended for another five years, because there's actual-



ly a very serious fall in income since GST's inception. There's a systemic failure; the COVID situation and, for Kerala, floods and other natural disasters have also hit income. Almost all States are seeing a decline in income. So, the compensation should continue for another five years. The GST regime is showing some systemic failure as the income is not go-

ing up. Our average income as a percentage of sales has fallen from 16% four years back, to only 11%... prices haven't fallen for the consumer. This means that if we are getting ₹50,000 crore tax now, it would have been another ₹18,000 crore in the earlier kind of taxation system and [if] buoyancy had continued.

There will be a very se-

rious discussion about the future of compensation and on the taxation policy to see if some more plugging is needed and actual taxes [need to] go up. Moreover, the devolution theory of the Central government would also have to be discussed, separately.

Could you explain this a bit?

■ Up to the last Finance Commission, we were getting 2.45% from the divisible pool of taxes. Now, we are getting only 1.92%. In the 1980s, our share was 3.92% so that is the fall now. That means we are not getting our rightful part from the central pool. Earlier, the 1971 population was the base, now it is 2011. Because of our development in education, health... we have some improvement and feel we are being penalised for that.

The Tamil Nadu FM has raised concerns about the constitution and functioning of the GST Council. What is your view?

■ The predominance of the Central government in the GST Council's functioning was expected... Even the AIADMK was very strongly against it. The Central government is getting maximum control in the administration of the Council, and if they're managing some States [to back them], nobody can change that decision. So, the prerogative of the Central government will succeed. Now, fortunately other parties are understanding or accepting the points which we raised. The GST experiment will not be successful. Brexit happened because Britain wanted to go out of the European Union taxation

and migration laws that it felt will not be helpful. United States, which is considered business-friendly, does not have this kind of a tax system. Our counterpart from Tamil Nadu may be speaking from his experience... This is an important debate for the States and more democratisation in the true spirit of cooperative federalism should be there in the GST Council's functioning.

In the last meeting, the Centre said it has the power to tax extra-neutral alcohol... There's a provision in the constitution that ethanol for human consumption is under States. But they are saying that ENA is not for human consumption, so central GST will be charged. In the Council, there was a very strong protest from almost all States, whether it was BJP [ruled] or Congress [ruled].