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For SSC, BANK, MBA & Others

Shortfall in GST collections, transfers to States can turn into a federal crisis



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The impact of the virus and lockdown on the economy can be clearly seen in the GST collections, with the first-quarter revenues down 41 per cent over last year, despite signs of an improvement in June, when the lockdown was eased. This has impacted the Centre's revenues as well as GST transfers to the States, which have fallen below the mandated 14 per cent annual growth rate as promised under the GST law for five years, or till 2021-22 (taking 2015-16 revenues of States as the base year). The States' combined annual expenditure can be expected to be higher than the Centre at ₹35-40 lakh crore, with the size of the Union Budget 2020-21 placed at ₹30.4 lakh crore. Additional health and relief spending by the States amid the revenue crunch has led to the States increasingly getting restive about their share of GST revenues. The States get nearly half their revenues of over ₹30 lakh crore from SGST (20 per cent) and Central tax transfers (27 per cent), according to assessments made by experts as well as the RBI and India Ratings. If a growth rate of 4 per cent in 2019-20 put paid to a 14 per cent increase in tax revenues, slowing down collections and transfers, the pandemic has created a situation where an absolute drop in collections cannot be ruled out.

Last month, the Centre transferred GST dues for the November 2019-February 2020 period amounting to ₹36,400 crore, leaving the States woefully short of funds amidst the crisis induced by the pandemic. Tax calculations need to be reworked, for which the GST Council must convene at the earliest, with the 15th Finance panel members joining in the discussions. So far, the Centre and RBI have taken bold reform steps as well as liquidity measures for MSMEs, besides raising the borrowing limits for the States under the ways and means advances window. Now, the Centre must grasp the nettle by squarely addressing the issue of revenue shortfall and its federal implications. Its bid to impose conditionalities on States for additional borrowings seems contrary to 'cooperative federalism'. The States need fiscal room, as a deep cutback in expenditure can derail growth.

However, it is important for States to accept that the growth assumptions underlying the 14 per cent annual increase in revenues, built into the law, simply do not hold now. They should settle for a lower nominal increase with an extension of the compensation period by a few years. Instead of a 50:50 sharing of GST revenues, the SGST component can be raised for a few years till the economy overcomes the crisis. A push for infrastructure, with the Centre and States sharing costs and benefits, should act as the driving force for creating a consensus around tax sharing.

Contraction slows: On signs of economic recovery

As lockdown restrictions ease, the economy sees the first signs of recovery

The latest data on **output at the eight core industries** point to tentative signs that the pandemic-spurred economic contraction may have begun to bottom out. Commerce Ministry provisional figures show that while overall production at the infrastructure industries extended their year-on-year decline to a fourth straight month in June, shrinking 15%, the pace at which activity contracted slowed for a second consecutive month following April's precipitous 37% plunge. The sector-wise performance also affirms that the gradual reopening since June appears to have helped tease back some smattering of demand in the economy. Of the seven industries that extended their contractions, only coal shrank at a faster pace (-15.5%) than in May, when production had declined 14%. Refinery products, the largest weight on the index contributing 28%, shrank 8.9% marking an improvement from the 21.3% contraction seen the previous month. The lifting of restrictions on inter and intra-State movement of persons and goods revived both vehicular movement and, consequently, demand for auto fuels. With personal modes of mobility preferred given the fear of infection, petroproduct consumption grew 11% month-on-month in June. Electricity output too fell at a slower 11% pace than the preceding month's 14.8% slump, again signalling an uptick in demand from some manufacturing clusters including in western and northern India.

Among the other sectors, while steel production continued to tumble — output shrank by more than a third (-33.8%) from June 2019 — cement appeared to have put the worst behind as urban construction and projects under the rural job guarantee scheme spurred demand. Cement output fell 6.9%, a sharp deceleration in the pace of decline from May's 21.4% contraction. Fertilizers, the only industry to post growth for a second straight month, however, saw the expansion ease to 4.2%, from 7.5% in May. Still, with monsoon activity above normal so far this year, *kharif* sowing was almost 14% higher as on July 31 than at the same time in 2019. With the IMD forecasting above average rainfall in August and September as well, the outlook for the agriculture-reliant rural economy is far more promising than for most other sectors. To be sure, the economy is still a fair distance from a sustained turnaround with other data flagging the risks to a recovery. For one, the significant shortfalls in GST collection point to the difficulties the central and State governments are facing in garnering crucially needed revenue. This has already swelled the fiscal deficit at the end of the first quarter to 83% of the full year's target. With the new infections curve showing no signs of plateauing as yet, policymakers have the unenviable task of stemming the COVID-19 tide without dampening economic momentum.

Fraudulent claims: On Trump's poll delay talk

In election postponement talk, Trump sought to cast doubts on integrity of electoral process

President Donald Trump imperilled the confidence of his fellow citizens in the November 2020 U.S. presidential election, when he asked via Twitter **whether he ought to postpone** it due to concerns surrounding the possibility of fraud owing to mail-in voting. This form of voting, which includes absentee voting but can include broader measures for voting via the postal system, is expected to occur on a large scale owing to social distancing measures necessitated by the COVID-19 pandemic. His tweet has raised a furor, with speculation that the President may be toying with the idea of delaying the democratic exercise beyond November 3 after trailing his Democratic challenger, former Vice-President Joe Biden, in the opinion polls. The U.S. elections, the dates for which are **fixed by federal statute through Congress**, have never in history been delayed, including during the Civil War era and the World Wars. Further, five States offer universal mail-in voting to all their registered voters. Nevertheless, this is not even the first occasion on which the 45th President has lashed out at mail-in voting as a fraudulent process. In May 2020 he attacked the California government for sending out mail-in ballots and was **swiftly fact-checked by Twitter**, showing little evidence to support the claim that mail-in voting will lead to fraud.

While it is safe to assume that there is a near-negligible chance of the election getting postponed, principally due to the wisdom of the country's founding fathers in separating power across the executive, legislature and judiciary, the bigger question that looms in the shadow of the first Trump presidency is the damage done to the fabric of American democracy so far. At the formal level, Mr. Trump has suffered the ignominy of being only the third U.S. President ever to get impeached by the House of Representatives, on the serious charges of abuse of power, potentially including a compromise of national security involving a foreign government, and of obstructing justice during a Congressional investigation into allegations of wrongdoing against him. However, even this political embarrassment pales in comparison to the torrents of hateful rhetoric associated with his administration. Racism, sexism, xenophobia, nativism and economic and geopolitical isolationism appear to be the buzzwords that have shaped White House policy outlook since 2017. The sheer depth of rancor and disenchantment that this has generated across America can only be understood over the decades to come. Now, with exactly three months remaining until the scheduled presidential poll, voters at last have an opportunity to ask themselves whether their rightful indignation about elitism and stasis in Washington warranted electing in a President who brazenly disregarded innumerable tenets of the law.