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The Big Picture - Economy: Public Spending Council

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The Indian economy is facing a slowdown, and the Prime Minister and his Economic Advisory Council are of the view that the **government needs to form a 'GST Council-like' body to strategise expenditure** and have maximum impact.

Pointing out the success of the **GST Council** body for decisions about indirect taxes, the Economic Advisory Council Chairman Bibek Debroy said that in order to increase the efficiency of the overall public expenditure, there needs to be a decision-making body that would keep a check on the expenditure. The Chairman also mentioned that there are fiscal consolidation issues that limit gains on public expenditure, but a focused and strategic expenditure by central and state governments could yield efficiency gains.

Why the need for forming a Public Spending Council was felt?

- There is a **discontentment over the manner in which the centre is distributing money to the states** under **central sector schemes and centrally sponsored schemes.**

The Centre had abolished the distinction between the Planned and Non-Planned Expenditure. The last plan i.e. 12th Plan (2012-17) has ended. So, now India does not have any plan or non-plan scheme but 300 central sectoral schemes and 30 centrally sponsored schemes.

- As of now, the **Expenditure Finance Committee** (under the Ministry of Finance), is deciding about which states will get funds and in what manner. The states are not satisfied with the approach of allocation.
- Till January 2015, when the Planning Commission was in place, it **represented the interests of the states for fund allocation.**
 - After having discussions with the states, the Commission would actually negotiate with the Finance Ministry to decide on what needs of the states to be allocated. In this manner, **efficiency in spending was ensured.**
 - From 2015 onwards, the Finance Ministry became solely responsible for doing the above mentioned things. **NITI Aayog, has yet not been able to fully substitute the Planning Commission,** though it has made some occasional visits to the states to listen to their concerns related to the allocation of the resources.

Arguments Against the formation of the Council

- The Public Spending Council is **expected to keep a check on the expenditure** incurred by the government.

All items on the Public Expenditure List are not on the concurrent list and **all the states might not want to give up their sovereignty to the centre.**
- It took about 15 years for the formation of the GST Council. Formation of the Public Spending Council may take even longer time.
- Also, incurring expenditure is not similar to raising the revenue. In raising revenue, the states have about one or two ministers, so the GST council, has representation from the states of about 30-40 people.

In case of expenditure, there are at least 20-30 ministers in each state, so **the Public Spending Council will be of about 500 ministers, making its management very difficult.**

How the Public Spending Council can be made effective?

- The **GST Council is a truly federal body** where both the centre and the states get due representation. Decisions are taken mostly by consensus. Same is expected from the Public Spending Council. The council should have **a similar voting mechanism**.
 - The council can facilitate a smoother and more efficient spending mechanism.
 - The **mechanism** should be made applicable **only** to the **expenditure to be incurred on things of national priorities such as education**, agriculture, etc.
- To ensure efficiency in spending, **the Finance Minister should be the chairperson of the council** and Chief Ministers of different states, members.
- The discussion regarding allocation of resources can be done on a weekly or fortnightly basis. Or, at one time, the Council can have a meeting with five contiguous states, so that it can work efficiently.
- Different states have different resource requirements. More than fiscal deficit, the Council needs to address the resource gap between the states for efficient allocation of resources. While having the discussion, the Public Spending **Council should consider the ground realities of each state**.

Other Alternatives

- The **Ministries can formulate schemes after having consultation with the state governments**.
 - There should be **specific ministry wise councils** so that the ministries formulate schemes in tandem with the existing state schemes for optimum utilization of resources.
- **The NITI Aayog or a body like centre-state expenditure commission**, can give directives and lay down the priorities with respect to expenditure.
- **Two Tier system** could be useful-one, with the Finance Ministry and the NITI Aayog together, understanding priorities of different states and building consensus with the state chief ministers or state finance ministers for improvement in expenditure.
 - The **other tier is ministry wise**, wherein a specific ministry can discuss with states, the schemes in detail.

Way Forward

- The government may take help from the RBI or go for some external assistance if there are not enough resources.
- There is a need to **speed up and improve the decision making on efficiency of public expenditure**. There is a need to analyze why expenditure is not taking place efficiently in the desired areas.
- **Decentralized and local approach** can help in achieving an efficiency level in incurring expenditure.