



Speech of **Selvi J Jayalalithaa**
Hon'ble Chief Minister of Tamil Nadu during
the meeting with the 14th Finance Commission
held at Chennai on 16.12. 2013



SPEECH OF **SELVI J JAYALALITHAA**,
HON'BLE CHIEF MINISTER OF TAMIL NADU
DURING THE MEETING WITH THE
14th FINANCE COMMISSION HELD
AT CHENNAI ON 16.12.2013

Published by :
Director,
Information & Public Relations Department,
Chennai.

Special Publication No.32

Tamil Arasu

December 2013

Published by :

Director,
Information & Public Relations Department,
Chennai.

Printed at :

TAMIL ARASU PRESS
110, Anna Salai,
Chennai - 600 002.

CONTENT

- Speech of the Hon'ble Chief Minister
of Tamil Nadu during the meeting with the
14th Finance Commission held
at Chennai on 16.12.2013 ... 5
- Hon'ble Chief Minister's reply
regarding Power Situation in Tamil Nadu
to Dr.Sudipto Mundle, Member of
14th Finance Commission-16.12.2013 ... 27

SPEECH OF **SELVI J JAYALALITHAA**,
HON'BLE CHIEF MINISTER OF TAMIL NADU
DURING THE MEETING WITH THE
14th FINANCE COMMISSION HELD
AT CHENNAI ON 16.12.2013

Hon'ble Chairman of the Fourteenth
Finance Commission Dr. Y. V. Reddy,

Hon'ble Members of the Fourteenth
Finance Commission
Srimathi Sushama Nath,
Dr Govinda Rao and
Dr Sudipto Mundle,

Hon'ble Ministers of the Government of
Tamil Nadu, Shri A.N. Jha,
Secretary of the Commission,

Chief Secretary,
Thirumathi Sheela Balakrishnan,

Senior officials of the Fourteenth Finance
Commission, and Officers of the
State Government,

Vanakkam.

At the outset let me extend a very warm
welcome to the distinguished Chairman and

Members and the officials of the Fourteenth Finance Commission. This Commission includes a constellation of eminent persons. It combines and balances the deep knowledge of sound theoreticians of public finance with the thorough understanding of seasoned practitioners of political economy. Tamil Nadu has the highest respect for and faith in the institution of the Finance Commission.

2. The makers of our Constitution recognized that for reasons of administrative efficiency and convenience more of the taxation powers had to be vested with the Central Government. But the responsibilities for actual delivery of many resource intensive public services -- maintenance of public order, public health, agriculture, education, to name just a few, were vested with the States which are much closer to the people. Such an arrangement was occasioned by many considerations which were valid when the country had just become independent. These included the overall level of economic development of the country; the variation in the sophistication of administrative institutions

found in the different regions of the country; and above all the political situation prevailing at that time. The scars of the traumatic Partition of the country were still fresh. The memories of the herculean efforts undertaken to integrate the erstwhile princely States into the Indian Union and to consolidate the Nation were very recent. Democracy in the country was too nascent.

3. Over the last 63 years since we adopted our Constitution the scenario has changed considerably and for the better. India is now a confident nation and a mature democracy. Undoubtedly economic challenges remain, but they are of a different order -- not those of tackling food scarcity and starvation or of overcoming the handicaps created by a few centuries of colonial rule including the absence of a modern industrial base.

4. Liberalization has unleashed economic forces that make the role of the public sector in direct production activity less significant. The role of the Government at the Centre is now much more that of a facilitator through economic policy making; while the role of the

State Governments as providers of public services including maintenance of public order and provision of social and economic infrastructure has grown. The States have had to spend more to provide a social safety net for the poor in particular. Investors decide the location of industry not on the basis of a license issued by a Central Ministry, but on the basis of whether and where quality public services and infrastructure; including well maintained rule of law and public order; a well-educated, healthy workforce; good quality roads, power and other services are available.

5. Clearly then, the resource needs of the States have increased significantly. More importantly, State Governments, which are engaged in the direct provision of many services, have also demonstrated their greater efficiency and effectiveness in the delivery of such services. Many of the best success stories in service delivery have come from the States. Tamil Nadu has been a front runner. The introduction of the Nutritious Mid Day Meal programme by Puratchi Thalaivar Dr MGR; the introduction of Old Age Pension schemes; and the continued implementation of

a universal Public Distribution System in which rice is supplied free of cost are some examples of Tamil Nadu's model initiatives.

6. We have also seen a steady shift in real political and economic power away from the Centre. State level parties and leaders are now far more significant players. These should not be seen as centrifugal or fissiparous trends that have to be curbed; but as a manifestation of India's maturing as a nation with diversity and as a democracy. After all, it takes strong States to make a strong Union.

7. Although the administrative and economic role of the State has grown significantly and a federal polity has become more entrenched changes in Centre-State fiscal relations have clearly not kept pace. States do not receive the predictable, non-discretionary and non-discriminatory flow of resources from the Centre that the Constitution envisages. Only 54 percent of the resource flow to the States flows through the Finance Commission route. The balance flows through Plan assistance and Centrally Sponsored Schemes which unlike Finance

Commission devolution have no Constitutional basis and are subject to several vagaries.

8. The approach of the Centre to financing State Plans is very condescending. The share of “Normal Central Assistance”, which is the untied formula based allocation, has been whittled down systematically. The States have been placed at the whim and mercy of different Ministries at the Centre to receive scheme tied assistance. Details of even small projects in different sectors have to be sent to different Ministries in Delhi presentations made and specific approval sought. While Tamil Nadu may be more efficient in ensnaring more funds for some of the schemes in such a mechanism I sincerely believe that such discretionary transfers are not just a sub-optimal solution but deeply humiliating for the States. The elected State Governments are not regarded as equal partners in the development process but as mere local supplicants.

9. The situation is made worse by the fact that Tamil Nadu does not receive its due share in Central Plan funds. According to the Twelfth Plan Document Tamil Nadu receives just 4.328

percent in fund flow against 5.96 percent population share as per the 2011 census. Not only does this design of fund flow penalize a better performing State; it also raises a very serious doubt that there is a sinister conspiracy to consciously discriminate against some States in matters of Plan Fund allocation.

10. Plan transfers are also subject to arbitrary mid-year cuts. Year after year we have found that promised releases of funds have not been made. Annual Work Plans are approved for many schemes and the State goes ahead with incurring expenditure to find itself left high and dry later in the year when the Centre cuts back on its allocations and fund releases are not made. This not only hurts the State's fiscal health but also affects effective scheme implementation.

11. These are the reasons why Tamil Nadu is a very strong votary of the idea that, the greatest proportion if not the entire fund flow from the Centre to the States should be on the basis of the recommendations of the constitutionally

mandated Finance Commission rather than through other mechanisms. We have also found that the State has actually received just and equitable resolutions to many of its issues only from Constitutional authorities including the Hon'ble Supreme Court. Hence we turn to the Finance Commission.

12. The Fourteenth Finance Commission is at the cusp of history. It has the opportunity to re-order Centre State financial relations in the Country and make them reflect the contemporary reality of the political economy. I urge the Commission that your approach should not be incremental and self-limiting. I request you to take a bold approach and effect the paradigm shift that is needed at this juncture.

13. I request the Commission to ensure that discretionary expenditure of the Centre including that of Gross Budgetary Support to the Plan should be kept out of the committed liabilities of the Central Government when the resources available with the Centre for devolution to the States are assessed. The Centre levies a number

of cesses and surcharges to avoid sharing the proceeds with the States under Article 270 of the Constitution. They now amount to close to 8 percent of the Centre's Gross Tax Revenue. Hence, cesses and surcharges should also be made shareable. Out of the aggregate resources available with the Centre we believe that at least 50 percent should be made shareable with the States under Article 270. This would appropriately balance the expenditure needs of the States and the Centre. It would also considerably diminish the scope for discretionary and discriminatory transfers that the Centre often resorts to.

14. The composition of transfers recommended by the Finance Commissions has also changed. It is disquieting that the share of grants under Article 275 has increased to 18.1 percent of the total transfers in the Thirteenth Finance Commission period up from just 7.2 percent in the Seventh Commission's award. This is not a welcome trend. These grants are being tagged with numerous conditions and administered at the discretion of the Central Government. Sometimes the grants are not even received by the States during the award period.

Hence, I request the Finance Commission to reverse this trend. Most resources should go to States through the Article 270 tax devolution route. Grants under Article 275 should be limited to meet the needs of equalization and the very specific special requirements of States.

15. The Commission has also been asked to consider the level of subsidies that are required and the equitable sharing of subsidies between the Centre and the States. This is an issue we have dealt with in some detail in the Memorandum. The Centre's main subsidies are for food fertilizers and fuel. In each of these areas, many States and Tamil Nadu in particular already provide high levels of subsidy. Such subsidies are provided primarily with the overall welfare perspective in mind. It would be very difficult for Tamil Nadu to take on any portion of the Centre's current liabilities on this score without commensurate transfer of resources.

16. Turning now to how individual States have been treated in the allocation of resources I am constrained to state that successive Finance

Commissions do not appear to have required the faith that Tamil Nadu has consistently placed in the institution of the Finance Commission. TamilNadu's share of resources transferred based on the recommendations of the Commission have shrunk from 7.68 percent in the Seventh Commission to 4.98 percent in the Thirteenth Commission. Tamil Nadu was particularly hard hit by the recommendations of the Tenth and the Eleventh Commissions.

17. Tamil Nadu's situation is mirrored in the way many of the better performing States have also been treated. I would submit that this is a flawed trend that needs to be arrested and reversed. The asymmetry in the Constitutional scheme of allocation of functions and of resources straightaway implies that out of vertical transfer of resources from the Centre to the States the largest proportion are required to maintain the continued provision of public services in all States and not just in backward States. The Finance Commission has to ensure adequate allocation based on such needs to all the States.

18. Tamil Nadu's successes in population control; efficiency in tax collection and greater effectiveness in expenditure on development; and other programmes have gone unrewarded by successive Commissions. In fact the State has actually been penalized. At the same time the higher level of growth in the State has brought its own set of challenges in terms of rising aspirations. Resources are needed to ensure that the levels of service provision are upgraded to meet these aspirations – in the area of maintenance of public order; improved delivery of justice; provision of quality roads; water supply; schools and health facilities. Issues arising from intra-State variations in development have to be addressed.

19. Tamil Nadu stands on the brink of a big opportunity, that is also a major challenge, and which presents itself but rarely in the course of economic development. As a result of sustained low birth rates, the State currently enjoys a demographic dividend of having a very high proportion of its population in the working age group, an advantage which may not last very long. Development economists have

acknowledged that this demographic structure is a window of opportunity; which if used effectively, could provide a spurt in economic growth. Substantially enhanced investment in social and economic infrastructure is required to take advantage of this window of opportunity before it fades away in a decade or two.

20. It is this limited window of opportunity that I am attempting to capture through the ambitious Tamil Nadu Vision 2023 – an agenda for investment of 15 lakh crore rupees in social and economic infrastructure. Initiatives like the free laptop computer scheme are directed at skill enhancement. The distribution of free fans, mixies and grinders to women heads of poor households is directed at freeing more women from domestic drudgery to enable them to participate in the work force. **The State urgently needs fiscal support at this crucial stage of development. Any tapering of transfers at this critical stage would adversely affect long term growth prospects. I am determined that the State should grow prosperous before it grows old. I earnestly request the Finance Commission to support this noble endeavour.**

21. A development that caused us some concern was the setting up of an Expert Committee chaired by Dr. Raghuram Rajan to evolve criteria for identifying Backward States and to suggest how the criteria may be reflected in future planning and devolution of funds from the Central Government to the States. Recommending criteria for devolution of funds from the Centre to the States is a function for the Finance Commission under Article 280. A Committee set up by the Union Finance Minister under an executive order can never substitute the constitutionally mandated process of the Finance Commission. The index of underdevelopment constructed by the Committee rates Tamil Nadu very high. Much as this may be recognition of the sustained developmental efforts taken in the State the index itself is problematic. It cannot be treated as a reflection of the “need” of the States for resources, since funds flow is not the only factor relevant to overcome underdevelopment. This hurriedly drafted Report appears to be a thinly disguised attempt to provide an intellectual justification to the political objectives of the mentor of the exercise. I strongly recommend that the

Fourteenth Finance Commission should reject outright the Report of the Expert Committee. The Commission should independently make its recommendations without getting pressured by such misleading and unnecessary inputs.

22. It is in this context, that I make my suggestion for a simple robust and equitable formula for distribution of resources amongst States. One-third weight may be assigned to each of the following criteria:- First Population based on the 1971 Census; second, fiscal discipline including tax effort; and third fiscal capacity distance. Many States would suggest elements of the formula that would suit their own interests. I am sure that you would appreciate that my suggestion is well-balanced and equitable.

23. The 1971 population is the most fair and objective criterion that can be applied to all States. We are very concerned by the indication in the Terms of Reference that demographic changes post 1971 may also be taken note of. I urge the Commission that States like Tamil Nadu which have fulfilled a national duty

in encouraging the small family norm should not be made to suffer by taking note of demographic changes since 1971.

24. Fiscal discipline and tax effort are relevant both to reward States that have done well in maintaining such discipline; and as an incentive for States to perform better. The weight for this criterion has been too low in the recommendations of previous Commissions and needs to be increased to at least match the fiscal capacity distance criterion. Fiscal capacity distance will address the interests of the States which lack the capacity to raise resources of their own. It should also be used to penalize those States which have the taxable capacity but fail to utilize it fully. Hence I believe that my suggestion on the devolution formula presents a well balanced and fair solution.

25. Turning to other issues the Commission has been asked to consider the impact of the proposed Goods and Services Tax on the finances of the Centre and the States and the mechanism for compensation in case of any loss. This issue is already being addressed by the Empowered

Committee of State Finance Ministers. Tamil Nadu has a number of objections to the proposed design of GST under the modified draft Constitutional Amendment Bill. **I am primarily concerned about the impact the proposals have on the fiscal autonomy of the States and the huge permanent revenue loss GST is likely to cause to a manufacturing and net exporting State like Tamil Nadu. It was in this context that I made my suggestion of an alternative radical approach. The levy, collection and appropriation of the substitutes for VAT, Central Excise Duty and Service Tax within a State should be delegated completely to the State machinery, with the Central machinery focusing on interstate taxation.** Such an approach would adequately address both issues -- of fiscal autonomy and adequate compensation.

26. Tamil Nadu devolves the highest proportion of untied resources to Local Bodies amongst all States expressed as a proportion of revenue receipts or revenue expenditure. Our devolution is more than twice the national level. I suggest that 5 percent of the divisible

pool should be earmarked for local bodies. The proportion for urban local bodies should be determined in line with the urban population of each State. The General Basic Grant component should be at least 80 percent of the total grant and conditions on the General Performance Grant should be limited and significant and not act as a drag on performance.

27. For calamity relief, I suggest that it is time that the size of the State Disaster Relief Fund (SDRF) is reset in line with the levels of expenditure on disasters in recent years. The Centre should fund the entire amount or at least 90 percent of the enlarged SDRF. This is amply justified since the Fund meets only immediate rescue and relief costs and the State Government has to meet the entire cost of reconstruction and rehabilitation.

28. The Terms of Reference for this Commission require it to suggest statutory provisions to insulate the pricing of public utility services like drinking water; irrigation; power; and public transport from policy fluctuations. I am afraid this issue is fraught

with many difficulties. I doubt whether referring this issue to the Commission is within the Constitutional mandate since many of these receipts are outside the Consolidated Fund of States. Tamil Nadu is a water starved State and the State Government has the duty to provide this very basic requirement to its people. Hence water cannot always be priced in commercial terms. Hence I do hope the Commission will approach this sensitive issue realistically and not make recommendations that would be unimplementable.

29. Finally, I would like to draw your attention to some of the requirements that the State has towards upgradation of standards of administration and to tackle special problems. Totally the State has requested for 41,408.79 crore rupees as grants including 14 proposals for Upgradation of Standards of Administration; and 10 proposals for State Specific Needs. I would like to briefly highlight a few of the important requests.

30. The Tamil Nadu Police is one of the most professionally competent Police Forces

in the Country and has consistently delivered a stellar performance by ensuring the maintenance of peace and tranquillity in the State. To sustain this exemplary record we need to provide resources for the emerging needs of modernization of equipment and updating of technology. Provision of housing for Policemen and Officers close to their place of work is also crucial to improving their effectiveness. Towards these compelling needs, we request the Commission to recommend a grant of 3825 crore rupees. I hope you will consider this favourably.

31. Tamil Nadu is the most urbanized large State in India. Rapid and high volume migration coupled with high housing costs have resulted in an increase in slum population. While the problem is being effectively tackled in the 10 Corporation cities under existing schemes; the slums in Municipalities and in Town Panchayats are still to be covered. We have sought a grant of 7,150 crore rupees for slum upgradation and rehabilitation in Municipalities and Town Panchayats which would cover about 25 percent of the slum population in these areas.

32. Tamil Nadu is a pioneer in Wind Energy and we are now attempting to blaze a new trail by launching a Solar Power Policy with the aim of adding 3000 mega watts of capacity in the next five years. This would add to the existing 7504 mega watts of Wind Capacity cementing Tamil Nadu's position as the national leader in Renewable Energy. Renewable energy generation is highly dispersed and has much lower load factors. Hence evacuation infrastructure to transmit the power to load centres is much more expensive. Therefore, we request you to support this endeavor by recommending a grant of 2,250 crore rupees.

33. Tamil Nadu is a perennially water scarce State and the need to harvest every drop of rain that falls through rehabilitating traditional water bodies cannot be overstated. We have requested a grant for this purpose and I request substantial assistance for this requirement.

34. I have outlined the major concerns of Tamil Nadu and the proposals that we have. **I would like to emphasize that the Commission needs to make a complete break with the**

incremental approach of the past. It needs to attempt to match expenditure responsibilities and resource needs and thereafter work out what proportion of the resources needs to be allocated to the States as a whole and to each individual State. A predictable non-discretionary and non-discriminatory mechanism has to be put in place. I thank the Commission for their visit to Tamil Nadu and I hope their stay is both comfortable and rewarding. I look forward to your report eagerly and with the hope that the injustice done to Tamil Nadu by successive Commissions would be undone by you.

Thank You.



“The greatest proportion if not the entire fund flow from the Centre to the States should be on the basis of the recommendations of the constitutionally mandated Finance Commission rather than through other mechanisms.”

HON'BLE CHIEF MINISTER
SELVI J JAYALALITHAA's REPLY
REGARDING POWER SITUATION IN
TAMIL NADU TO DR. SUDIPTO MUNDLE,
MEMBER OF FOURTEENTH
FINANCE COMMISSION - 16.12.2013

Dr. Mundle raised the question of power situation about the gap between demand and supply. I would like to just briefly state a few facts. It is true this Government is facing and tackling a very difficult power situation, a situation of a big gap between demand and supply. But I would like to emphasize with all the force at my command that this situation is not the creation of this Government.

This is my third tenure as Chief Minister. During my first tenure as Chief Minister between 1991-1996, Tamil Nadu was a power surplus State. There were no power cuts. Again during my second tenure as Chief Minister, between 2001 and 2006, Tamil Nadu was a power surplus State. There was no question of any power cuts at that time. When I demitted office in 2006, Tamil Nadu was a power surplus State.

We were actually supplying power to other States and earning revenue through that route also. But then when I assumed office again, when I took over as Chief Minister for the third time in 2011, I inherited a very dismal situation where the power situation had been allowed to plunge to abysmal state.

Many new projects were initiated by my Government between 2001 and 2006. If those projects have been carried forward, if they had been completed, even today Tamil Nadu would have been a power surplus State. But the previous Government ignored all those schemes and did not take any interest in carrying forward those projects or implementing them. There was a perennial power shortage in Tamil Nadu from 2007 onwards, particularly, in 2008, 2009 and 2010 and upto May 2011 when a different Government was administering the State.

At that time, the Government to tide over the situation went in for power purchase. There are different ways that the power can be purchased of which I am sure you are well aware. There are long term agreements, if those long-term agreements have been signed with other States in such a case,

the cost of power would have been lower we would have been assured of power supply for a number of years and we would have got priority in the allocation of transmission corridor to us by the Centre. But deliberately, the previous Government went in for short term purchases and so at a time when this Government took over, we faced a dismal situation of nearly 4000 MWs power deficit which was not at all our creation.

We inherited this dismal legacy. We were forced to tackle this. So, at that time, we went in for power purchase because as you very well know for a new power project to be initiated and then actually gets started, it takes a lot of time. So when we went in for power purchase, we succeeded in negotiating agreements with other States which have power surplus for purchase of power. But then even though, for example, we negotiated an agreement with Gujarat to purchase 500 MWs, there was no room for us in the transmission corridor, because priority was given to other States which had already negotiated long-term agreement and therefore we were able to actually bring only about 100 or 150 MWs to Tamil Nadu. This was the situation.

Then as I already told you, though this is not a political forum I am simply stating facts. We have initiated a number of new power projects which could have got started, could have got commissioned but clearances are deliberately being delayed by the Central Government.

There are many areas where the State Government has got only limited powers. Clearances have to be given by the Central Government which are being denied. For example, for the Kundah Power Project and the Sillahalla Power Project, we are ready, to start but clearances are not being given by the Central Government.

There was an earlier power project which was commissioned during my second tenure as Chief Minister and for that the Central clearance was needed just to take a transmission cable through about 14 kms of forest land. This had to be given by the Ministry of Environment and Forests at the Centre. It was deliberately delayed for political reasons.

We kept on reminding the Centre. I even wrote several times to the Prime Minister, but there was no response. Finally, after waiting for one and a half years, you must remember that this was a

project intended to serve the people and cater to their power needs.

Finally, we had to approach the Supreme Court, move the Supreme Court and only after the Supreme Court gave a direction to the Central Government, the permission was accorded. This is the kind of situation we are facing.

Therefore, I would like to assure you that we are very conscious of the power situation, of the demand and the deficit in the amount we are able to supply but we have tied over the crisis to a large extent. Today, I would say that the gap has been bridged.

From the months of July this year, 2013 upto October 2013 there was no power cut in Tamil Nadu. We had successfully bridged the entire gap between demand and supply in two and a half years and I made a statement on the floor of the Assembly saying that this was possible only due to the Herculean efforts put in by this Government. But then very strangely, immediately after I made this statement on the floor of the House, a number of Central Generating Stations went out of order in Tamil Nadu.

I leave you to draw your own inference from this. Till today, every thermal plant, every power generating plant that is under the control of the State Government is functioning to full capacity. Now again there is a power deficit and that power deficit arises because of certain flaws which have crept in in Central Generating Stations and I must say it is very odd that all these have taken place at the same time, simultaneously.

Still we are doing our best and I assure you that in another six months or so, Tamil Nadu will be totally free of power cuts, it will be a power surplus State and the rest of the details will be sent to you by the Finance Secretary.

Thank you.



