15th Finance Commission

What is the issue?

- The terms of reference of the 15th Finance Commission were amended recently by the Union Cabinet.
- These amendments make the needs of defence and internal security be set aside from regular expenditure.
- The term of the Commission was also extended.

What does separate allocation for defence imply?

- It is seen as an attempt by the Centre to occupy more fiscal space.
- Setting aside a fund purely for defence, which is a natural endpoint of the Cabinet's demand from the Commission, would act against the basic constitutional principle in **Article 266**.
- Article 266 implies that the Consolidated Fund of India is a shared pool for all national priorities.

What could the allocation do?

- It would sequester defence spending and give the Centre more space to spend on its own political priorities at the states' expense.
- A large part of the expenditure goes to fund the wages and pensions bills, along with other current expenditure.
- The capital budget for defence is too small in any case, and much of it is taken up with tied expenditure.
- The amount left for modernisation initiatives is also too small.

What could be done?

- It is up to the Union government to decide how much it sets aside for defence from the revenue available to it, so it should reassess its overall expenditure.
- It shouldn't ask for the pool of taxes available for the division be altered at the expense of states that have been fiscally responsible.
- The carve-out might also include spending on internal security but this shouldn't continue forever.
- If such a security-specific fund is created, it should not affect the revenue

that goes to the states.
- The Centre should pay for it itself. Anything else would undermine the constitutional framework and might lead to serious problems in the coming years.

Source: Business Standard

Quick Facts

Finance Commission

- **Article 280** of the Constitution of India provides for a Finance Commission.
- It is a **quasi-judicial** body.
- It is constituted by the President of India every fifth year or at such earlier time as he considers necessary.
- The recommendations made by the Finance Commission are **only of advisory nature** and hence, not binding on the government.

