15th Finance Commission – The Controversy

What is the issue?

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- The terms of reference given to the 15th Finance Commission is highly controversial and might have serious repercussion for the nation.
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- Multiple other criterions that are being considered for fund distribution has also worried some states.
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What is the core issue with the current Finance Commission?

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- **Finance Commission -** They are constituted every 5 years (or before) by the president to give its recommendations, which aren't advisory in nature.
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- They recommendations pertain to the distribution of tax revenues between the Centre and states, and the allocation of the proceeds among states.
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- The 15th Finance Commission was constituted for giving recommendations for the period of 2020-25.
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- Usually, there is little mentioned about the Finance commission in the press and its recommendations seldom stir popular interests.
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- But the 15th FC has been hovering headlines since its constitution as it has been asked to consider the use of 2011 census for fund devolution.
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- **Currently -** The 1971 census is the marker, which was fixed to delink population from fund distribution in order to promote family planning.
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- Notably, population control initiatives didn't proceed in an equal phase all over the country as some states like UP and Bihar lacked behind.
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- This is led to massive population expansions in some states and a more moderated increase in states like Kerala and Tamil Nadu.
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- Hence, it is a reality that using 2011 census data will penalise southern states, which have made considerable progress in population control.
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- This would also deny them reward for progress made in areas such as health, literacy, education and infrastructure.
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What are recent political developments related to the 15th FC?

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- Recently, finance ministers of "AP, Karnataka, WB, Kerala, Punjab and Puducherry" met to discuss multiple issues concerning the 15th FC.
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- Apart from the population factor that has primarily upset these states, many other concerns regarding the terms referred to the 15th FC were also discussed.
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- Government has mandated the FC to probe the possibility of basing the resource distribution on certain fiscal performance factors.
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- Deepening of the GST net, promoting digital economy, controlling populist schemes, boosting revenue etc, are some of the clauses being considered.
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- This has troubled many states, as these aspects are vaguely definable and could easily be misused by the central government to bias allocations.
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- The concerned states hence plan to submit a joint memorandum to the president to press their concerns.
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What are the varied opinions?

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- FCs has always struggled in balancing between ensuring equitable fund

distribution among regions and fair fiscal federalism.
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- This issue had been raised as early as mid-1990s by the government of undivided Andhra Pradesh.
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- Some voice that population growth will come down if the States experiencing a higher population growth are punished with a lower share of Central funds.
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- But others have stated the difference in geography and economy as the primary reasons for differentiated contribution to the central taxes.
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- They hence argue that the richer states need to be more generous for equitable development to be achieved throughout the country.
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Source: Indian Express

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