Changes and challenges of FC

What is the issue?

\n\n

\n
- Union government will soon constitute the 15th Finance Commission (FC).
\n
- It is significant to take a look at the changes and challenges faced by earlier commissions.
\n

\n\n

What is the brief role of finance commission?

\n\n

\n
- Article 280 of the Constitution requires that a Finance Commission be constituted to recommend the distribution of the net proceeds of taxes between the Centre and states, and among the states.
\n
- The framers of the Constitution were seeking to address the vertical imbalance between the taxation powers and expenditure and responsibilities of the federal government and the states.
\n
- And the horizontal imbalance, or inequality, between states that were at different stages of development.
\n
- Ensuring inclusiveness is, therefore, a key mandate of the Finance Commission.
\n
- That means assigning weights to things like population, the fiscal distance between the top ranked states and the others, etc.
\n
- It is not that the best-performing state will be allocated the highest share - even if delivery execution and governance are better - rather, the effort will be to narrow the development gap between states.
\n
- The Commission's biggest role has been to uphold the country's federal

structure, and to be an architect of fiscal restructuring from being mainly an arbitrator between the Centre and states.

What are major changes and challenges of FC over the years?

- **Members of the commission -**The Finance Commission Rules, 1951, lay down the criteria for being members of the constitutional body:

1. Those having special knowledge of finance and accounts of government with wide knowledge.
2. experience in financial matters and in administration, or with special knowledge of economics, and
3. Those who have been qualified to be appointed as a judge of a High Court.

- In the years following the reforms of the 1990s, Commissions have been headed by reputed economists and administrators.
- In 2015, the Planning Commission in its old structure and form has been dismantled, and has been replaced with the Niti Aayog.
- 12th FC had suggested to the government that it could alternate between an economist and a political figure such as a former state Finance Minister to be the Chairman.
- **Transfer of resources -** Between the Centre and the states, is the scale of distribution of tax proceeds has been changed from 10% of the total tax receipts of the Centre in 1950, to a record 42% after the recommendations of 14th FC
- It is a share that makes previous awards look conservative, and sits well with the spirit of cooperative federalism.

- **Lending equation -** 12th FC, rather than the Centre borrowing and then lending to states, it recommended that states be allowed to borrow directly.
\n
- Since then, the debt obligation of states to the Centre has come down significantly, the problem is with the repaying capability of the states.
\n
- Grants that were recommended by the Commission are however conditional which may also have been criticised.
\n

\n\n

What are the challenges before the 15th FC?

\n\n

\n
- Approach of the government on the composition of the Fifteenth Finance Commission, whether it will follow the convention of having a member of the (erstwhile) Planning Commission as a part-time member or a different approach is dubious.
\n
- Taking into account of the collections by each state after the roll out of the GST,the criteria for distribution of resources needs to be reviewed.
\n
- The challenge now is due to the share of net tax proceeds between the central government and states is almost equal.
\n
- Rising the bar on higher transfer(42%) of resources will have a much bigger impact on the federal government.
\n
- Constitutional amendment is needed to fix a ceiling on the distribution of the net tax proceeds among states.
\n

\n\n

\n\n

Source: Indian Express

\n