Significance of State Finance Commissions

What is the issue?

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- The State Finance Commission (SFC) is a unique institution created by the 73rd and 74th Constitutional Amendments (CAs).
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- But there is an undermined recognition of the potential of State Finance Commissions.
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What was the mandate?

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- The 73rd and 74th CAs rationalised and systematised State/sub-State-level fiscal relations in India.
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- It was primarily to rectify growing horizontal imbalances in essential public services delivery.
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- Article 243I of the Constitution mandated the State Governor to constitute a Finance Commission.
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- This was to be done within one year of the CAs (before April 24, 1994) and thereafter every five years.
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What are the concerns?

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- **Reports** - As per the mandate, the fifth generation SFCs ought to have submitted reports by now.
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- But till date, only Assam, HP, TN and Kerala have submitted their fifth SFC reports.
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- Many States are yet to cross the third SFC stage.
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- The large majority has violated the mandate of the Constitution with impunity.
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- **Role** - The Union Finance Commissions (UFC) has been widely acknowledged as a professional and quasi-judicial body.
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- The UFC exhibits seriousness, regularity, acceptance of recommendations and their implementation.
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- But these are evidently absent when it comes to State Finance Commissions (SFCs).
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- Clearly, honouring the Constitution has become a matter of convenience.
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- **Personnel** - The SFCs' compositions are largely of serving and/or retired bureaucrats rather than academics.
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- The State governments bear a large share of the blame for this.
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- Overall, there has been an inadequate appreciation of the significance of SFC as an institution.
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- This is the case with the Union, States as well as the professional community.
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Why are SFCs crucial?

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- **Status** - The SFC is undoubtedly modelled on the UFC created under Article 280.
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- The UFC is tasked with rectifying vertical and horizontal imbalances at the Union-State level.
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- The SFC has to perform the same with reference to State/sub-State-level institutions.
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- The Constitution treats a local government on a par with a State government.
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- This is especially the case when it comes to sharing of financial resources.
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- **Role** - SFCs have to promote minimum essential services in rural and urban areas.
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- Hence, SFC is the institutional agency to implement the golden rule of cooperative federalism.
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- Accordingly, every citizen should be assured minimum public goods irrespective of her choice of residence.
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- **Federalism** - UFC is mandated to suggest measures to augment the resources of panchayats and municipalities.
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- This is essentially on the basis of the recommendations made by the SFCs.
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- This affirms the organic link between local governments and SFCs to fiscal federalism.
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- As UFC reduces inter-State disparities, the SFCs reduce intra-State disparities through balanced distribution criteria.
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- It is only with both the UFC and the SFCs that Indian federation becomes sustainable and inclusive.
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What are the limitations for SFCs?

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- **Task** - The task of SFCs to correct horizontal imbalances is extremely burdensome than the UFC.
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- This is because SFCs have to consider nearly 2.5 lakh local governments.
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- **Data** - The financial reporting system of the Union and States is well laid down.
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- On the other hand, local governments with no proper budgetary system are in deep disarray.
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- So SFCs face a crucial problem of reliable data.
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- **Support** - Several sufficient conditions remain unfulfilled in the case of SFCs.
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- SFCs have not been provided with the necessary environment to play their rightful role in Indian fiscal federalism.
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- **Perception** - Unlike UFCs, the SFCs face attitudinal limitation from within.
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- SFCs and local governments are seen to be of inferior constitutional status than the UFC.
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- This is a prevailing notion among several politicians, policy makers and even experts.
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What is the way forward?

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- The federalist development state of India can grow only through a process of evolutionary policy making.
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- The States are tasked with empowering local governments to discharge constitutional obligations.
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- **SFCs** - Unlike the UFC, no SFC can easily ignore the following:
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i. Articles 243G and 243W - planning “for economic development and social justice”
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ii. Article 243ZD - mandates that every State constitute a district planning committee for spatial panning and environmental conservation at the sub-State level
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- **UFC** - UFCs have failed to play a central role in ensuring decentralised governance.
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- No UFC has done its homework in reading and analysing SFC reports.
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- The UFC has to present a consolidated account of the reality at the sub-State level.
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- It should also highlight which report went wrong, where and how.
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- These are essential for the UFC to legitimately guide States and contribute to improving the goals of constitutional amendments.
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Source: The Hindu

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