A CASE STUDY

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A study on the role of finance commission in India

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ABSTRACT

The finance commission has always been a governing body which has been looking after the financial matters of the country. The constitution assembly took pains to create provisions distinctly in the constituion of India. The historical background has enumerated the scenario of the earlier times in the country. The financial commission Act, 1957 is also explained so that a proper explanation behind the formation of the commission is understood. Constitutioinal provisions are also emmunrated. Also a brief of past commissions have been given. Also some key points of the 14th financial commission has been given in the present study.

INTRODUCTION

The finance commission of India came into existence in 1951. It was established under Article 280 of the Indian constitution by the president of India. It was formed to define the financial relations between the centre and the state.

The finance commission Act of 1951 states the terms of qualification appointment and disqualification and term, digibility and powers of the finance commission. As per the constitution, the committee appointed every five years and consists of a chairman and four others members. Since the institution of the first finance commission, stack changes have occurred in the Indian economy causing changes in the microeconomic scenario. This has led to major changes in the finance commission recommendations over the years. Till date 14 finance commission have submitted their reports.

Historical background :

The Indian states like all other federations is also ridden by the problems of vertical and horizontal imbalances. Explaining vertical Imbalances result because states are assigned responsibilities and in the process of fulfilling those that they incurr expenditures disproportionate to their sources of revenue, Dr. B.R. Ambedkar, the then law minister, established the finance commission of India. This is because the states are able to gauge the needs and concerns of their people more effectively and hence, are more efficient in addressing them.

Factors like historical backgrounds, differences in resources endowments etc. lead to the widening horizontal imbalances. Thus, as he has enshrined in the constitution of India, the recognition of these two problems Dr. Ambedkar has made several provisions to bridge the gap of finance between the centre and the states. These includes various articles in the constitution like article 268, which facilitates levy of duties by the centre but equips the state to collect and retain the same.

Similarly there are article 269, 270, 275, 282 and 293 all of which specify ways and means of sharing resources between union and states. Also Act 280 as a whole speak of finance commission.

Article 280 : Finance commission :

The constitution frames realised that a permanent or immutable formula would hardly meet the situation for all time to come as changes in the socio-economic conditions in the country would demand constant adjustment the basis of transfer of revenue from the centre to the states. They, therefore, devised a flexible scheme for transfer of central revenue to the states, a scheme adjustable in the light of experience, contemporary economic situation and financial position of the centre and the states; and reviewable periodically and which should work automatically without causing any inter-governmental friction.

The objectives were achieved by making provisions in the constitution for a periodic appointment of a finance commission a non-political body and by leaving it the task of making inter-government financial adjustment from time to time.

Article 280 (1) provides for the appointment by the president of a finance commission every five years, or earlier, if he consider it necessary. The commission consists of a chairman and four other members appointed by the President.

Article 280 (2) provides that parliament is empowered to determine by law the requisite qualifications for appointment as members for the commission.

Article 280 (3) provides for the functions of the commission, are to make recommendations to the President with regard to the following matters :

– The distribution between the union and the state of the net proceeds of the taxes which are to be, or may be divided between them and the allocation of the respective shows of such proceeds.
– The principles to govern the grants-in-aid of the revenues of the states out of the consolidated fund of India.
– The measures needed to augment the state consolidated fund to supplement the resource of the Panchayats in the state on the basis of the recommendations made by the state finance commission.
– The measures needed to augment the state consolidated fund to supplement the resources of the Municipalities in the state on the basis of the recommendations made by the state finance commissions.
– Any other matter referred to it by the President in the interest of sound finance Article 280 (4) provides that commission is to determine its procedure and is to have such powers as parliament may by law confer on it. According to the finance commission act, it has all the powers of a civil court of summoning the witness, requiring production of any document, requiring any person to furnish information of any point which the commission regards as useful or relevant to any matter under its consideration. The finance commission can be characterised as the balance wheel of the Indian Federal financial relationship between the centre and the states.

Article 281 lays down that the president shall cause every recommendation made by the Finance commission together with an explanatory memorandum as to the action taken there on, to be laid before each house of Parliament.

Article 243 (I) - State finance commission :

This article provides for the establishment of a finance commission for reviewing financial position of the Panchayat. The governor of a state shall within one year from the commencement of the constitution (73rd Amendment) Act, 1992 and thereafter at the expiration of every fifth year, constitute a finance commission. The Legislature of the state may by law, provide for the composition of the commission, the qualification requisite for appointment of its members and the manner on which they shall be selected (Clause 1).

It shall be the duty of the finance commission on the review the financial position of the Panchayats and to make recommendations to the Governor as to :

The principle which should govern :

– The distribution between the states and the Panchayats of the net proceeds of the taxes duties, tolls and fees leciable by the state, which may be divided between them under this part and the allocation between the panchayats at all levels of their respective shares of such proceeds.

– The determination of taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Panchayats.
– The grant-in-aid to the panchayats from the consolidated fund of the state.

The measures needed to improve the financial position of the Panchayats.

Any other matter referred to the finance commission by the Governor in the interest of sound finance of the Panchayats

The Legislature of a state may by law, provide for the composition of the commission, the qualifications which shall be requisite for appointment as members there of and the manner in which they shall be selected (Clause 2).

The commission shall determine their procedure and shall have such powers in the performance of their functions as the legislature of the state may, by law, confer on them (Clause 3).

The Governor shall cause every recommendation made by the commission under this article together with an explanatory memorandum as to the action taken thereon to be laid before the legislature of the state. (Clause 4).

Finance commission (Miscellaneous provision) Act 1951 :

With the objective of giving a structured format to the finance commission of India and to bring it at par with world standards. The finance commission (Miscellaneous Provision) Act, 1951, was passed. It lays down rules regarding qualification and disqualification of members of the commission, their appointment, term digibility and powers.

Qualification of the members :

Chairman of the finance commission is selected among people who have had the experience of public affairs. The other four members are selected from people who :

– Are, or have been, or are qualified, as judge of High Court, or
– Have knowledge of government finances or accounts.
– Have had experience in administration and financial expertise, or,
– Have special knowledge of economics.

Procedures and powers of the commissions :

The commission has the power to determine their own procedures and :

– Has all powers of the civil court as per the court of civil procedure, 1908.
– Can summon and enforce the attendance of any witness or ask any person to deliver information or produce a document, which it derives relevant.
– Can ask for the production of any public record or document from any court or office.
– Shall be deemed to be a civil court for purpose

Table 1 : Finance commissions appointed so far

Sr. No.	Constituted	Chairman	Report implemantationary
1.	1951	K.C. Niyogi	1957-1957
2.	1956	K. Santhanam	1957-1962
3.	1960	A.K. Chanda	1962-1966
4.	1964	Dr. P.V. Rajamannar	1966-1969
5.	1968	Mahavir Tyagi	1969-1974
6.	1972	Brahmanand Reddy	1974-1979
7.	1977	J.M. Schelet	1979-184
8.	1982	Y.B. Chavan	1984-1989
9.	1987	N.K.P. Salve	1989-1995
10.	1992	K.C. Pant	1995-2000
11.	1998	A.M. Khusro	2000-2005
12.	Nov. 2002	C. Rangarajan	2005-2010
13.	Nov. 2007	Dr. Vijay L. Kelkar	2010-2015
14.	Jan. 2013	Y.V. Reddy	2015-2020

of sec. 480 and 482 of the code of criminal procedure, 1898.

Disqualification from being a number of the commission :

A member may be disqualified if :

– He is mentally unsound.
– He is an un-discharged insolvent.
– He has been conducted of a moral offence.
– His financial and other interest are such that it hinders smooth functioning of the commission.

Term of office of members and eligibility for re-appointment :

Every member will be in office for the time period as specified in the order of the President but is eligible for reappointment provided he has, by means of a letter addressed to the president resigned by his office.

Salaries and allowances of the members :

The members of commission shall provide full-time or part-time service to the commission, as the president specified in his order. The members shall be paid salaries and allowances as per the provisions made by the central government. So far, 13 finance commissions have submitted their recommendation. More or less, all of them have been accepted by the union government.

Composition of 14th finance commission :

This commission was constituted in the year 2013 in the month of January. The implementation year is 2015-2020. The latest report that was submitted was on 24th February 2015. It is in two volumes. The first volumes in of 279 pages while the second volume is of 2015 pages.

Dr. Y.V. Reddy is the chairman, Ajay Narayan Jha is secretary, Dr. M. Govindha Rao, Sushma Nath, Prof. Abhijit Sen, Dr. Sudipto Mundle are members :

Chairman	:	Dr. Y.V. Reddy
Secretary	:	Ajay Narayan Jha
Members	:	Dr. M. Govindha Rao
		Sushma Nath
		Prof. Abhijit Sen
		Dr. Sudipto Mundle

Recommendation of the 14th commission :

Following are the Highlights of the Report of the 14th Finance Commission :

Devolution to states :

States share in not proceeds from tax collection be 42 per cent a huge jump from 32 per cent recommended by the 13th Finance commission, and the largest change ever in the percentage of devolution.

Big Jump in tax share :

Compared with 2014-2015, the total devolution to state in 2015-16 will increase over 45 per cent.

Resource transfer :

Tax devolution be the primary route resource transfer to states.

NTIT connect :

The government has accepted the recommendation in view of the spirit of the National Institute for Transforming India.

Grants should be distributed to states for local bodies on the basis of 2011 population data; the grants can be divided into two broad categories on the basis of rural and urban population - constituting gram panchayat and constituting municipal bodies.

Types of grants :

A basic grant and a performance grant. The ratio of basic grant to performance grant be 90:10, with respect to panchayats and 80:20 in case of municipalities.

Total grants :

Rs. 2,87,436/- crore for a five year period from April 1, 2015 to March 3, 2020; of this Rs. 2,00,292.20 crore to be given to panchayats and Rs. 87,143.80 crore to municipalities.

Grant transfer :

For 2015-16 transfers will be to the tune of Rs. 29,988 crore.

Disasters relief :

The percentage share of states to continue as before and follow the current mechanism to the tune of Rs. 55,097 crore. After implementation of GST, disaster relief will be given according to the recommendations of the finance commission.

Post devolution revenue deficit grants :

A total of Rs. 1,94,821 crore an account of expenditure requirements of states tax devolution and revenue mobilisation capacity of the state. These will be given to states.

Declining of schemes :

Eight centrally sponsored schemes (cesses) will be delinked from support from the centre, various ceses will now see a change in sharing pattern, with states sharing a higher fiscal responsibility.

Co-operative federalism :

There are recommendation on co-operative federalism, GST fiscal consolidation road map, pricing of pubic utilities and PSU's too.

Conclusion :

Finance commission is a body setup under Article 280 of the Indian Constitution. Its primary job is to recommend measures and methods on how the revenue need to be disturbed between the centre and states. Besides suggesting the mechanism to share tax revenues the commission also lays down the principles for giving out grant-in-aid to states and other local bodies. The commission has to take on itself the job of addressing the imbalances that often arise between the taxation power and expenditure responsibilities of the centre and the state, respectively. Primarily, it has to ensure a sense of equality in public services across the states.

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