

QUESTION 08

संघ और राज्यों के बीच कर राजस्व के वितरण की सिफारिश करके भारत में राजकोषीय संघवाद को बनाए रखने में एक संवैधानिक निकाय के रूप में वित्त आयोग की महत्वपूर्ण भूमिका पर चर्चा करें। (15 अंक, 250 शब्द)

Discuss the pivotal role of Finance Commission as a constitutional body in maintaining fiscal federalism in India by recommending the distribution of tax revenues between the Union and the states.

(15 Marks, 250 Words)

Thought Process (Pre-Writing Work)

- Parts of the question with expected marks criteria
- Directive Word(s)
- Topic Word(s)
- Limiting Words
- Writing Presentation
- Writing Interpretation

This section will be discussed in the Answer Discussion Class.

Description of the Answer Content

The Finance Commission is a constitutional body established under Article 280, acting as the "balancing wheel of fiscal federalism" in India. It performs a pivotal role by recommending the distribution of tax revenues between the Union and states, and among the states themselves. This is critical for addressing financial imbalances and ensuring that both levels of government can meet their expenditure responsibilities.

Pivotal role in fiscal federalism

- **Addressing fiscal imbalances:** The commission addresses two major types of fiscal imbalances:
 - **Vertical imbalance:** It corrects the asymmetry in tax collection powers (centralised with the Union) and expenditure responsibilities (decentralised with the states). It recommends the percentage of net proceeds from central

taxes that should be devolved to the states, which is known as vertical devolution.

- **Horizontal imbalance:** It equalises the fiscal disparities among states, as some have higher capacity for revenue generation than others. Its recommendations for horizontal devolution distribute the states' share of the tax pool using a formula that considers criteria like population, area, and income distance.
- **Recommending grants-in-aid:** The commission determines the principles governing grants-in-aid to states in need of additional financial assistance, paid from the Consolidated Fund of India. These are often "gap-filling" grants for states with revenue deficits.
- **Empowering local bodies:** The Finance Commission recommends measures to augment the consolidated funds of states to supplement the financial resources of local bodies, such as Panchayats and Municipalities, based on the recommendations of the State Finance Commissions. This strengthens grassroots governance.
- **Promoting sound financial management:** The recommendations encourage fiscal discipline at both the Union and state levels by advising on public spending and debt management. This fosters fiscal stability and sustainable economic growth nationwide.
- **Strengthening cooperative federalism:** By facilitating dialogue and collaboration on financial matters, the commission strengthens cooperation between the Union and state governments. This ensures that the fiscal transfers align national objectives with states' developmental needs.

While the recommendations are advisory, the Finance Commission's role is indispensable for ensuring a fair and balanced financial architecture. It fosters cooperative federalism by facilitating constructive consultation between the Centre and states on financial matters, promoting balanced regional development, and empowering states with financial autonomy.

If Aspirants have any doubts, kindly ask the Mentor in the Answer Discussion Class

The purpose of this explanation is to value addition only.

One Model Answer can be...

The Finance Commission (FC), constituted under Article 280 of the Constitution, plays a pivotal role in maintaining fiscal federalism in India by recommending a fair and equitable distribution of financial resources between the Union and the states.

Mandate and Functions:

- The FC is appointed every five years by the President and is tasked with:
- Recommending the distribution of net proceeds of taxes between the Centre and the states (vertical devolution).
- Determining the share of each state in the divisible pool (horizontal devolution).
- Suggesting grants-in-aid to states in need of assistance (Article 275).
- Proposing measures to augment the resources of Panchayats and Municipalities.

Role in Promoting Fiscal Federalism:

- **Vertical Equity:** Ensures a balanced allocation of tax revenue between the Union and states to address the vertical fiscal imbalance.
- **Horizontal Equity:** Distributes resources among states based on needs, capacity, and performance, thereby promoting regional equity.
- **Incentivizing Reforms:** Recent commissions (like the 15th FC) have included performance-linked incentives (e.g., tax effort, demographic management).
- **Maintaining Cooperative Federalism:** Acts as a non-partisan, expert body, fostering trust and financial discipline among different tiers of government.

Challenges and Criticism:

- Over-centralization due to cesses and surcharges not shared with states.
- Political economy influencing acceptance and implementation of FC recommendations.
- Reduced state flexibility due to conditional grants.

In essence, the Finance Commission serves as the institutional backbone of India's fiscal federalism, ensuring that the spirit of cooperative and competitive federalism is upheld through fair and efficient fiscal transfers.

Aspirants can use the brainstorming method to answer such information. Such method helps in avoiding unnecessary rambling and ensures that all the main points are covered within the word count.

Space for Answer Discussion

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