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Recommendations Of 14th Finance Commission Enabled States To Improve Their Fiscal Positions

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Abstract

Recommendations of the 14th finance commission enabled States to improve their physical position by offering autonomy to implement development initiatives in the present research paper we are discussing recommendations of the 14th finance commission with new formula given by the constitution body which is giving way to the improvement in states fiscal positions.

Keywords: Indian Constitution, article 280, Grants-in-Aid, Fiscal Positions, cooperative federalism, Horizontal allocation, Vertical allocation.

I. INTRODUCTION

Constitutional body finance commission is constituted every five years by the President of India under the article 280 of the Indian constitution to give suggestions on Centre- state financial relations. The commission is consisting of a chairman and four other members. Hitherto, fifteen finance commission have been formed since 1952 to 2020 each finance commission is required to make recommendations on sharing of Central taxes with States distribution of Central grants to States; measures to improve the finance of these States to supplement the resources of panchayats and municipalities.
The 14th finance commission was constituted under the chairmanship of Dr Y. V. Reddy on 2nd January 2013 to make recommendations for the period of 2015 to 2020. Ms.Sushma Nath, Dr.M. Govinda Rao and Dr Sudipto Mundle were appointed full time members. Professor Abhijit Sen was appointed as a part-time member. Shri Ajay Narayan Jha was appointed as the secretary to the commission.

II. METHODOLOGY

The study tries to understand how the recommendations of 14th finance commission enabled states to improve their fiscal positions. The tool of the study is based on secondary data. The secondary data were taken from Finance Commission of India, Ministry of Finance and Reports of Finance Commissions, Ministry of Panchayat Raj and Press Information Bureau of India.

III. DATA ANALYSIS AND INTERPRETATIONS

The commission how broadened its scope over a time as they were assigned to several other issues on government finance especially those relating to

(i) Augmentation of these state consolidation fund to supplementing the resources of local bodies

(ii) Vertical (Proceeds of taxes to be divided between Union and the States) and horizontal (the allocation of distribution of taxes among the States) imbalances that refers to the mismatch between revenue generating capacities of each state and expenditure needs of the Centre and the states.

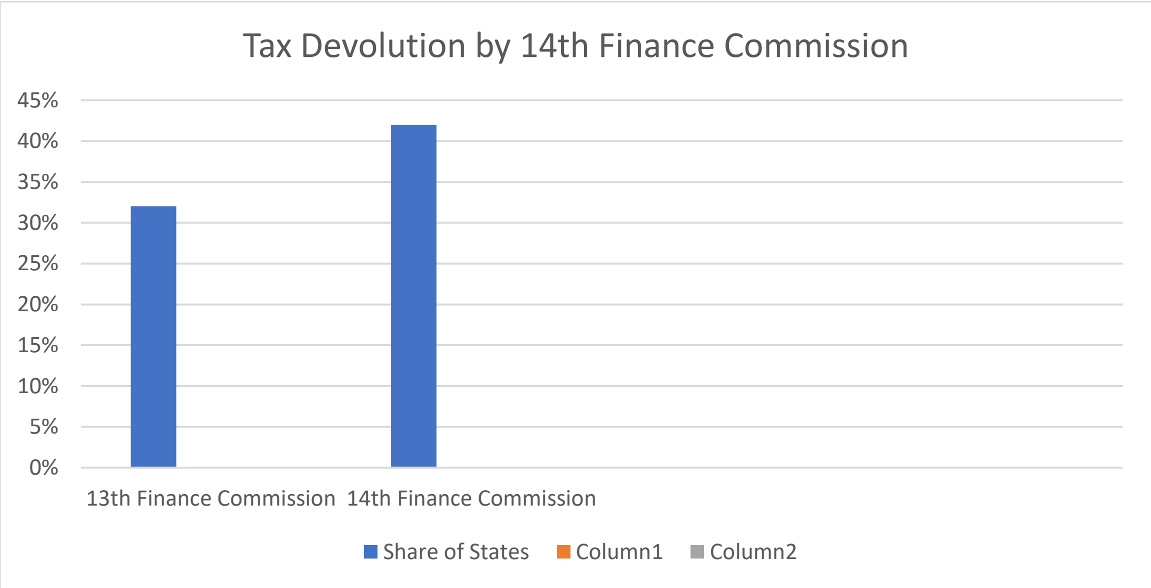
The recommendations of the finance commission are implemented by an order of president and by executive order. The 13th finance commission improved the shares of the states in the divisible pool to 32% which was an increase of 1.5 % over the share recommended by the twelfth finance commission.

14th finance commission while laying down its recommendations to the Centre also considered demand proposed by the state governments. The FFC laid emphasis on listening and learning from all stakeholders, in particular all the three tiers of the Government and political parties.

Recommendations of the 14th finance commission paves way for the improvement of the fiscal positions of Indian states.

Recommendations of the 14th finance commission are as follow:

1. The commission have increased **10%** share of the states in the central divisible pull from 32 % to 42% which is the biggest drastic change and increase in vertical tax devolution full stop this can be interpreted as the states would have received a large volume of United funds relative to tied funds this will enhance the states autonomy deciding their expenditure priority.



This move allows greater fiscal policy space to states, even at the cost of leaving less revenue for its own schemes and programmes.

2. The commission proposed a new horizontal formula for the distribution of the state's share in divisible pool among States.

3. It has asked centre to reduce conditional grant -in- aids to states it has proposed grants to rural and urban bodies including basic grants and performance grant in ratio of basic to performance grant be **90: 10** with respect to panchayats; and **80:20** in case of municipalities. The recommendations on the part of Local Governments are meant only to indicate measures to supplement the resources available to the States to support the local bodies. They are to be made on the basis of the recommendations made by the Finance Commissions of the State. It is the reality, the Finance Commissions in many States do not exist, or, their recommendations are not up-to-date.

4. The 14th finance commission have changed Centre state funding pattern to give encouragement to the idea of cooperative federalism for example center's assistance for critical developmental programs being implemented by States relating to health, child development, rural drinking water and housing. This is in spirit of balancing wheel of fiscal federalism that States got much autonomy in deciding their expenditure priority.

5. 14th finance commission also recommended eight centrally sponsored schemes delinked from center's support and sharing higher fiscal responsibility and autonomy to implement development initiative.

6. The FFC examined the issue of separate treatment of the special category States. It was felt that, as per the Constitution, all States have to be treated equally by the FFC, and any categorization of States has to be based on application of mind and reasoning by the FFC.

There are certain areas such as allocation of resources within a State which are explicitly excluded from the jurisdiction of the Finance Commission. In this regard State Finance Commissions are required to play a key role in allocation of resources within a State.

The FFC didn't undermine authority of States it had devoted significant time and attention to quantitative and qualitative improvements to the design of support to local bodies with due respect to states authority.

IV. CONCLUSION

We can conclude the fiscal position of all States taken together has shown significant improvement during the review period, both in terms of quantity and quality. In fact, the fiscal space available to them to incur capital expenditure within the fiscal targets prescribed by the 13th Finance Commission based on the recommendation that 14th finance commission enabled States to improve their fiscal position is unutilized.

The local bodies are required to spend almost all the grants, as per the recommendations, only on the services within the functions assigned to them under the relevant legislations. We can observe autonomy given by FFC in the distribution of grants between the Panchayats and between the Municipalities has been left to the State governments provided it is based on the recommendations of the State Finance Commissions.

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