

## **15th Finance Commission - Issues Referred and Challenges**

### **What is the issue?**

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- The 15th Finance Commission (15<sup>th</sup> FC) has been constituted with the mandate to look into some very sensitive issues.

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- While the concept of “cooperative federalism” has been gaining currency lately, there are genuine concerns of the gains being undone.

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### **What are the positive developments towards enhancing federalism?**

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- The 14th Finance Commission had importantly recommended for greater devolution by increasing “state share” from 32% to 42% in the central tax kitty.

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- This along with others was completely accepted by the central government, thereby generating a positive momentum towards “cooperative federalism”.

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- Additionally, the erstwhile planning commission was seen as a central institution that dictated terms to the state governments.

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- Hence, it was replaced with a more inclusive “Niti Aayog” that has provisions for state engagement in ideating and setting of goals and allocating funds.

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- Following these, the GST act set up a “GST Council” as a constitutional body that has fair representation of the states in its decisions – again a positive.

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### **What is key concern regarding the terms referred to the 15<sup>th</sup> FC?**

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- The terms referred for the consideration of the 15<sup>th</sup> Finance Commission have raised doubts over that cooperative spirit of the centre.

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- **Challenge** - Considering the use of 2011 census as the basis for resources allocation between states is the most serious issue (presently, 1971 census is being used).

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- While on the face of it, the idea of using the most recent Census data available seems reasonable, the proposal unleashes immense socio-political challenges.

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- This is because the census switchover would disadvantage states that performed better in controlling their population over the decades.

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- Lower population growth is inherently linked to “lower fertility rates”, which is a consequence of better education, health services and development.

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- Hence, it is seemingly apparent that the states that have progressed faster are being penalised for their successes in developmental initiatives.

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- **Contestants** - Particularly, funds for southern states might get stifled as their family planning initiatives have almost stabilised their populations.

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- Even West Bengal and North Eastern states have had considerable success in population control and might thereby see their share of allocations reduce.

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- In contrast, some northern states continue to see a burgeoning trend in their population with little control, which might enhance fund allocations for them.

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- This is creating inter-state tensions, which is adding to the already existing cultural tensions between the northern and southern states.

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## **What is the way ahead?**

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- Creative options are needed to reduce this tension between states that have drastically different population growth rates.

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- The centre needs to crediting states that have reduced growth rates, and

encourage efforts to control population in states where fertility rate is still high.

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- Inter-state migration has been estimated to be as high as 6 crore people and hence supporting states that have seen greater in-migration is also important.

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- Such a support would encourage states receiving migrants to provide them with better services, and discourage discrimination against migrants.

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- Creative handling through the multitude of sensitive issues will help prepare the ground for the bigger battle for political delimitation that awaits in 2026.

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- Notably, parliamentary constituencies and statewise representations are also currently based on the 1971 census, which might shift bases to the 2011 census.

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### **What are the other aspects referred to the 15<sup>th</sup> Finance Commission?**

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- **Devolution** - 15<sup>th</sup> Finance Commission has been asked to analyse the impact on the finances of the Union government due to enhanced devolution to states.

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- This is an indication that the enhanced devolution of 42% (from 32%) might be reversed if the Union feels financially constrained.

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- Notably, Brazil had recently reversed some of its decentralisation initiatives, and thereby is a genuine concern to India's federal perception too.

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- In India's case, reversal will be counterproductive as the 2014 devolution did not lead to any change in the quantum of funds that reached the states.

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- The only change was that the funds that were given away through central flagship schemes was trimmed and the money thus saved was transferred to the state kitty for facilitating unfettered spending as per state discretion.

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- **Curbing Populism** - The 15<sup>th</sup> commission has also been asked to examine ways to curb populist spending due to electoral calculations.

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- Given the growing concerns over rising state deficits (especially in Bihar and

Punjab), the concerns over excessive state spending are well taken.

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- But there is no clear definition of “populist” programmes or on who decides what is populaist and thereby the ambiguity is very open.

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- Additionally, dictating the states on what and how to spend doesn’t sound good for cooperative federalism, and it is best for the union merely advice.

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- Also, the union budget too has populist aspects, which needs to be curtailed.

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- **Pro-Business** - Finding ways to encourage “Ease of Doing Business” has also been mandated from the 15<sup>th</sup> Finance commission.

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- While competition among states for investment is welcome, a race among states to dismantle all regulation is what might unfold, which is undesirable.

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- Better analysis of constrains to business is needed rather than the merely removing regulatory checks that are to key to sustain the business ecosystem.

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**Source: Business Standard**

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