

Permanent Status to Finance Commission

What is the issue?

- RBI Governor Shaktikanta Das recently emphasized on the need for giving permanent status to Finance Commission.
- In this backdrop, here is an overview on the significance of the Finance Commissions and the present shortfalls in the institution.

What is the need for a permanent status?

- In the past, different Finance Commissions (FCs) had adopted different approaches on tax devolution and making grants to states.
- This is problematic because more certainty in the flow of funds, especially to the states, is desired.
- Mr. Das thus made a case for a permanent Finance Commission as opposed to the current system of reconstituting it every 5 years.
- This is necessary now as the goods and services tax (GST) had come into operation.
- While the GST Council could focus on the need for improving tax collections, the FC should be able to manage other reforms.

Is this a valid argument?

- Despite Mr. Das's rationale, there is a continuing need for renewal in the recommendations of the Finance Commissions.
- Finance Commissions survey the current fiscal landscape as well as the state of federalism in making recommendations.
- Despite the different approaches, there is a broad trend in recent Commissions to increase devolution towards states.
- This has been established, and future Commissions are certainly expected to take this forward.

What are the real concerns?

- The real problem is that such recommendations have not been followed up on in the right spirit by successive governments.
- E.g. the current government did not properly act on the 14th FC's decision to raise the states' proportion of tax pool from 32 to 42%
- Much of the increased allotment was absorbed back through various types of

cess.

- There is also a sharp reduction in the Union's outlay on centrally-sponsored schemes.

Why are Finance Commissions significant?

- The Union has exerted undue influence on the 15th FC through a controversial set of additions to the Terms of Reference. Click [here](#) to know more.
- So states, particularly in the south, are already concerned about this and are keenly following the developments in the discourse on FCs.
- In this context, the Finance Commissions are a crucial part of India's constitutional set-up.
- They allow for constant renewal in how the Union of India approaches federal questions.
- So creating a permanent Finance Commission with a particular set of rules may hamper this effort.
- It could severely undermine the federal structure of India.

Source: Business Standard

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