

1. The terms of reference of the 15th Finance commission seriously undermine Indian federalism. Discuss. (250 words)

Answer:

Background:-

- The terms of reference of the 15th Finance Commission are a matter of utmost importance to the resources available to the States of India. The terms of reference of this Commission have created apprehension among States about principles of fairness and equity in the distribution of public resources for development.

Terms of 15th finance commission undermine federalism:-

- The ToR want to curtail borrowing by States from the present 3% of Gross State Domestic Product (GSDP) to 1.7% if the Fiscal Responsibility and Budget Management Review Committee has its way with its recommendation.
 - India has just started exercising borrowing rights as recommended by the 14th Finance Commission. If this is reversed, this will severely curtail capital expenditure of States
- The foremost objective of the Finance Commission is an equitable distribution of financial resources between the two units of the Union. The States in India today neither have the resources to fulfil their tasks as laid down in the Constitution, nor do they have the right to raise such resources due to the government policy and GST reduced states independence even further.
- **Revenue grants:-**
 - The terms of reference state that the Commission may also examine whether revenue deficit grants be provided at all.
 - Revenue deficits are offshoots of the path of development followed by States and cannot be brought down in the short term.
 - To discontinue post-tax devolution of revenue deficit grants would go against the principle of cooperative federalism.
- **Vertical devolution:-**
 - The terms of reference explicitly privilege the committed expenditures of the Centre.
 - The Finance Commission should not take a residual approach to the question of vertical devolution. The approach should not be that of distributing what is left over after providing for the requirements of the Centre.
- The terms of reference are unprecedented in asking the 15th Finance Commission to consider proposing performance-based incentives beyond those relating to fiscal responsibility, population and devolution to local bodies.
 - It is not the duty of the Finance Commission to venture into the realm of day-to-day governance. The elected governments of States will decide what policies are appropriate for people.
- **Fiscal consolidation:-**
 - They intensify efforts to use the Finance Commission as an instrument of fiscal consolidation and to impose the ideological and economic agenda of the Central government on the States
 - This aspect is criticised as it is not the task of a Finance Commission to recommend road maps for fiscal management

- The Centre's direction to use the 2011 Census instead of the 1971 Census for population data has concerned the southern states. As the population in these States has stabilised, the concern is that their share of tax allocation would reduce.
- The terms of reference for the 15th Finance Commission have brought the south together in making a strong case for fiscal federalism.
- Using 2011 census data will give states with the greatest increase in population an advantage in their share of revenue, relative to prior revenue allocations.
- Using the 2011 census would mean that the policy successes in states like TN, Kerala are punished and the policy failures of badly governed states are rewarded.
- Taking away the resources of successful states at this crucial juncture of their development also affects their future development and welfare outcomes.
- The use of the 2011 census in the 15th FC is merely revealing the symptoms caused by the problem of centralizing fiscal decisions.

Way forward:-

- Long-term solution is to foster genuine fiscal federalism where states largely raise their own revenue and face hard budget constraints, i.e. fiscal autonomy accompanied by fiscal responsibility.
- Creating a fiscal structure where the states have greater revenue-raising authority, as well as greater decision making power on spending, implies a lower reliance on the Union government in fiscal matters as well as governance decisions.
- India needs to move away from centralization-decentralization thinking, and embrace genuine fiscal federalism by permanently creating a fiscal power centre in the states.

PRACTICE QUESTIONS

Answer the following Questions

1. Putting restrictions on the use of Aadhar will defeat the very purpose it is designed for. Examine in light of the various cases being heard in SC regarding the use of Aadhar. (250 words)
2. Reforming labour laws and achieving greater flexibility in their implementation can greatly help enhance the ease of doing business. Critically examine the labour reforms undertaken and proposed by the government in this light. (250 words)