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Fiscal Autonomy at Sub-National Levels in India: Examining in the light of Federal Transfer

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Abstract

The National Democratic Alliance government in India initiated structural adjustment in the transfer system to ensure co-operative federalism after assuming power for the second term at the Centre. Bringing back the issue of cooperative federalism to the forefront of economic discourse at this time may be viewed as a well thought strategy to prepare ground to gather support of states for a future political move. Co-operative federalism protects the autonomy of provincial (state) governments and enables them to perform their functions effectively. The status of fiscal autonomy of states is re-examined through empirical analysis of resource and responsibilities share of states and impact of federal transfers on state's expenditures and theoretical analyses. Analyses show synchronising the fiscal autonomy of state due to political interference in the evolution, structure and functions of mediating institutions of federal transfer. Shrinking state autonomy lurches the federal structure towards competitive federalism which in turn may lead to a conflicting situation. An introduction of a single, permanent, independent, impartial and semi-judicial body to mediate transfer may resolve the issue.

Key Words: Federal Transfers, Federalism, Intergovernmental Relation, Subnational Government

JEL Classification: H77, H10

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Introduction

One of the contemporary debates in fiscal federalism literature is fiscal autonomy at the sub-national (state) level. The level of state autonomy is often influenced by the degree of control exercised by the central government on taxation and expenditure responsibilities assigned to the state. The progressive revenue transfer system based on appropriate principle from centre to state may ensure state autonomy. The issue of state autonomy in India is recently in academic discourse which is deliberated from two different perspectives: (i) the changing structure (Thiammaih 2002) and functioning of mediating institutions of resource transfers (Rao and Chelliah, 1996; Rao and Sen 1996; Srivastava 2010; Dholakia, A. 2015; Pattanaik 2015; Mahamallik and Sahu 2015), and (ii) relationship between the levels of government (Sarma 1997; Chakraborty 1998; Gurumurthi 1998) even though both are interrelated. Mediation is necessary to maintain a coherent and cooperative relationship between the levels of government. The constitutional mandate of mediating institutions ensures fair mediating responsibility. Realization shows that mediating institution should be a single, impartial, independent and semi-judicial body (Rao and Chelliah, 1996; Rao and Sen 1996; Bagchi 2003). The Union Finance Commission (UFC), recognized as the only constitutional body, serves the purpose of mediation in true sense. However, the illegal entry of Planning Commission (PC) and Central Ministries (CM) destroys the ethos of transfer system.Mediating institutional arrangement is criticised on the ground of declining state autonomy (Patnaik 2015, Mahamallik and Sahu 2015).

Realising the importance of the issue, the National Democratic Alliance (NDA) government at the Centre attempts to reinforce the concept of cooperative federalism through replacing PC by National Institution for Transforming India (NITI) Aayog, giving an avenue to the UFC to consider both plan and non-plan revenue account and introducing Goods and Service Tax (GST)[iii]. However, the shifting of fund disbursement power of PC to CM, increased tax devolution with implicit conditions and directives listed in the terms of reference of 15th UFC goes against co-operative federalism[iv] (Reddy 2018; Issac *et al* 2019). In such a dichotomous situation, the issue of cooperative federalism will, of course, emerge as a major debatable point before the academia and policymakers. With this background, this study attempts to examine the issue of 'state fiscal autonomy' in India.

The available literature on state's autonomy examined vertical imbalance, the impact of Fiscal Responsibility and Budget Management Act (FRBMA) on fiscal space of states (Issac *et al* 2019) and implications of the terms of reference of 15th UFC (Reddy 2018; Issac *et al* 2019), the role of cooperative federalism in states governed by political party/ies other than the ruling party/collation in Centre and the structure of GST Council (Prasanna 2016). This study examines state's autonomy through empirical analysis of resource and responsibilities share of states in the respective combinations of the Centre and states and impact of federal transfers on expenditure of state, and theoretical analysis of the evolution, structure and functions of the mediating institutions. Analyses show the synchronisation of state autonomy due to political affiliation in the evolution, structure and function of mediating institutions of transfer. The claim made by the central government for cooperative federalism will only be realised with a strong will to have a permanent, impartial, independent and semi-judicial body to mediate transfers.

Section 1

1.1 The Context

Division of power between the Centre and state is constitutionally assigned[v]. State autonomy is adversely affected, if the centre encroaches upon any of the power of the state either implicitly or explicitly. The intrusion of centre into the fiscal affairs of states has a bearing on the fiscal health of the state, which in turn discourages states to maintain cooperative federalism.

To foster co-operative federalism and protect the autonomy of the state, the mediating task of federal transfers is constitutionally assigned to the UFC (Paranjape 1988). Besides the UFC, the PC and CM also entrusted with this task as stated earlier (Table A1). However, the element of 'central supremacy' is integrated in the structure and unlawful incorporation of these channels. In other words, biasness is structurally inbuilt in the formation and functioning of channels. The President is empowered by the constitution to constitute the UFC in every five years, or earlier if necessary, under article 280. Commissions are set up by the President on the aid and advice of the council of ministers headed by the Prime Minister under Article 74(1). Often it is observed that the chairman and members of commissions have some political affiliation (Singh and Vasistha 2004; Khemani 2007). The PC and CM meant for public assistance during an emergency were brought into the system by a central direction under article 282. Loopholes in the methods of devolution determined by the members of the channels resulted fiscal imbalances. The structure and functioning of these channels (UFC, PC and CM) are criticized on the ground of increasing central control over states (Thiammaih 2002; Rao and Chelliah, 1996; Rao and Sen 1996; Srivastava 2010; Dholakia, A. 2015). The political affiliation of these channels is recognized as one of the important reasons ('nature of transfers', the methodology used for horizontal distribution and 'the capabilities of the members of the channels') behind central biasedness (Singh and Vasistha 2004; Khemani 2007) due to its influence on the cited reasons.

A series of measures has been undertaken by mediating institutions to protect the autonomy of states[vi]. In the first three decades after Indian independence, in principle, states were following the central directives to carry out their economic activities without any hesitation because of the presence of the same political party in power both at the Centre and states. The demand for state autonomy sparks with the withering of single political party dominance regime at different levels of government. With the initiation of coalition government regime, the voice of state autonomy started echoing (Bagchi 2003). The gradual rise in the strength of coalition politics expedites the demand of state autonomy. Bringing back the issue of cooperative federalism to the forefront of economic discourse, the NDA government during its 2nd term viewed it as a well thought political move to prepare the ground to gather support of states for future political action.

Accordingly, the NDA government restructured the framework of the transfer system to promote the state's autonomy. Two important steps in this direction were: (i) abolition of the PC (Sinha *et al* 2019) and transfer of its fund disbursement power to CM (Patnaik 2015) and (ii) modification in the structure of the UFC (Table 5 and 6). The outcome of both steps resulted in squeezing of state's autonomy as it was before. With the transfer of PC's fund disbursement power to CM, the size of CM's conditional grants increased. Even though the abolition of the PC, as desired, to some extent restricted political affiliation of the channels (BM 1995), the shift of fund disbursement power from the PC to CM had reiterated the apprehension of increasing political affiliation. The reform carried out in the structure of the UFC helped to increase the share of general-purpose transfer (GPT/shared tax)[vii]. However, the characteristic of GPT was conditional in disguise. The states were asked to use the increased shared taxes to meet the revenue expenditure of 'delinked schemes' and also '24 centrally sponsored schemes' (GoI 2015-

16; Reddy 2015). The structural change since 13th UFC (through the incorporation of experts as members) is not free from association and affiliation of members with ruling political parties at the Centre. The continuing political affiliation of channels negates the idea of state autonomy. An attempt is taken in this study to examine the degree of state autonomy with the revised framework of the transfer system.

Section 2

2.1 Theoretical Framework

Under cooperative federalism, the levels of government work in a complex framework. Theoretically, the framework ensures not only the structural integrity of different levels of government but also the autonomy of the state. Any deviation from mutual respect, trust and autonomy by levels of governments weakens the idea of co-operative federalism (Sharma 2015). Competitive federalism invites uncertainties in achieving national welfare objective and may serve as a blow to the federal structure *in toto*. 'Functional Theory', which advocates co-existence, joint functioning and mutual respect for the autonomy of levels of government to achieve the larger goal[viii] is the widely accepted theory in fiscal federalism literature. In the absence of mutual respect and autonomy, the provision of public services by sub-national governments would be unnecessary, economically inefficient and distributionally unjust (Roderick 1998). This study develops an argument in line of 'Functional Theory' and attempts to re-establish the importance of co-operative federalism. The autonomy of sub-national government, if protected, strengthens the delivery of public goods in accordance with the preference of the jurisdiction in the framework of decentralization theorem. However, decentralization theorem results in fiscal imbalances (Chelliah *et al* 1992). Reduction in the imbalances through federal transfers with minimum restrictions on the fiscal decision of state may enhance the state autonomy.

Resources and responsibilities distributed between levels of government as per decentralization theorem results in fiscal imbalances in India. In order to reduce the imbalances and protect the autonomy of state there is provision of revenue transfer from centre to state[ix]. Even though the concept of co-operative federalism and protection of state autonomy is inbuilt in the 7th schedule and Article 280 of the constitution[x], few adorable steps are undertaken to foster co-operative federalism by the NDA government as stated earlier.

Section 3

3.1 Empirical Analysis

State's fiscal autonomy is of utmost important to ensure co-operative federalism as stated earlier. This study explores the status of state's fiscal autonomy examining the impact of constitutional and non-constitutional body transfers on the revenue expenditure, capital expenditure and total expenditure of state from 2000-01 to 2021-22 using Prais-Winsten Feasible Generalised Least Square regression and revenue and expenditure share of state in the combined revenue and expenditures of the Centre and state; proportion of grants and shared tax in total revenue of the state; deficiency in capacity to meet revenue expenditures and total expenditures of state and specific and general purpose transfers from the Centre to state using five years average during 1983-84 to 2020-21. Shrinking state's fiscal autonomy is found over successive Commissions reflected by the above-mentioned indicators.

As stated earlier, state fiscal autonomy depends on the control exercised by the Central government through federal transfers. The impact of Constitutional (UFC) and Non-Constitutional (PC and CM) transfers and own revenue of state on revenue expenditure, capital expenditure and total expenditures of state is analysed over time since the expenditures of states are function of these three variables using Linear regression model.

Standard assumption of absence of autocorrelation in Ordinary Least Square (OLS) regression may not be applicable in time series data. Durbin-Watson test was used to detect autocorrelation through the OLS regression, which indicated the presence of autocorrelation. As a remedial measure of autocorrelation Prais-Winsten Feasible Generalised Least Square (PWGFLS) regression[xi] was used to examine the impact of revenues on expenditures. PWGFLS is more efficient among the available methods of rectification of autocorrelation in case of small sample size (Park and Mitchell 1980; Judge *et al* 1985). Expenditure consists of revenue expenditure, capital expenditure and total expenditures while revenue includes transfers through constitutional and non-constitutional body transfers and own revenue of state. Impact of constitutional and non-constitutional body transfers and own revenue of state on revenue expenditures, Capital expenditures and Total expenditure were examined separately with the help of three regression equations.

Table 1: Impact of Federal Transfers on Expenditures of all States

Variable	**Revenue Expenditure**	**Capital Expenditure**	**Total Expenditure**
Constitutional Body Transfers	1.614887* (0.2592878)	0.6663745* (0.1188946)	2.256857* (0.2610156)
Non-Constitutional Body Transfers	2.376045* (0.4081675)	0.9213046* (0.206473)	3.099681* (0.3982511)
Own Revenue	0.3565184** (0.2009594)	-0.1122324 (0.0959242)	0.3108052 (0.1993931)
Constant	54754.68	27256.41	74883.13
Rho	0.3527691	0.0492882	0.4557171
	N=22 R^2 =0.9933 d=1.345459 (original) d=1.645393 (transformed)	N=22 R^2 =0.9887 d=1.639757 (original) d=1.634517 (transformed)	N=22 R^2 =0.9945 d=1.146858 (original) d= 1.6711441 (transformed)

Note: Prais-WinstenAR(1) Regression is used to examine the impact of transfers on expenditures of all States, N = Number of Observations, d = Durbin Watson Value, value in the parentheses are standard errors,* indicates significant at 1% level and** indicates significant at 10% level.

Source: https://rbi.org.in/Scripts/AnnualPublications.aspx?head=State Finances: A Study of Budgets

The results showed significant influence of both constitutional and non-constitutional body transfers on the expenditures of state. With every one-rupee increase in the devolution of constitutional transfer, the state has to bear an additional burden of 1.61, 0.66 and 2.25 rupees in the revenue expenditure, capital expenditure and total expenditure respectively. In similar manner, every one-rupee increase in the devolution of non-constitutional transfer, the state has to incur an additional expenditure of 2.37, 0.92 and 3.09 rupees in the revenue expenditure, capital expenditure and total expenditure respectively. This indicates that the degree of influence of non- constitutional transfers is relatively greater than that of the constitutional transfer in all the three equations. Further out of the three dependent variables (expenditures), revenue and total expenditures are influenced to a greater extent than the capital expenditure by both the constitutional and non-constitutional transfer (Table 1).

State has higher responsibilities and lower resource (revenue) shares relative to the Centre in India. In addition to it, while the responsibility share of state increases, the resource share decreases over time (Table 2 and 3). On an average when the resource share of state is 33.57%, revenue expenditure and total expenditure responsibilities shares are 60% and 62% respectively. The revenue expenditures and total expenditures of state per unit (rupee) of its revenue are 1.78 and 2.26 units respectively. It indicates deficiency of revenue to meet revenue expenditures (0.78 units) and total expenditures (1.26 units). Although state receives 0.38 and 0.3 unit of total federal transfers per unit of revenue expenditure and total expenditures respectively, deficiency in resources of 0.3 units and 0.96 unit to meet revenue expenditures and total expenditures respectively is observed (Table 3). When revenue share of states is increased from 32% to 36%, revenue expenditures and total expenditure shares increase from 57% to 64% and 61% to 66% respectively between 8th and 15th UFC (Table 2). Similarly, revenue expenditures and total expenditures per unit of revenue increases from 1.69 to 1.88 units and from 2.29 to

2.39 units respectively during same period. However, the total federal transfers per unit of revenue expenditures remains same (0.4 unit) while per unit of total expenditures increases marginally (0.29 to 0.32 unit) (Table 3). This leads to revenue deficiency to meet revenue expenditures of 0.29 unit and total expenditures of 1.36 unit. Uncertainty in federal transfers due to lack of constitutional fixity in its proportion and methodologies used, may further widen the deficiency in resources of the state.

Table 2: Finances of all States and Union Territories of India (in percent)

	% in Total of Centre and State			% of Total Revenue of State		
UFC	**ORS**	**REXS**	**TEXS**	**Grant**	**ST**	**Total**
8th	32.29	57.31		18.50	21.65	40.15
9th-1	32.10	55.38		15.04	23.17	38.21
9th-2	33.47	60.07	60.71	18.83	21.39	40.22
10th	33.91	59.32	61.15	14.71	22.75	37.46
11th	33.98	61.04	63.11	16.31	21.35	37.66
12th	32.76	58.40	60.64	18.28	22.69	40.96
13th	34.69	58.22	59.64	17.07	22.90	39.97
14th	33.62	66.92	67.90	18.60	26.81	45.40
15th	36.18	63.91	65.68	22.49	17.73	40.23
Average	**33.57**	**60.14**	**62.29**	**17.52**	**22.64**	**40.16**

Note: ORS = Own Revenue of State, REXS =Revenue Expenditure of State, TEXS = Total Expenditure of State and ST = Shared Taxes

Source: For ORS, grants, shared tax, combined revenue of the Centre and State https://www.rbi.org.in/Scripts/AnnualPublications.aspx?head=Handbook of Statistics on Indian Economy For revenue expenditure and total

Table 3: Resources of all States and Union Territories of India

	Per rupee of Revenue		Total Federal Transfers to State	
UFC	**PREXS**	**PTEXS**	**PREX**	**PTEX**
8th	1.69	2.29	0.40	0.29
9th-1	1.72	2.20	0.36	0.28
9th-2	1.77	2.22	0.38	0.30
10th	1.86	2.24	0.32	0.27
11th	1.93	2.45	0.31	0.25
12th	1.67	2.15	0.42	0.32
13th	1.67	2.07	0.40	0.32
14th	1.87	2.38	0.45	0.35
15th	1.88	2.38	0.40	0.32
Average	**1.78**	**2.26**	**0.38**	**0.30**

Note: PREXS = Per unit of Revenue Expenditure of State, PTEXS = Per unit of Total Expenditure of State and the other acronyms are same as Table 1.
Source: Same as Table 1.

GPT is indispensable to maintain provincial autonomy since it does not impose any condition on its utilization and allows state to enjoy its autonomy. As discussed earlier, there are contradictory views on increasing provincial autonomy during 14th UFC (Pattanaik, 2015, Reddy, 2015). Literature advocates in favour of an increase in provincial autonomy due to the increase in the 'proportion of central shared taxes in gross central taxes'. However, multiple views are floating against the argument due to shifting of the responsibility from the PC to CM[xii] and the implicit conditionality in the utilization of central shared taxes (Amarnath and Singh 2019). The examination of the 'proportion of GPT and specific purpose transfer (SPT)' of 14 major states from 11th to 15th UFC period showed narrowed-down of the degree of state autonomy (Table 4).

Table 4: Commission wise Federal Transfers of all states (in Percent)

UFC	UFCGPT	PCGPT	TGPT	UFCSPT	PCSPT	CMSPT	TSPT
11th	62.68	9.08	71.76	5.88	12.41	9.95	28.24
12th	64.68	6.49	71.17	5.35	13.65	9.83	28.83
13^{th}	66.57	5.35	71.92	4.43	13.74	9.91	28.08
14^{th}	68.21	0.00	68.21	8.49	0.00	22.96	31.45
15^{th}	57.86	0.00	57.86	13.77	0.00	28.37	42.14

Note: UFCGPT = Union Finance Commission General Purpose Transfers, PCGPT = Planning Commission General Purpose Transfers, TGPT = Total General Purpose Transfers, UFCSPT =Union Finance Commission Specific Purpose Transfers, PCSPT = Planning Commission Specific Purpose Transfers, CMSPT = Central Ministries Specific Purpose Transfers, TSPT = Total Specific Purpose Transfers.

Source: https://rbi.org.in/Scripts/AnnualPublications.aspx?head=State Finances: A Study of Budgets

The shares of the UFC, the PC and CMs in total transfer are 71.4%, 14.1% and 14.5% respectively over the successive Commissions. The share of GPT (shared tax and statutory grants) constitutes 64.77% in the total UFC transfer and 333.69% in the total PC transfer. The combined GPT of the UFC and the PC to states on an average constitutes 68.46% of total transfers.

Although the absolute amount of both total transfer (TT) (from Rs 530090 crores in 11^{th} UFC to Rs 5179201 Crores in 14^{th} UFC) and SPT (from Rs 115925 crores in 11^{th} UFC to Rs 1633760 Crores in 14^{th} UFC) has increased over the time period, the rate of increase of SPT is higher than that of TT. The proportion of total SPT is increased from 28.24% during 11^{th} UFC to 42.14% during 15^{th} UFC period. Although GPT of the UFC is increased by 5% between 11^{th} and 14^{th} UFC period, the CMSPT has registered an increase by 18.42% in the same period. As stated earlier SPT being conditional in nature, the higher rate of increase in the SPT adversely affect the degree of state autonomy (Sen and Trebesch 2004).

Section 4

4.1 Theoretical Examination

The study of evolution, structure and functions of channels of federal transfer is crucial as devolution is often influenced by channel, which in turn, affects state autonomy. Literature available on evolution, structure (Thimmaiah 2002) and functions (Srivastava and Aggarwal 1994; Rao and Sen 1996; Godbole 2001; Joshi 2003; Rao 2004; Chakraborty 2010; Dholakia 2015) of channels raises concerns regarding declining state autonomy. Thimmaiah (2002) observed manipulation in the structure of UFCs through inappropriate appointments and arbitrary slashing of tenure of authorities. He argued that structural manipulation disturbs the legitimacy of federal transfer and violates the principle of provincial autonomy.

Functions of the channels are examined in literature in terms of equity and efficiency point of view of transfers. However, in addition to manipulation of qualification, as argued by Thimmaiah (2002), and equity and efficiency aspect of transfers, the federal transfer is also influenced by political affiliation and residential origin of Chairperson and member of UFCs. This study examines the degree of state autonomy with the change in the structures and functions of channels with the help of a set of variables used in literature along with the impact of political affiliation. Theoretical observation shows that political affiliation in the structure and functioning of channels at different points of time is found to be the root cause of demeaning and shrinking state autonomy (Singh and Vasistha 2004).

4.1 Evolution

While constituting the UFC, the influence on the presidential decision by the central cabinet and intrusion of the PC and CM into the transfer system (Rao and Sen 1996) are discussed earlier. The direct or indirect association of the central government in the evolution process of devolution has every possibility to restrict state autonomy.

4.2 Structure

While the structure of the UFC is inscribed in the Indian constitution, the qualification of the chairperson and members of the UFC is prescribed in the Finance Commission Miscellaneous Act (FCMA) 1951. The loosely drafted Act favoured the party in power at the centre to appoint personals of their choice by misinterpreting the guideline prescribed for the qualification that distorts the very ethos of the UFC[xiii]. As a result, Chairpersons and members are often among those who directly or indirectly affiliated to party in power. Over a period, UFCs have been a hub of retired bureaucrats rather than experts. Even though this trend is rectified to some extent from the 13th UFC, the successive commissions are not free from the criticism of political affiliation[xiv]. The affiliation of experts to the ruling political party restricts and questions the autonomy of the UFCs (Table 5 and 6). When the time limit to implement the recommendations of the UFC is constitutionally fixed, there is hollowness relating to the tenure of its Chairperson and members both in the constitution and FCMA 1951. In addition to it, there is evidence of members being displaced, leaving for better assignment, and resigned even in between the limited tenure. Even if the replacement of members is made in case of vacancy, it is difficult for new members to understand the fiscal situation in a short period. Further, the UFC on an average function for 1.5 years, which is a short tenure to examine the fiscal position and make recommendations for revenue transfer. Short tenure of UFCs creates uncertainties in the examination of the fiscal position of the Centre and states and determination of appropriate methods for devolution. The short affiliation of chairperson and members with the UFC created a space for the government to decide in their favour.

The political affiliation of the chairperson and members of the PC as recommended by central cabinets has strong possibilities to disturb the ethics of federal transfer and destabilize the state autonomy. It is also silly to anticipate an impartial treatment in the process of fiscal transfer from CMs. The composition of channels of federal transfer is often manipulated by the party in power to get the decision in its favour, which deteriorates the degree of state autonomy.

Table 5: Detail of Chairperson of Union Finance Commission

UFC	Chairperson	Qualification	State	Party
1st (1952-57)	Shri K.C. Neogy (Politician)	Member of Central Legislative Assembly, Central Minister of Rehabilitation, Commerce, and later Finance	West Bengal	INC
2 nd (1957-62)	K. Santhanam	Law Degree, 1st Editor of Indian Express, Politician, Union Minister for Railways and Transport	Tamil Nadu	INC
3rd (1962-66)	Shri Ashok Kumar Chanda	Former Comptroller and Auditor General	NA	NA
4th (1966-69)	Dr. P.V. Rajamannar	Lawer, Former Chief Justice of Mysore & Madras High Court, Chairperson Sangeet Natak Academy, Politician	Tamil Nadu	Independent
5th (1969-74)	ShriMahavir Tyagi	Freedom Fighter and Politician	Uttar Pradesh Now (Uttarakhand)	INC
6th (1974-79)	Shri K. Brahmananda Reddi	The former chief minister of AP, union finance and home mister	AP	Congress(I)
7 th (1979-84)	Shri J.M. Shelat	Former judge of Supreme court	Maharashtra	NA
8th (1984-89)	Shri Y.B. Chavan	Former union finance and defence minister	Maharashtra	INC
9th (1989-95)	Shri N.K.P. Salve	Former minister of central govt.	MP	INC

10th (1995-2000)	K.C. Pant	Former union finance minister	UP	INC
11th (2000-05)	Professor A M Khusro	Ambassador and Vice-Chancellor AMU, Director IEG, Economist	AP	Independent
12th (2005-10)	Dr. C Rangarajan	Former Governor of RBI	Tamil Nadu	Congress
13th (2010-15)	Dr. Vijay L Kelkar	Former union finance secretary and advisor to the finance minister	Maharashtra	Congress
14th (2015-20)	Dr. Y V Reddy	Former Governor of RBI	AP	Congress
15th (2020-25)	Shri Nand Kishore Singh	Former Member of Parliament and Secretary to the Government of India, IAS	WB	BJP

Source: Reports of Various Union Finance Commissions

Table 6: Detail of Members of Union Finance Commission

UFC	Member	Qualification	Tenure (in Days)	Duty
1st			389	
	Shri V. P. Menon	NA	86	Full Time
	Shri Justice R Kausalendra Rao	NA	389	Full Time
	Dr. B K Madan	NA	389	Full Time
	Shri M V Rangachari	NA	389	Full Time
	Shri V. L Meheta	NA	312	Full Time
2nd			480	
	Shri Ujjal Singh	Former Finance Minister of Punjab	480	Full Time
	Shri Rangachari	For some time Finance Secretary Government of India	480	Part time 102 and full time 378 days
	Dr. B N Ganguli	Professor Delhi School of Economics	480	Full Time
	Shri M V Rangachari	A senior officer of Finance Ministry	150	Full Time

3rd			360	
	Shri P Govinda Menon	Former Chief Minister of Kerala State	360	Full Time
	Shri Dwijendra Nath Roy	Retired High Court Judge Allahabad	360	Full Time
	Professor M V Mathur	Head of Department of Economics and Public Administration University of Rajasthan Jaipur	360	Full Time
	Shri G R Kamat (Member Secretary)		360	Full Time
4th			450	
	Shri Mohan Lal Gautam	Former Minister of UP Government	450	Full Time
	Shri D G Karve	Deputy Governor, Reserve Bank of India	-	-
	Prof. Bhabatosh Datta	Director of Public Instruction, West Bengal	450	Full Time
	Shri P C Mathew (Member Secretary)		450	Full Time
5th			512	
	Shri P C Bhattacharyya	Former Governor of Reserve Bank of India	168	Part Time
	Shri M Shesachalapathy	Retired Judge Andhra Pradesh High Court	512	Full Time
	Dr. D T Lakdawala	Professor Department of Economics, Bombay University	512	Full Time
	Shri V L Gidwani (Member Secretary)	Former Chief Secretary Government of Gujarat	512	Full Time
	Shri G Swaminathan Part-Time	Former Additional Comptroller and Auditor General India	162	Full Time
6th			458	
	Shri Justice Syed Sadat Abul Masud	Judge Calcutta High Court	458	Full Time
	Dr. B S Mihans	Member Planning Commission	458	Part-Time
	Dr. I S Gulati	Senior Fellow Centre of Development Studies Trivandrum	458	Part-Time 183 and Full Time 275 days
	Shri G Ramachandran (Member Secretary)		458	Full Time

7th			513	
	Dr. Raj Krishna	Member Planning Commission	513	Part-Time
	Dr. C H Hanumantha Rao	Director Institute of Economic Growth Delhi	513	Part-Time
	Shri H N Ray	Finance Secretary Government of India	513	Part-Time 4 and Full time 507 days
	Shri V B Eswaran (Member Secretary)		513	Full Time
8th			609	
	Shri Justice Sabyasachi Mukherjee	Judge Calcutta High Court	188	Part-Time
	Dr. C H Hanumantha Rao	Economist, Member Planning Commission	609	Part-Time
	Shri G C Baveja	Secretary Ministry of Finance	609	Part-Time 10 and full time 599 days
	Shri A R Shirali	Deputy Comptroller and Auditor General of India	599	Full-Time
	Shri T P S Chawla	Judge Delhi High Court	237	Part-Time
9th			914	
	Shri Justice Abdus Sattar Qureshi	Judge Gujarat High Court	914	Part-Time 766 and full time 148 days
	Dr. Raja J Chelliah	Economist, Member Planning Commission	914	Part-Time
	Shri LalThanhawala	Former Chief Minister of Mizoram	577	Full Time
	Shri Mahesh Prasad (Member Secretary)		746	Full Time
	Shri S Venkitaramanan (in place of Shri Lal Thanhanawala)	Advisor to the Prime Minister	238	Full Time
	Shri K V R Nair (In place of Mahesh Prasad)		168	Full Time
	Shri R Keisingh	Chief Minister of Manipur	36	Part Time

10th			745	
	Dr. Debi Prosad Pal	Member of Parliament	745	Part-Time
	Shri B P R Vithal	Professor in Economics	745	Part-Time
	Dr. C Rangarajan		186	Part-Time
	Shri M C Gupta (Member Secretary)		586	Full Time
	Shri Manu R Shroff (in place of Dr. C Rangarajan)		256	Full Time
	Shri Arun Sinha (Member Secretary)		119	Full Time
11th			537	
	Shri N C Jain	Former Advocate General of Madhya Pradesh	537	Full Time
	Shri J C Jetly	IAS (Retired) Former Secretary to Government of India	537	Full Time
	Dr.Amaresh Bagchi	Former Director NIPFP	537	Full Time
	Shri T N Srivastava (Member Secretary)	IAS	537	Full Time
12th			780	
	Shri T R Prasad	IAS (Retired) Former Cabinet Secretary Government of India	780	Full Time
	Prof. D K Srivastava	Professor NIPFP	780	Full Time
	Shri Som Pal	Member Planning Commission	227	Part-Time
	Dr. G C Srivastava (Member Secretary)	IAS	540	Full Time
	Dr. Shankar N Acharya		179	Part-Time
13th			708	
	Dr.Indiara Rajaraman	Professor Emeritus NIPFP	708	Full Time
	Dr.Abusaleh Shariff	Chief Economist, National Council of Applied Economic Research	61	Full Time
	Prof. Atul Sarma	Former Vice-Chancellor, Rajiv Gandhi University (Formerly Arunachal University)	708	Full Time
	Shri B K Chaturvedi	Member Planning Commission	708	Part-Time
	Shri Sumit Bose (Secretary)		708	Full Time
	Dr. Sanjiv Misra (In place of Dr.Abusaleh Shariff)	Former Secretary Ministry of Finance	425	Full Time

14th			719	
	Dr.Shushama Nath	Former Union Finance Secretary	719	Full Time
	Dr. M G Rao	Director, NIPFP, New Delhi	719	Full Time
	Dr.Sudipto Mundle	Former Active Chairperson, National Statistical Commission	719	Full Time
	Prof. Abhijit Sen	Member, Planning Commission	719	Part-Time
	Shri Ajaya Narayan Jha (Secretary)		719	Full Time
15th			733	
	Shri Shrikant Das	Former Finance Secretary to Government of India	389	Full Time
	Dr. Anoop Singh	Adjunct Professor, Georgetown University, USA.	733	Full Time
	Shri Ajaya Narayan Jha	Finance Secretary, Government of India	275	Full Time
	Dr. Ashok Lahiri	Former Chief Economic Adviser, Ministry of Finance, Government of India and former Chairperson (Non- executive) Bandhan Bank	733	Part Time
	Dr. Ramesh Chand	Member, NITI Aayog	733	Part Time
	Shri Arvind Mehta (Secretary)		733	Full Time

Source: Same as Table 5.

4.3 Function

The parties in power at the Centre control the functioning by manipulating the compositions of channels. The claim of the increasing importance of provincial autonomy is not reflected in any function of channels. However, the political and economic needs of the day picturise the concept of co-operative federalism in a titanic manner. The increasing importance of co-operative federalism may be treated as a political negotiation rather than an economic compulsion. The creation of new narratives of co-operative federalism is rather a political gimmick (Table A3).

The determination of the shares of the centre and states in sharable central taxes by the UFC has been discretionary. Literature offers a conflicting set of argument on the determination of the share. The determination of state’s share is to some extent, on the basis of value judgment (Rangarajan 2005), trial and error (Sarma 1997) and gamble of five persons or majority members of the UFC (Mukhopadhayay 2003). A proper constitutional guideline relating to the determination of the share may reduce the degree of discretion. The share of the provincial government in shared taxes has increased to rectify the fiscal health of states over the successive commissions. A sharp increase noticed in the share since 14th UFC is being publicized as the rising degree of provincial autonomy. Even though shared taxes are unconditional in nature, the increase in the provincial share in shared taxes since 14th UFC is conditional. Further, not only the share is linked to some condition, but also there is an increase in the proportion of conditional grant in the total transfer. The increase in the proportion of conditional grant restricts the degree of state autonomy. The conditional transfer (share tax and grant) are guided by the political affiliation of the chairperson and members. The increasing conditional transfer increases the inequality in central transfer, which has an iniquitous effect on the state autonomy.

Criteria with their weights used for horizontal distribution of central shared taxes are influenced by the political interest of the party/ies in power at the centre. The state's share in shared taxes is distributed across states on the basis of the political equation. States ruled by the same political party or with coalition government at the Centre receive comparatively greater share than states ruled by a political party or coalition government different from the centre (Singh and Vasistha 2004). The influence of political interest gives rise to frequent changes in the methods and their weights (Rao and Sen 1996), which in turn leads to uncertainty in the share of states. Further, the selection of criteria and their weight for horizontal distribution of share is a gamble in the decision of members (Sarma 1997; Mukhopadhayay 2003). Therefore, the methods and weights are partial. It is observed that methods and weights are not in a position to fulfil the objectives for which these are meant for and are still in a stage of trial and error (Mahamallik and

Sahu 2015). Both uncertainty and undue share, due to frequent changes and use of inappropriate methods and their weights, demean the strength of state autonomy.

The use of Gap Filling Approach (GFA) by the UFC in the distribution of grant under article 275incentivizes the well-off state to create large revenue gaps through wasteful expenditure and fiscal laxity (Rao and Chelliah 1996). Because of the small size of the budget, poorer states could not avail the benefit of the GFA. Even though the grant under GFA is criticised on the ground of favouring the rich states, the same method of distribution continues over successive commissions, which has an adverse impact on the state autonomy. Further, the difference observed in the estimation of revenue gap by the UFC and provincials' government (Bhaskar 2015) gives rise to a conflicting situation in providing due share to provincial government.

The PC initially distributed state plan grants on the schematic basis [xv] which are discretionary in nature. Subsequently, Gadgil Formula (GF)[xvi], approved by National Development Council[xvii] introduced to distribute a part of state plan grant called 'normal central assistance grant' among states since 4th five years plan, which relatively promoted provincial autonomy. However, the criteria based on GF are biased towards populous and rich states[xviii]. Although initially, the adoption of the formula promoted autonomy of populous states, to some extent, due to its volume of coverage (74% normal central assistance), autonomy started shrinking with the decline in the size of normal central assistance in the later phase (Rao and Singh 2004). Further, the designs of GF also adversely affect the autonomy of state[xix]. Even though the interference in state autonomy by the PC is discontinued with its abolition, the degree of state autonomy continuously reduces with the shift of responsibility from PC to CM.

The state autonomy further deteriorated with the distribution of specific purpose grants 'on a matching basis and at a uniform rate' across states by CM. The distribution of specific purpose grants is iniquitous. The conditional concept of 'matching basis' debars the poorer state to avail its proportionate share. The state must arrange a fixed percentage of the total expenditure of the schemes to avail the grant. Often poorer states could not able to avail the full amount of grant, as they are unable to arrange the required percentage of expenditure. Arrangement of the percentage to avail the full amount grant diverts the priority of the state from state to national's objective, which hinders the achievements of its objective. The uniform rate of distribution is even though, uniform in terms of capacity to arrange, it is proportionally unequal in terms of per capita income. Further, the CM frequently encroaches upon the functioning area of states through making provisions to spend specific purpose grants[xx]. States are forced by CM to implement certain central schemes. This enforcement hampers the performance of the state's activities.

Section 5

5.1 Conclusion

Autonomy of different levels of government ensures cooperative federalism in a federal structure of governance. In India, despite the efforts of the Central government, state’s fiscal autonomy is shrinking with lowering its revenue and increasing responsibilities share through conditional transfers. The constitutional body responsible for devolution of funds is politically biased. In addition to it, the incorporation and involvement of political bodies in the decision- making process of devolution further weakens the objective of devolution. A single, permanent, impartial, semi-judicial and independent federal transfers mediating institution may be helpful for ensuring cooperative federalism, which is essential to promote state autonomy.

Endnotes:

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iii The replacement of PC by NITI Aayog reduces the problem of multiple channels in the transfer system since the latter is not assigned with the revenue transfer task. The removal of the distinction between plan and non-plan expenditures gives full freedom to fifteenth UFC to study the entire revenue expenditures while disbursement of grants to states. The introduction of GST provides a common tax base for both centre and state.

iv The transfer of fund disbursement power from PC to CM increases heteronomy since the latter distributes the transfers discretionarily. The terms of reference of 15th UFC includes, (i)consideration of fiscal space of the centre when tax devolution to state enhanced by the 15th UFC asked the reduce the Tax devolution indirectly. consideration of fiscal space of the centre with the enhancement of tax devolution to states by 15th UFC arouses to reduce tax devolution to states indirectly; (ii) the imposition of conditions on state borrowing under article 293 (3) of the constitution, while state's borrowing is limited to less than the target of FRBM act (3% of GSDP) synchronizes the fiscal space of state; (iii) the control on the use of populist measures by the state with the incentivization of central flagship programmes is against the federal spirit, and (iv) assignment of monitoring duties to the UFC on the performance of states.

v The division of legislative, administrative and financial power between centre and state is listed in 7th schedule of Indian constitution under union, state and concurrent list. While central government has exclusive power in case of union lists, state government has exclusive power under state list. Both central and state governments exercise power on the areas under the concurrent list. However, in case of misunderstanding between centre and state the central supremacy prevails.

vi Both plan and non-plan transfers were under the control of UFC since inception. However, after the 3rd UFC period, the scope of the UFC had restricted to non-plan account only and the task of plan account assigned to PC and CM. Initially, different methods with different weights were used for inter-se distribution of shared taxes up to 9th UFC. Later on, the same methods with the same weights were used to distribute shared taxes. Over time, the tax devolutions through the UFC declined due to the negligence on mobilization of shared tax. In response to that, the 80th constitutional amendment Act 2000 brought all central taxes under share tax category. Similarly, during the 11th and 12th UFC, incentives linked restructuring programmes namely the Medium-Term Fiscal Restructuring Programme (MTFRP) during 2000-01 to 2004-05 and Fiscal Responsibility Budget Management Act (FRBMA) during 2004-05 to 2009-10 were introduced to reduce (fiscal, primary and revenue) deficits of states.

vii In order to promote the state autonomy, 14th and 15th UFC shifted its priority from ‘grant to tax’. The tax devolution increased from 32% during 13th to 42% of gross central taxes during 14th and 15th UFC.

viii According to the Nationalistic Dual Federalism, powers are exclusively divided between the levels of government who exercise their full autonomy with respect to their corresponding powers. The federal government does not delegate it’s responsibility to sub-national government considering state officials as parochial, deceitful and unequal policymakers (Roderick 1998). Nowadays state and federal governments have overlapping areas of functions and they implement state-federal regulatory services cooperatively.

ix When the power of resources of the central and state government in India is listed in union and state list respectively, the expenditure responsibilities are enumerated in the union, state and concurrent list of the seventh schedule of the constitution. The central government has exclusive power over taxation and expenditure responsibilities assigned under the union list. Provincial supremacy is observed in the case of subjects listed in the state list.

x Article 263 enables to constitute Inter-State Council to discuss issues relating to the common area of Centre and state. The central government can make laws on state subject if a resolution is passed with two-third majority in inter-state council as per article 249 of the constitution. Further, there has been 'All India Services' under article 312 and establishment of five zonal councils under 'State Re-organization Act, 1956' to coordinate states.

xi Further, the standardization of variable is already inbuilt in this method (Judge *et al* 1985).

xii Shifting of responsibility from a less to a more political body, instead of promoting provincial autonomy, creates possibilities for more central control.

xiii As per the clause III of the 1951 Act, the qualification of the chairperson should be wide experience in public affairs and that of members should be equivalent to the qualifications of the judge of high court or special knowledge of finance and accounts of government or experience in financial matters and public administration or special knowledge of economics (Vyasulu 1996).

xiv All Chairpersons and members are directly or indirectly affiliated to the ruling political party at the centre (Thimmaiah 2002).

xv State plan schemes consist of normal central assistance, additional central assistance for externally aided projects, additional central assistance for other projects, special central assistance, grants under article 275 (1), special plan loans and other special assistance (Rao and Sen 1996). During the first three Five Year Plans and three Annual Plans, state plan grant was distributed based on the above schemes.

xvi According to the original version of GF, the special category states are given 30 per cent of the total pool of central assistance. The share is distributed between grants and loans in the proportion of 90:10 ratio. Rest 70% of the central assistance is distributed across the remaining 14 major states between grants and loans in the proportion of 30:70 ratio based on different criteria used at different time (Table A2).

xvii The NDC is composed of Prime Minister as the chairperson and central cabinet ministers, chief ministers of states and members of PC as members.

xviii The significant weights assigned to population provides more transfers to populated state. As a result, rich state with more population gets more shares compared to the poor state with a low population. It is observed that rich states like Gujarat, Maharashtra, AP, Tamil Nadu and WB have on an average higher population than poorer states like Odisha and Rajasthan. The inverse income method gives more shares to a richer state compared to poorer state (Srivastava and Aggarwal, 1994). Similarly, fiscal discipline can be maintained easily by a non-poor state than a poor state. In total, all criteria used in the GF are in favour of rich state.

xix The fixation of grants-loan ratio to 30:70 in the GF persuades states to go for loans to avail the benefits of grant. In order to avail 0.4 units of grants, states have to go for one unit of loan. The fixation of grants at 30% based on a wrong assumption of plan revenue expenditures of states increases revenue deficits due to excess of revenue account plan expenditures on social sectors (55%) over grant (Rao 2000; Kannan *et al* 2004). When the increasing revenue deficit is met out of the loan, it is difficult for any state to come out of the debt trap because the investment of the loan amount on revenue expenditure is not able to generate income to recover the debt. Further, without considering the repayment capacity of the state, making it mandatory to avail 70% loans, which is against the will of the state, deteriorates the fiscal health.

xx For example, the schemes like cattle development, Krishi Vikash Yojana etc. for which the CM give grants belong to the area of state list.

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Appendices:

Appendix A1: Central Transfers to all States and Union Territories

UFC	%UFC	%PC	%CM
11th	76.9	15.6	7.5
12th	74.3	17.3	8.4
13th	76.4	17.5	6.1
14th	80.0	0.0	20.0

Note: UFC = Union Finance Commission, PC = Planning Commission and CM = Central Ministries
Source: www.rbi.org.in

Appendix A2: Gadgil Formula for the Non-Special Category States (in Percent)

Year	POP	DM	IIM	TE	IP	SP	FD	NO
1969-80	60	-	10	10	10	10	-	-
1980-91	60	-	20	10	-	10	-	-
1991-2014	60	5	20	2.5	-	7.5	2.5	2.5

Note: POP = Population, IIM = Inverse Income Method, TE = Tax Effort, IP = Irrigation and Power Projects, SP = Special Problems, FD = Fiscal Discipline, NO= National Objectives and DM = Distance Method.
Source: Deepali Pant Joshi 2003, p 2375

Appendix A3: Cooperative Federalism and Functions of the Channels of Transfers

	For Cooperative Federalism			Against Cooperative Federalism			
UFC	Formulae	Taxation	Others	Intrusion	Directives	Incentives	Formulae
1st (1952-57)		55% of Income Tax (IT) (Article 270, Entry 82, list 1, Seventh Schedule) 40% of Union Excise Duties (UED) (Article 272, Entry 84, list 1, Seventh Schedule) (Tobacco, Matches and Vegetables)		PC and CM under article 282 (Rao and Sen 1996)			Use of value judgment in the determination of the vertical distribution of central shared taxes, Distribution of State Plan Transfers (SPT) on the schematic basis by PC (Rao and Sen 1996) Assignment of 20% weight to contribution in the inter-se distribution of Income-tax by UFC Gap Filling Approach (GFA),
2nd (1957-62)	Reduction of weight on contributi on in the inter-se distribu-tion of IT from 20% to 10%	Increased state's share in IT to 60% and the range of commodities from 3 to 8 in UED.	Grants under article 275 considering the requirements of the second five-year plan				GFA Distribution of SPT schematically by PC
3rd (1962-66)	Increase in weight of contribu-tion in the inter-se distribu-tion of IT from 10% to 20%	Increased state share in IT to 66.6% and range of commodities from 8 to 35 in UED	Grants under article 275 considering the requirements of the 3rd Five Year Plan				GFA Distribution of SPT schematically by PC

4th (1966-69)		Increased state share in IT to 75% and sharing of all UED between centre and states in the ratio of 80:20			Grants under Article 275 considering the revenue generation for an average period and non-plan expenditures, Creation of fund out of estate duty for repayment of central loans		Confining the role of UFC to non-plan account (Rao and Sen 1996) GFA Distribution of 30% of SPT schematically by PC
5th (1969-74)	Gadgil formula to distribute normal central assistance (Rao and Sen 1996)		Constitution of National Develop-ment Council		Study the problems of unauthorized overdraft of states consideration of the resource requirement of the central government while giving recommenda-tions	Grants under article 275 considering the revenue generation for an average period, non-plan expendi-tures and fiscal discipline	GFA Distribution of 30% of SPT schematically by PC
6th (1974-79)		Increased state share in IT to 80%	Grants under article 275 considering the back-wardness of the state		consideration of the resource requirement of central government and non-plan expenditures while giving recommenda-tions		GFA Distribution of 30% of SPT schematically by PC
7th (1979-84)		Increased state's share in IT from 80 to 85% and in UED from 20 to 40%.			consideration of the resource requirement of state for non-plan expenditures keeping in view national policies and priority while giving recommenda-tions	Use of population figure of 1971 Relief expendi-tures to be made to states	GFA Distribution of 30% of SPT schematically by PC

8th (1984-89)		Increased state's share in UED from 40 to 45%.			consideration of the resource requirement of state for non-plan expenditures keeping in view national policies and priority while giving recommenda-tions		GFA Distribution of 30% of SPT schematically by PC
9th (1990-95)			Using of normative approach in assessing receipts and expenditures and generation of revenue surpluses for capital investment			Incentive for better resource mobiliza-tion, fiscal discipline and linking of expendi-tures and revenue raising decision	GFA Distribution of 70% of SPT schematically by PC
10th (1995-2000)	Use of same formula with the same weightage in the horizontal distribu-tion of shared taxes	Increased state's share in UED from 45 to 47.5%.			Consideration of tax effort of states while recommend-ing		GFA Distribution of 70% of SPT schematically by PC
11th (2000-05)		Shared tax comprised 28% of all taxes listed in the union list except taxes under article 268 and 269 and cess	Considera-tion of recommenda tions of the state finance commission		Suggestion of restructuring of public finance measure for state Consideration of both plan and non-plan expenditure requirements of the state	MTFRP incentive for better fiscal manage-ment	GFA Distribution of 70% of SPT schematically by PC

12th (2005-10)		Shared Tax comprised 30.5% of all taxes listed in the union list except taxes under article 268 and 269 and cess			FRBM Act		GFA Distribution of 70% of SPT schematically by PC
13th (2010-15)		Shared Tax comprised 32% of all taxes listed in the union list except taxes under article 268 and 269 and cess	Considera-tion of tax effort of both central and state government, quality of public expendi-tures, ecology, environment and climate change		Consideration of expenditure requirements of centre on central and state plan schemes and non-plan expenditures		GFA Distribution of 70% of SPT schematically by PC
14th (2015-20)		Shared Tax comprised 42% of all taxes listed in the union list except taxes under article 268 and 269 and cess	Considera-tion of tax effort of both central and state government, quality of public expendi-tures, ecology, environment and climate change and public utility services of state and an equal share of subsidies between centre and state		Withdrawal of consideration of expenditure requirements of centre on central and state plan schemes and non-plan expenditures		GFA Approach Assignment of distribution power of SPT to CM
15th (2020-25)	Use of 2011 census population figure				Consideration of conditions to be imposed on the state for providing consent under article 293(3)	Perfor-mance based incentive for states on the basis of achieve-ment of flagship schemes of government of India	Consideration for GFA Assignment of distribution power of SPT to CM

Source: Same as Table 5.

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