

THE FINANCE COMMISSION

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An inherent gap in the revenue requirements and resources of federating units is a striking feature of many well-established federations. This gap, except in war-time, has been growing and stresses the need for balancing factors. In all federations balancing factors have thus to play a role of paramount importance in bridging the fiscal gap. The Indian Constitution makes provision for the appointment of a Finance Commission¹ generally after every five years on the basis of whose recommendations resources are transferred from the Centre to the States.

The Indian Finance Commission is one of the most important Commissions provided in the Constitution, but unfortunately it continues to be a temporary body. It is unique as it has no parallel in federal constitutions, except the Australian Commonwealth Grants Commission that examines the pleas of different states for assistance. In some matters, the Indian Finance Commission is superior to the Australian Commonwealth Grants Commission. For instance, the Indian Finance Commission can change the percentages of the taxes which are shared between the Centre and the States whereas the Australian Commonwealth Grants Commission cannot. The Finance Commission in India has also helped in ensuring fiscal integration between the Centre and the States as also between the States themselves since it has to examine the pleas of the Centre as also of the different States on an impartial basis. The Finance Commission has, thus, played the role of a judge or an impartial body. The following duties of the Finance Commission in India are enumerated in Article 280(3) of the Constitution:

¹ The First Finance Commission was appointed on November 22, 1951 and it submitted its final Report on December 31, 1952. The Second Finance Commission was appointed on June 1, 1956, and it submitted its Report on September 30, 1957. The Third Finance Commission was appointed on December 2, 1960 and it submitted its Report on December 14, 1961. The Fourth Finance Commission was appointed on May 5, 1964 and it submitted its report on August 12, 1965. The Fifth Finance Commission which was appointed on March 15, 1968 submitted its Report on July 31, 1969.