

Finance Commission and Federal Transfers in India

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The financial relations between the Government of India and the States is a subject of great topical interest. It lends itself to being easily manipulated by political charlatans arguing motivatedly in favour of either greater or smaller degree of centralisation in the ordering of these relations. Any objective analysis of the issues involved in Indian federal finance is undoubtedly of great value, particularly so in present day conditions. Dr. Raja Chelliah and Associates deserve to be complimented for a fairly thoroughgoing review of certain aspects of inter-governmental financial relations in India in their 'Trends and Issues in Indian Federal Finance'.

The book makes it clear that it attempts "to evolve a comprehensive approach to central assistance on the revenue account" (p. 72). A study with such a focus is bound to be concerned mainly with assessment in depth of the functioning of the Finance Commissions, which, as the Seventh Finance Commission points out, deal with "aspects broadly (determining) the levels of non-plan revenue expenditure." (p. 7.) There is no gain-saying the fact that the working of the Finance Commission in India is subjected to an elaborate scrutiny in this book. Against the backdrop of a useful summary of theoretical issues involved in federal finance, we get here a wide-ranging investigation into the terms of reference of the Finance Commissions as also the reasoning behind their recommendations. For this purpose the study reviews at length the approach of the Finance Commissions, brings together statistical data to delineate trends in fiscal centralisation in the Indian Union and reports findings of empirical exercises designed to highlight the nature of the impact of federal transfers in India on (a) tax effort by states, (b) per capita income disparities among states, (c) distribution of states' per capita revenues, and (d) disparities in public services provided by the different states. In the light of conclusions drawn from this analysis the study makes suggestions for reform. There is further a separate chapter discussing the recommendations of the Seventh Finance Commission. In the appendices towards the end of the book we get a brief