

FEDERAL FISCAL TRANSFERS IN INDIA (Criteria and their application)

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THERE are three main approaches to federal fiscal transfers based on—equity, allocative efficiency and growth and stability. The 'equity' objective in general has been endorsed by a large number of federal experts. This objective assumes more importance in a developing federation which has to face the problems of competing claims by differentially developed states and various other problems. If on one hand, removal of regional disparities is crucial, on the other hand efficient and extensive resource-mobilisation is inevitable. It is essential to make the states tap their own resources efficiently and use them economically. Thus in a scheme of federal fiscal transfers in a developing federation, due allowance to the objective of equity along with 'incentive' to self-help efforts becomes desirable.

In India both the objectives viz., equity in terms of reducing regional disparities in the levels of development and fiscal potential and incentives to tax efforts of the states have been theoretically accepted by the various Finance Commissions and the Planning Commission. The policy framework evolved in this direction with a view to minimising, if possible eliminating regional disparities existing in the country, largely consisted in utilising the statutory transfers in the form of shared taxes/duties and grants-in-aid through the Finance Commission and plan grants and loans provided by the Planning Commission. The present paper, however, is restricted to the evaluation of the approaches of the various Finance Commissions.

Fiscal transfers from the Centre have been recognised by the various Finance Commissions as a means to supplement the revenue of the State Governments. They have endeavoured to use both tax-devolution and grants-in-aid to bridge the resource gap at the state level and to achieve the objective of equalisation. The First Finance Commission laid down some guidelines for federal fiscal transfer and specified that the transfer scheme, "should attempt to lessen inequalities between the states".¹ This objective and the guidelines suggested were duly endorsed by all the succeeding five Finance Commis-

¹ Government of India, Report of the Finance Commission, 1952, p. 8.