

## Use of Dated Population Figures in Centre-State Transfers: Recommendations of Thirteenth and Fourteenth Finance Commissions

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*Finance Commissions (FCs), since eight FCs, have been using 1971 population figures of states, instead of current ones, in the dispensation of central funds to support the cause of population control. This policy has been regressive and is at odd with the core objective of FC transfers as crucial resources are withheld mainly from least developed Empowered Action Group (EAG) states. Contemporary demographic realities warrant reforms on this front. This paper re-estimates the inter se shares of states for the Thirteenth and Fourteenth FC award periods to find the impact of dated population figures on such transfers. The presidential order for fourteenth FC, unlike previous ones, permitted a change in this policy. Fourteenth FC introduced current population figures only as a part of population as an independent factor along with old figures. It is a symbolic move heralding a departure from the status quo sans any major impact.*

### I Introduction

Population factor is considered in most formula-based inter-governmental transfers across countries. Typical inter-governmental transfer formula is supposed to have indicator(s) representing mainly three dimensions- need, capacity and effort. Population is a broad based indicator of the need of a state. Its inclusion ensures equal per capita transfers. Population, as an independent factor, received very high weight up to the Seventh FC in the dispensation of both income tax and union excise duties. Subsequently, though its relative weight as an independent factor has reduced, it appears as a scale factor<sup>1</sup> along with most of the other factors. In fact, it is observed across all FCs that population as a scale factor has larger impact on the final shares of states. Hence, relative significance of population factor persists (*see* Table A1). Apart from FC transfers, Gadgil-Mukherjee formula used for disbursement of Normal Central Assistance (NCA), in case of plan funds, considered 1971 population figures. Population as an independent factor in case of NCA as per Twelfth Plan carried a

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<sup>1</sup> Studies use different nomenclatures. Population factor has a general scaling effect. Hence, some studies refer to population used as weights or multipliers as 'progressive dispensation criterion (*see* Srivastava and Aggarwala 1995).