Journal of Accounting and Finance
Volume 36, No. 1 · October 2021-March 2022

The Impact of Finance Commission's Fiscal Transfers to Southern States

Nandini Kumar

Abstract

The present study attempts to analyze the Finance Commission's fiscal transfers to the Southern States in India. In this context the study aims to analyze the various issues of Finance Commissions Fiscal transfers to southern states in India viz. Tamil Nadu, Karnataka, Kerala and Andhra Pradesh. This study highlights the emerging controversies among states and the financial transfer to the states. The need for the study is important, especially in the context of present controversies regarding financial transfer between the states will also be examined in the present study. The Government act of 1935 divides the functions and financial powers of the Government into Central and States spheres together with the concurrent areas. The Finance Commission is a salient feature of the India's constitution. It is an advisory body which deals with the transfer of resources from the center to the states. The Finance Commission is established by the President of India for every five years to review the finances of the Union and States and recommend devolution of taxes and grants-in-aid of revenues to the states. Income tax sharing between the Centre and the states underwent a fundamental transformation with the Constitution in 2000. The net process of income tax is shared with States on a mandatory basis. The commission made recommendations regarding the combined share of states out of the "divisible pool" of the net income tax proceeds and the proportionate share of each indivisible state within the combined share of all States. The President of India has the discretion to refer the question of sharing of excise duties with the states to the commission. In effect, this matter was always included in its terms of references. Here, again the Finance Commission recommended the sharing of net proceeds of union excise duties between the Centre and States and the distribution of their collective share between individual States.

Keywords: *Trends in Fiscal Transfers, Federal Finance in India, Finance Commission, Data Analysis of Southern States*

Introduction

The Finance Commission of India came into existence in 1951. The Finance Commission is established under article 280 of the Indian Constitution by the President of India. The Indian Finance Commission Act was passed to give a structured format to the Finance Commission

Nandini Kumar, Research Scholar, Department of Finance and Accounting, Bharthiar University, Coimbatore, India

of India as per the world structure of the modern Act was laid in the early 1920's. The Finance Commission is formed to define the financial relations between the centre and the state. The Finance Commission Act of 1951 talks about the qualification, appointment, term, eligibility, disqualification and powers etc. The Finance Commission of India and also discuss about the constitution of Finance Commission. The four southern states of India are Andhra Pradesh, Karnataka, Tamil Nadu and Kerala. All the four states are classified as general category middle income states. Taken together, these four states contribute more than a quarter of output in India. Their share in the sum of GSDPs of all the states has also been large and growing. Even while their tax bases have been increasing and correspondingly their contribution to the base for the central taxes has also been growing, their share in the tax devolution and in the grants given by the central government has been coming down. This has significantly affected their capacity to provide services at an adequate level in terms of quantity and quality, particularly in relation to public goods like law and order and justice and merit goods like health and education.Vertical fiscal transfers arise when there is a simultaneous transfers between means and responsibilities, in two different tiers of government. In one tier the means will exceed the needs of the Finance Commissions. These transfers include state's share in central taxes and statutory grants and grants for natural calamities. Vertical transfers are given in equal percapita amount to all states including the highest fiscal capacity states. Horizontal fiscal transfers relates to the same level of governments. This refers to the differences in the fiscal capacity of the states. Horizontal fiscal transfers can be improved by the process of redistribution of resources. Aggregate fiscal transfer exists if the surplus of one tier cannot eliminate the deficit of the other. It arises to the fiscal needs. This analysis has been done for the periods covered by the Ninth, Tenth, Eleventh and Twelfth Finance Commissions both in aggregate and state specific needs. The Finance Commission is asked by the President to estimate the revenue needs of states and recommends grants-in-aid of their revenues. It also lays down the principles which should govern three grants from the Centre to the States. Therefore, all the States need not receive their grants and different states may receive different level of amounts. The Finance Commission can also recommend special purpose grants to any state which may be included in its terms of reference. This type of grants may include grants for helping the local bodies, grants for relief in the case of natural calamities, grants for upgradation of state activities and so on. States get grants from the Finance Commission, Planning Commission and other Central Ministries. The Finance Commission grants are for meeting the assessed revenue gap of the states as also for various other purposes including for special needs and upgradation of standards. From a methodological viewpoint, the determination of the revenue-gap grants is the most important. It is the determination of these grants that necessitates the Finance Commission to undertake a comprehensive examination of both central and state finances. It is, in this context that the Finance Commissions have often been accused of following a gap-filling approach, which leads to significant adverse incentives.

Literature Review

Srivastava (2009) in his study, "Finance Commission and the Southern States: Overview of Issues." This paper has discussed three basic features of the southern states, share of their GSDP in all - state GSDP, share of the population in all state population and their average percapita GSDP relative to the and their average percapita GSDP. Sections discusses issues of vertical and horizontal transfers highlighting how over the long run, the share of the southern states in the transfers has recorded. Section 3 discusses issues arising from the implementation of GST, particularly for the southern states. Section 4 highlights the problems of intra-state imbalances focusing on Tamil Nadu. Section 5 looks at some special problems of the southern states, particularly those arising from the large coastal areas that they need to manage. Before analyzing the issue of fiscal transfers, it is useful to look at three basic features of four southern states, Tamil Nadu, Karnataka, Andhra Pradesh and Kerala and their contribution in the economic activities of the country, their share of population and their relative position in terms of percapita incomes.

George and Krishnakumar, (2009) in their study, "Kerala Development Experience. Its implications for finance commissions." The recent finance commissions in the specific context of the ongoing work of the thirteenth finance commission is currently engaged in determining the quantum and modes of financial transfers from the center to the different states for the five year period beginning from 2010-11. It is the transfers which are being decided now by the present commission that are going to determine in the medium-term size and the shape of the budgets and the plans of not only the state government but also of its local bodies. Our review of state's finances shows that finance commission transfers account for about three fifths of the total revenue transfers from the center to the state and about one fifth of the state's total revenue. In the approach of the earlier commissions which resulted in progressive decrease in the flow of central funds to Kerala, thus aggravating its fiscal crisis.

Natarajan (2013) in his study, "Study on the Grants-in-aid Revenue of the Government of Tamil Nadu." The States expenditure incurred by public authorities like central, state and local governments to satisfy the collective social wants of the people is known as public expenditure. Throughout the 19th century, most governments followed laissez faire economic policies and their functions were only restricted to defending aggression and maintaining law and order the size of public expenditure was very small. But now the expenditure of governments all over the world has significantly increased.

Valliammai (2013) in her study, "Budget and Budgetary procedure." Budget without doubt is the most important economic event not only outlines major economic initiatives of government for the next year but also comes out with the rates for both indirect taxes as well as direct taxes. It is not only important for corporate but for individuals from all sections of the society. Budget is the systematic allocation of one's sources or income to the various requirements which are nothing but expenses. Budgeting can have different connotation for different people it is a process of keeping the monthly savings aside and then utilizing the left over amount for every day expenses.

Vetrivel (2013) in his study, "Evaluation of Indian Union Budget 2013-2014 an Overview." A budget is a financial plan and a list of all planned expenses and revenues. It is a plan for saving, borrowing and spending. It is an important concept in Macro Economics which uses a budget line to illustrate the tradeoffs between two or mere goods. In other terms, a budget is an organizational plan stated in monetary terms. The union budget of India also called the general India budget is presented each year on the last working day of February. The budget is presented by the finance minister of India in parliament. Budget is most economic event in the country which outlines all the economic planning of the government of India for the next year. It is not only important for corporate but for individuates from all sections of the society

Bhuvaneswari and Jayachandran (2011) in their analysis, "The Finance Commission and Improving Fiscal Outcomes." Concern with the quality of public expenditure in India and its impact on social outcomes probably began in 2005 with the budget speech of Finance Ministers. He introduced a machinery to measure major development outcomes that years working with the planning commission. It has been suggested in the discussion here that the finance commission has not chosen the best possible route to meant its mandate of recommending ways to make public expenditure more outcomes oriented. However, elsewhere in its report, it has a number of important suggestions that should help achieve output. Oriental outlays, though these do not add up to a comprehensive reform package for output-oriented expenditure reform. The finance commission still deserves out admiration and thanks for what it has achieved. Perhaps the major problem lies in terms of reference, which ask a human agency to accomplish a superhuman task in an impossibly short time frame.

Govinda Rao (2000) in his study, "Changing Contours in Federal Fiscal Arrangements in India" India is the largest democratic federal polity inhabited by a billion people spread over 28 states and 7 centrally administered territories. Separate legislative, executive and judicial arms of government are constituted at both central and state levels. The upper house or Rajya Sabha in the parliament is the council of states. The seventh schedule to the constitution specifies the legislative domains of the central and state governments in terms of union state concurrent lists. The constitution also requires the president of India to appoint a finance commission every five years to review the finances of the center and the states and recommend devolution of taxes and grant in aid for the ensuring five years. Historical factors have played an important role in the adoption of federal constitution with strong unitary features in India.

Qates (1999) in his study, "An Essay on Fiscal Federalism." Intergovernmental grants constitute a distinctive and important policy instrument in fiscal federalism that can serve a number of different functions. The literature emphasizes three potential roles for such grants, the internalization of spillover benefits to other jurisdictions.

Thimmaiah (1987), in his study "Terms of reference of ninth finance commission this point of view is based on a misunderstanding of the performance of past commissions." The constitutional provision can only provide for a statutory commission should be constituted and indicate guidelines for its functioning. These matters are normally left to the legislature parliament to determine through an appropriate legislation.

Objectives of the Study

- To study the trends of the Finance Commission Fiscal Transfers in India
- To analyze the Finance Commission Fiscal transfer to southern states
- To analyze the grants-in-aid revenue of southern states
- To study the central share of taxes and duties to the southern states

Methodology

The present study attempts to analyze the Finance Commission's fiscal transfers to the Southern States in India. In this context the study aims to analyze the various issues of Finance

Commissions Fiscal transfers to southern states in India viz. Tamil Nadu, Karnataka, Kerala and Andhra Pradesh. This study highlights the emerging controversies among states and the financial transfer to the states. The need for the study is important, especially in the context of present controversies regarding financial transfer between the states will also be examined in the present study. The present study mainly depends on secondary data relating to the Finance Commission fiscal transfers such as, shares of sharable taxes and duties and grants-in-aid from the center to states etc. collected from the reports of the various Finance Commissions and the budgetary documents of the Government of India. The collected data have been tabulated, classified and analyzed; suitable diagrams have also been provided for data illustration. Statistical tools like percentage, correlation, regression, standard deviation, time series analysis, simple growth rate and mean average are used in the study.

Results

The finances of the central and state governments went into revenue deficit on permanent basis since 1979-80 for the centre, 1987-88 for the states considered together, and 1982-83 for their joint account. These accounts have remained in such deficit until now. The states appear to be emerging into revenue account surplus once again. As its peak, the combined revenue deficit was close to 6.9 per cent of GDP in 2001-02. After that there has been an improvement. Large revenue deficits have made the task of achieving vertical balance through fiscal transfers quite difficult. There is a steady improvement in the share of transfers to the states as percentage of centre's gross revenue receipts. From the level of about 25 per cent under the Third Finance Commission, this share increased to 39.1 per cent for the Ninth Finance Commission period and may turn out to be above 40 per cent for the Twelfth Finance Commission period. The share of centre and states in the combined revenue receipts before transfers and after transfers get completely reversed. Before transfers, centre's share has been in the range of 61-66 per cent from the Second Finance Commission period onwards. However, after transfers, centre's share in combined receipts has fallen to 36.37 per cent. State's share, on the other hand, has increased from 56 to 64 per cent between the Seventh and the Twelfth Finance Commission periods. The relative shares of the centre to the states in the combined revenue expenditures however, have remained stable throughout the period covered by the First to Twelfth Finance Commission periods. States' share in the combined revenue expenditures throughout this period has been on average about 57 per cent whereas that of centre has been at 43 per cent with small variations. A falling share in revenue receipts after transfers for the centre while maintaining a stable share in revenue and total expenditure can only imply that centre's share in borrowing has increased over these years

Measuring Forecast Accuracy

Finance Commissions in India are required to make their recommendations for a period of five years based on information about central and state fiscal aggregates. Between the last year of the recommendation period and the last year for which accounts data are available, the gap could be seven to eight years. The Finance Commissions have to make forecasts for various fiscal aggregates and then determine grants that are specified in absolute amounts. We have looked at the nature of forecast error in one crore determinant of grants, viz., forecast of central revenues. In turns out that among the four recent Finance Commission, viz., Ninth, Tenth, Eleventh and Twelfth have underestimated the central tax revenues.

Dependence of States on Central Transfers

This analysis is done with respect to the revenue receipts of the states as also their revenue expenditures. We have looked at the pattern of dependence both in terms of the aggregate account of the states and for individual states. States' dependence of the share of central taxes has changed over time. These changes are partly due to the recommendation of the Finance Commissions as to the share that should be given to the states from centre's shareable taxes as well as on changes in relevant macro variables like the ratios of the centre's gross tax revenues and state's own revenue receipts to GDP. The following observations can be made.

- Third Finance Commission: Relative to the average for the preceding Commission period, states' dependence on central taxes increased inspite of a fall in the share of central taxes in gross central tax revenue. This is because of a large positive role played by an increase in centre's tax-GDP ratio.
- Sixth Finance Commission: There is a fall in the states' share in central taxes relative to states' revenue receipts. This is almost entirely due to a fall in the share of central taxes in gross central tax revenues.
- Eighth and Eleventh Finance Commissions: There is a fall in states' dependence on share in central taxes relative to average for preceding commission period. This is mainly due to a fall in the share of central taxes in gross central tax revenues.
- Ninth and Tenth Finance Commissions: There is a fall in states' dependence on the share in central taxes relative to the average for the preceding Commission period. This is mainly due to a fall in center's tax-GDP ratio. In the case of the Tenth Finance Commission period there was a fall in states' revenue effort.

Own Tax Revenue

The trend growth rates of own tax revenues were estimated over the period 1993-94 to 2002-2003.These were applied to 2002-03 levels and TGR based estimates for 2004-05 were derived. From these, the tax GSDP ratios were calculated and compared with the corresponding group averages for special and general group categories. For all states, where the tax-GSDP ratio was below the category-average, it was adjusted upwards by a margin of 30 per cent of the distance from the respective group average and own tax revenues with respect to this normative adjustment were calculated. For the projection period, the prescriptive buoyancy was used. A distinction was made taking into account the average OTR-GSDP ratio achieved in 2002-03, improvement in OTR-GSDP ratio in 2000-03 over 1993-96, and average per capita GSDP over 1999-02. States showing higher tax-GSDP ratio or higher improvement in tax-GSDP ratio were asked to achieve a lower prescriptive buoyancy. The nominal growth rates were kept at 11 per cent, 12 per cent and 12.8 per cent. The prescriptive buoyancies were kept at 1.20, 1.25, 1.30 and 1.35.

Non-Tax Revenues

For interest receipts, a 7 per cent return on outstanding loans and advances, and for dividends, a 5 per cent return on equity investment was provided for in a graduated manner. For irrigation receipts, cost recovery rates were provided in a graduated manner to cover 50 to 90 per cent of maintenance expenditure on utilized potential or major, medium and minor irrigation projects.

For other non-tax revenues, 12.5 per cent of annual rate of growth for general services and 25 per cent for social and economic services were applied.

Aggregate Share of States in Central Taxes:

First to Twelfth Finance Commissions Comparing changes in the shares of individual states for the entire period from the First to the Twelfth Finance Commissions is difficult because of the shift from the earlier practice of sharing the revenues of individual taxes to the present practice of sharing all central tax revenues subject to some adjustments. In order to make such a comparison we need to settle on a common denominator and rework share of states with respect to this. For this purpose it is idle to take center's gross tax revenues as the common denominator. Since the actual shares whether with respect to individual taxes or a divisible over pool of central taxes are given as shares and not absolute amounts, we need to rework the absolute amounts and then determine the shares as percentage of center's gross revenue tax receipts. Here, there are two options, one, we may take the estimated absolute amounts of the state's tax shares as provided by the Finance Commissions themselves. These would amount to a weighted share of the shared taxes as envisaged in the Commissions scheme of distribution. The second option is to take the actual share of states in the central taxes in absolute amounts. There would still continue to be some difficulty in comparison over time because of re-organisation of states from time to time. The shares in central taxes from the First to the Twelfth Finance Commission based on the estimated absolute amounts given by the Commissions themselves. Looking at individual shares it will be observed that there are some stable patterns and some volatile patterns. The share of the general category states which used to be as high as 97.3 per cent came down to about 86.5 per cent in the award period of the Tenth Finance Commission period. Correspondingly, the share of special category states has also changed. It was at the highest for the Tenth Finance Commission period 13.5 per cent but fell to a range of 7-8 per cent during the Eleventh and Twelfth Finance Commission periods. The larger shares for the Eighth, Ninth and Tenth Finance Commission periods out of tax devolution were because of the practice of earmarking a certain percentage of the states' share of the Union Excise duties for distribution amongst states in proportion of 'assessed' deficits.

Discussion

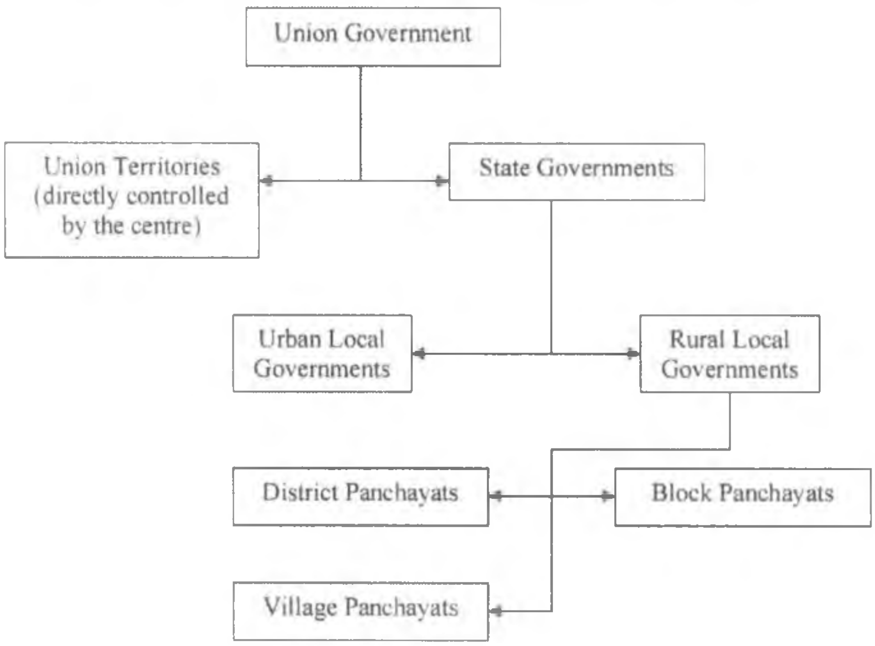
Federal Finance in India: The Finance Commission is constituted by the President of India every five years under Article 280 of the Indian Constitution. The Finance Commission is mandated by the Indian constitution to provide recommendations on the sharing of union tax collections between the Central Government and the Indian State Governments the various non plan grants to be provided by the Central Government to the state Governments and the measures that may be taken to augment the resources of the Urban and Rural local bodies which form the third tier of government in India. Additionally, the Commission provides recommendations on specific areas as may be mandated by the President of India. The THFC was mandated to review the finances of the Union and the State Governments and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth. The recommendations of the Thirteenth Finance Commission (THFC) constituted by the President of India under article 280 of the Indian constitution will govern various elements of the fiscal relation between the Government of India and the various State Governments over the period of 2010-2011 to 2014-2015.

Central Finance Commission and Transfers to Local Bodies: The 73rd and 74th amendments of the constitution do not provide for direct funding of local bodies by the Union Government. The involvement of the Union Government is strengthening the financial position of the local bodies is indirect following the consequential amendment made to Article 280 mandating the Central Finance Commission to make recommendations on the measures needed to augment the consolidated fund of a state to supplement the resources of panchayats and municipalities in the state on the basis of the recommendations made by the Finance Commission of the state. The purpose of this provision is to find ways and means to meet the financial requirements of local bodies without changing the primary role of states.

"The responsibility of sharing of taxes with Panchayats and assigning grants to them has not been transferred from the states to the centre. The responsibility for providing Panchayats with an independent source of revenue as also grants for specified purposes is very much that of the State Governments. The State Finance Commissions are there to ensure proper allocation of resources as between the State and the Panchayats. If in the process of supplementation of the resources of Panchayats a need arises for the augmentation of the State Consolidated Fund, it has to be considered by the Finance Commission". The constitution of India adopted on 26th November, 1949, became operative on 26th January 1950 provides for two layers of government namely the Central and the states. The kind of federal policy requires division of powers and responsibilities between the center and the states. India is a vast, populous and most popular democratic country with 28 states and 7 union territories.

There is no specific geographical region for the government of India such as state governments hence the union government has to concentrate all the states and union territories for their political, social and economic activities.

Figure 1: Organizational Structure of Multilevel Fiscal System in India



It can be classified as union territories and the state governments under the central level and under the state level, there are more than a quarter million local governments. Of these 3000 are in urban areas and the remaining are in rural areas. The most important centralization process was done when the major commercial banks were nationalized in 1969 and the Central government virtually acquired complete control over the financial system. Recent economic and political events such as privatization, liberalization and globalization and the end of single part rule, emergence of coalition of parties in power at the center and increasing importance of regional parties in the political affairs have forced greater decentralization. Rural local government or Panchayats - again are at three levels - such as district, taluk and village.

Transfers In Three - Tier System

Most decentralized system has more than three tiers government through the extent of decentralization to the third tier is in the nature of de-concentration. The principles of the transfer system detailed above applies to governmental systems with multiple layers though there can be a number of operational issues in designing and implementing them. Three important issues pertinent to countries with three (or more) tier systems may be noted.

First, the third tier receives transfers from both the central and the regional governments though in many federations, the regional (state) governments resent direct transfers to local governments from the centre. In India, for example, when constitutional status was sought to be given to the third tier in the last 1980s proposal to give direct transfers from the centre to local government by passing the state governments was not acceptable to the latter.

Second in most cases, even the general capacity segmenting type of transfers received by the third tier are in the nature of specific purpose transfers and the implementation of programmes by them is closely monitored. They do not have independent revenue raising decisions. In other words in many countries, the third tier is more an agency than an independent fiscal decision making unit. This is partly due to the perception that the local governments do not have the capacity to undertake independent decisions. Such systems however do not reap efficiency gains from decentralization.

Indian Approach

- India being a country of numerous states and a heterogeneous population with a large part residing in the regions with lower fiscal capacity, requires greater redistribution for attaining horizontal equalization in fiscal transfers. The institutional arrangements in India are quite different from Canada. The sharing of resources and responsibilities are built into the constitution itself. The sharing of resources as between the central and state government's has been entrusted to the finance commission. In addition, resources and transfers also take place through the planning commission and other central ministries. In India, the finance commission awards remain valid for a 5 years period. Data used are generally provided by a body such as the Central Statistical Organization (CSO) or the registrar general of India. When look at the taxation of India there is no direct tax base of sharing. Instead there is a constitutionally provided system of sharing of central tax revenues. The constitution assigns tax bases clearly either to the union or to the states.
- In India, vertical imbalance is sought to be corrected by revenue sharing and the horizontal imbalance through the formula of distribution of the shareable revenues amongst states

supplemented by grants. The Indian system uses macro variables in correcting the horizontal imbalances.

- Vertical imbalance and horizontal imbalance are the two central problems in the system of fiscal transfers. The fiscal transfers system in India requires reforms concerning both its vertical and horizontal dimensions. The fiscal transfer mainly concerned of the following transfers such as:
- Stability in vertical transfers-Vertical transfers should be stabilized around an appropriate level. Vertical balance in India can be influenced by the proposed goods and service tax. The transfers should not change continuously in favour of one side or the other.
- Gap filling approach in determining transfers- In the case of horizontal transfers, the long term criticism of the Indian approach has been the so called gap filling approach in the assessment of needs and resources by the finance commission because of the implicit adverse incentives.
- Measurement of fiscal capacity-Measurement of fiscal capacity of state is an important key requirement in the equalization principle. In India, Gross State Domestic Product (GSDP) at factor cost estimates is used as proxy in the measurement of state level fiscal capacity. But Indian system needs a comprehensive fiscal capacity indicator.
- Bail outs and controls on borrowing- In a system where states have been borrowing heavily from the centre, there is a built-in expectation that centre will provide a bail out from time to time this leads to strong adverse incentives for the states to finance current expenditure through borrowing from the centre and other sources and expect that either a gap-filling grant or a debt service write off will bail them out in future.
- Inter governmental transfers-According to the implementable rules of fiscal decentralization, finances should follow functional assignments. It should also be noted that a sound system of fiscal decentralization should ensure a clear linkage between revenue and expenditure decisions. It implies that decentralized levels of government should have powers to raise revenues to enable them to finance public service levels preferred by their residents. Assigning revenue powers and ensuring their effective use, therefore, is extremely important to ensure efficiency as well as accountability in the provision of local services. The next step in the design of the transfer system is to estimate the fiscal requirement which cannot be covered by their own sources of revenue. Indeed revenue bases assigned to the local governments in all multi level fiscal systems are inadequate to meet their expenditure requirements because, local governments have comparable comparative disadvantage in raising revenues as all broad based, mobile and redistributive taxes can be effectively levied only by the higher level 60 governments. These vertical and horizontal fiscal imbalances have to be offset through a system of intergovernmental transfers. The functioning of the SFCs, the nature and quality of recommendations made by them and state attitude in implementation does not bring much cheer. In many of the states, SFCs are not constituted regularly, in some states the chairpersons and members are not drawn from among the experts, but from politicians and bureaucrats. There is hardly data on the revenues and expenditures of Panchayats at three levels. There is hardly any analysis on the revenue capacities and expenditure needs of the Panchayats wither in official or

academic literature. The consequence of this has been that a scientific system of transfers from the states to Panchayats is yet to be developed. As regards the general purpose transfers given on the recommendation of the union finance is concerned, it is at best, an exercise in tokenism. The volume of transfers is negligible in relation to the expenditure requirements. Thus in most of the states, general purpose unconditional transfers are not very significant and where they exist, they are given on the basis of a properly designed formula.

Fiscal Reform of States

The 13th finance commission has been required to take into account a number of considerations in making its recommendations. One such requirement is "the objective of not only balancing the receipts and expenditure on revenue account of all the states and the union, but also generating surpluses for capital investment" there were similar TOR for some of the previous commission as well and this usually taken to require prescriptions, particularly for the states, for balance, lower deficits and reduce indebtedness. Since the exact measures of fiscal reforms needed for each state can hardly be identified by the Finance Commissions themselves, not be least because it would be highly subjective the approach has been to adopt incentives based on the bottom line identified i.e., measures of deficit. In fact, the eleventh finance commission was asked to "draw a moniterable fiscal reforms programme aimed at reduction of revenue deficit of the state and recommend the manner in which the grants to the states may be linked to progress in implementing the programme. The implicit assumption with taking deficits as an indicator of ill health of the states is to give primacy to the stabilization. Function, sometimes at the cost of development. The impact of incentive package induced to reduce debt has been to compress productive expenditure on social and economic services and show reduced deficits. As mentioned 64 earlier, in a situation where the transfer system fails to equalize expenditure on essential services, ceilings on deficits will prevent the poorer states from upgrading their infrastructure and this would have adverse implications for interstate disparities as well as development.

Economic Rationale for Transfers

Intergovernmental transfers have been employed to fulfil a variety of objectives and the design of the transfer scheme depends on the purpose for which it is given. In the international practice and in India, federal transfers are designed.

Closing the Fiscal Gap

An important reason for giving transfers is to compensate the sub national governments for a shortfall between expenditure responsibilities and revenue raising powers. In most countries decentralization is more developed on the expenditure side of the budget than on the revenue side. This is because the centre has a comparative advantage in raising revenues and the states in spending. The resulting vertical imbalance must be offset through a system of control transfers to states.

Equalization

The imbalance between revenue capacity and expenditure need varies across states depending upon the size of their tax base, the size and the composition of population and other factors affecting the need and cost of providing public services. Arguments for transfers are made on the 65 grounds of offsetting fiscal disabilities arising from low revenue capacity and high unit cost of providing public services.

Transfers to Correct Spillovers

When there is no perfect mapping the provision of public services by sub-central governments may spill over the jurisdictions and such externalities result in the non-optimal provision of public services. A.C.Pigovian subsidy is required to 'set the prices right' to be cost effective, specific purpose transfers made to the states to ensure optimal provision of public services require matching contributions from them.

Role of Central Transfers

In all multilevel fiscal systems, assignment of revenue and expenditure powers to different levels of government according to their comparative advantage necessarily results in vertical fiscal imbalances (Oates, 1977, 1999). Furthermore, when there are differences in the capacity to raise revenues and unit cost of providing public services, there are horizontal imbalances. The inter governmental transfer system is designed to offset the fiscal disabilities of the states to provide a level playing field for them in their development effort. The theoretical rationale for equalization on horizontal equity grounds was advanced by Buchanan (1950) and later reformulated by Broadway and Flatters, 1982. Taking comprehensive income as the index of well being, it is argued that the income tax, levied by the central governments.

Nature of Indian Federation

The very first Article of the Constitution defines India as a Union of States. Though the word federation has been deliberately avoided in the Indian Constitution, the fiscal structure created under it is essentially federal in nature. The political system introduced by India's constitution possesses all the essentials of a federal polity. India's constitution is the supreme organic law of our land. Both the Centre and State Governments derive their authority from the constitution. The States are not allowed to secede from the union. There is a division of legislative, administrative and financial powers between the Union and the State Governments. These are elaborated in lists I, II and III of the Seventh Schedule of the constitution. List I (Union List) describes the functions and powers of the Union Government. List II (State List) mentions the functions and powers of the State Governments. List III (Concurrent List) describes the subject matter on which both the Union and the State Governments can legislate.

India: A Federal Polity

The Constitution of India adopted on November 29, 1949, became operative on January 26, 1950. It provides for two layers of Government, one at the Central level, and the other at the level of the States. A federal polity of this kind requires division of powers and responsibilities between the Centre and the States and generally brings in its wake problems and conflicts in Centre-State relations. Other important countries of the world 67 with federal set up of government are: US, Canada, Australia, Brazil and Nigeria.

Why did the framers of the Constitution opt for a federal set up? Answering this question, the Commission on Centre-State Relations, 1988 observed, "In a country too large and diverse for a unitary form of Government, they envisaged a system which would be worked in cooperation by the two levels of government-national and regional-as a common endeavours to serve the people. Such a system, it was conceived, would be most suited to Indian conditions as it would at once have the advantages of a strong unified central power, and the essential values of federalism."

The data analysis on Finance Commission Fiscal Transfers in India has been done on the following:

- Twelfth Finance Commission total transfer to the states.
- Twelfth Finance Commission transfer on taxes and duties.
- Twelfth Finance Commission transfer - Grants-in-aid
- Functional classifications of grants-in-aid.
- Eleventh Finance Commission total transfer.
- Tenth Finance Commission total transfer.
- Ninth Finance Commission total transfer.
- Share in total grants-in-aid.

Table 1: Twelfth Finance Commission Total Transfer to the States

S.No	*States*	*Total Transfer (? In Crore)*	*Percentage*
General Category States		646772.79	85.61
1	Andhra Pradesh	50353.26	6.67
2	Bihar	75646.83	10.01
3	Chhattisgarh	18273.24	2.42
4	Goa	1724.53	0.23
5	Gujarat	25608.75	3.39
6	Haryana	8042.44	1.06
7	Jharkhand	23656.84	3.13
8	Karnataka	31416.28	4.16
9	Kerala	19607.72	2.60
10	Madhya Pradesh	46321.96	6.13
11	Maharashtra	36194.25	4.79
12	Orissa	36942.77	4.89
13	Punjab	12884.59	1.71
14	Rajasthan	39062.47	5.17
15	Tamil N?du	36688.13	4.85
16	Uttar Pradesh	133471.45	17.67
17	West Bengal	50877.28	6.73

Journal of Accounting and Finance
Volume 36, No. 1 · October 2021-March 2022

S.No	*States*	*Total Transfer (? In Crore)*	*Percentage*
Special Category States		108678.37	14.39
18	Arunachal Pradesh	3225.56	0.43
19	Assam	24329.40	3.21
20	Himachal Pradesh	14450.36	1.92
21	Jammu and Kashmir	20880.28	2.76
22	Manipur	6870.20	0.91
23	Meghalaya	4367.77	0.58
24	Mizoram	4660.91	0.62
25	Nagaland	7453.41	0.98
26	Sikkim	1829.14	0.24
27	Tripura	8417.00	1.12
28	Uttaranchal	12194.34	1.62
	Grand Total	755451.16	100.00

Table 1 shows that the total Twelfth Finance Commission transfers to all the 28 states from the government of India, in terms of absolute amount comes to `755451.16 crore. Out of which `646772.79 crore has been distributed to 17 general category states which covers 85.61 per cent of the total transfer and the remaining `108678.37 crore has been distributed to 11 special category states which covers 85.61 per cent of the total transfer which covers 14.39 percentage of the total transfer. The highest share of `133471.45 crore goes to the largest state Uttar Pradesh which covers 17.66 per cent of the total transfers. The second largest share of total transfer `75646.83 crore goes to Bihar which covers 10.01 per cent of the total transfers. The lowest share of `1829.14 crore goes to Sikkim which covers 0.24 per cent of the total transfer. It is noteworthy to note that 14.39 per cent of the total transfer goes to 11 special category states and 85.61 per cent goes to the 17 general category states.

Figure 2

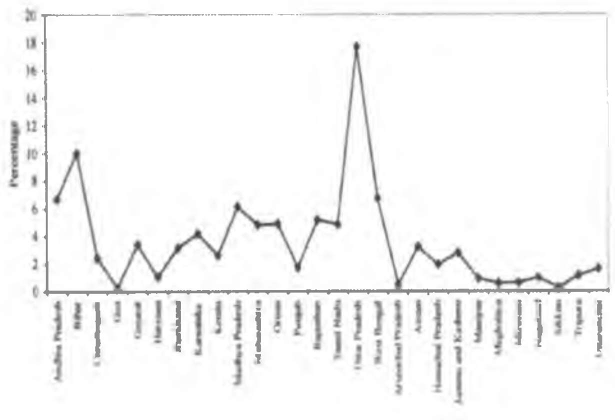


Table 2: Twelfth Finance Commission Transfer-Taxes and Duties

S.No	*States*	*Shares taxes and duties (? in crore)*	*Percentage*
General Category States		572489.59	93.03
1	Andhra Pradesh	45138.68	7.26
2	Bihar	67671.04	10.88
3	Chhattisgarh	16285.76	2.62
4	Goa	1589.14	0.26
5	Gujarat	21900.47	3.52
6	Haryana	6596.46	1.06
7	Jharkhand	29624.02	4.76
8	Karnataka	27361.88	4.40
9	Kerala	16353.21	2.63
10	Madhya Pradesh	41180.59	6.62
11	Maharashtra	30663.21	4.93
12	Orissa	31669.47	5.09
13	Punjab	7971.00	1.28
14	Rajasthan	34418.56	5.53
15	Tamil N?du	32552.74	5.23
16	Uttar Pradesh	118209.45	19.00
17	West Bengal	43303.91	6.96
Special Category States		49622.45	7.97
18	Arunachal Pradesh	1767.34	0.28
19	Assam	19850.69	3.19
20	Himachal Pradesh	3203.22	0.52
21	Jammu and Kashmir	7441.71	1.19
22	Manipur	2221.44	0.35
23	Meghalaya	2276.61	0.36
24	Mizoram	1466.52	0.24
25	Nagaland	1613.67	0.26
26	Sikkim	1392.94	0.23
27	Tripura	2626.09	0.42
28	Uttaranchal	5762.22	0.93
	Grand Total	622112.04	100.00

The following are the deductions from the above table. The total transfer of share in central taxes and duties of XII finance commission comes to `622113.04 crore for the years 2005 to 2010 out of which `572489.59 crore goes to 17 general category states, which covers 93.03 percentage of the total transfers and the remaining `49622.45 crore goes to 11 special category states, which covers 7.97 percentage of the total. 2. The higher share of central taxes and duties of `118209.45 crore goes to the largest state Uttar Pradesh which covers 19.00 per cent of the total. 3. The second highest share of central taxes and duties of `67671.04 crore goes to Bihar which covers 10.88 per cent of the total share in central taxes and duties. 4. The lowest share of central taxes and duties of `1392.94 crore goes to Sikkim which covers only 0.23 per cent of the total.

Table 3: Twelfth Finance Commission Transfer - Grants-in-aid

S.No	*States*	*Shares taxes and duties (? in crore)*	*Percentage*
General Category States		83283.45	58.38
1	Andhra Pradesh	5214.58	3.65
2	Bihar	7975.56	5.59
3	Chhattisgarh	1987.74	1.39
4	Goa	135.39	0.09
5	Gujarat	3708.28	2.59
6	Haryana	1445.98	1.02
7	Jharkhand	3032.82	2.13
8	Karnataka	4054.40	2.84
9	Kerala	3254.41	2.28
10	Madhya Pradesh	5141.37	3.61
11	Maharashtra	5531.06	3.88
12	Orissa	5273.30	3.69
13	Punjab	4913.59	3.45
14	Rajasthan	4643.91	3.26
15	Tamil Nadu	4135.39	2.90
16	Uttar Pradesh	15262.00	10.70
17	West Bengal	7537.37	5.31
Special Category States		59356.34	41.62
18	Arunachal Pradesh	1758.22	1.23
19	Assam	4478.71	3.14
20	Himachal Pradesh	11247.14	7.88
21	Jammu and Kasmir	13438.76	9.42
22	Manipur	4648.76	3.26

S.No	*States*	*Shares taxes and duties (? in crore)*	*Percentage*
23	Meghalaya	2091.39	1.47
24	Mizoram	3194.39	2.24
25	Nagaland	5839.74	4.09
26	Sikkim	436.20	0.31
27	Tripura	5790.91	4.02
28	Uttaranchal	6432.12	4.51
	Grand Total	142639.79	100.00

The following notable points can be inferred from the above table

(i) The 17 general category states that is developed states which contribute higher revenue to the centre in the form of taxes and duties receive the less grants-in-aid revenue from the centre viz. 58.38 per cent during the Twelfth Finance Commission period.

(ii) The special category states which contribute comparatively less revenue to the centre in the form of taxes and duties receive higher grants-in-aid revenue from the centre namely 41.62 per cent.

(iii) The highest grants-in-aid revenue of `15262.00 crore received by Uttar Pradesh in terms of percentage it comes to 10.70.

(iv) The lowest grants-in-aid revenue of `135.39 crore received by Goa. In terms of Percentage it comes to 0.09.

(v) The 17 general category states received the grants-in-aid revenue of `83283.45 crore, whereas the 11 special category states received `59356.34 crore.

(vi) The Jammu and Kashmir, the most disturbed states of India received the second larger amount of `13438.57 crore, which covers 9.42 per cent of the total grants-in-aid.

(vii) The small states like Goa and Sikkim received the lowest grants-inaid revenue of `135.39 crore and `436.20 crore respectively. It can be concluded from the above inferences that the finance commission of India follows the equitarion criteria than the efficient criteria for distribution of grants from the centre to the states hence backward special category states received more grants than developed general category states.

(viii) It is noteworthy to note that the highest tax collection capacity states that is developed states received higher the absolute amount in the form of taxes and duties from which the highest revenue goes to the centre whereas the lowest tax collection capacity states that is the backward states termed as special category states received higher the absolute amount in the form of grants-in-aid, which contribute the lowest revenue to the centre in the form of taxes and duties.

Table 4: Functional Classification of Grant in Aid

S.No	*Particulars*	*? In Crore*	*Percentage*
1	Non-Plan revenue deficit	56855.57	39.85
2	Health Sector	5887.08	4.13
3	Education	10171.65	7.13
4	Maintenance of Roads and Bridges	15000.00	10.51
5	Maintenance of Buildings	5000.00	3.51
6	Maintenance of Forests	1000.00	0.71
7	Heritage Conservation	625.00	0.44
8	State Specific Needs	7100.00	4.98
9	Local Bodies	25000.00	17.52
10	Calamity Relief	16000.00	11.22
	Total	142639.60	100.00

The following are the observations of the above table

(i) The total grants-in-aid transfer to the states during the Twelfth Finance Commission in absolute amount comes to `142639.60 crore.

(ii) The highest amount transfers to the heads of non-plan revenue deficit in absolute amount it comes to `56855.87 crore in terms of percentage it comes to 39.85

(iii) The second highest amount goes to local bodies namely `25000.00 crore in terms of percentage it comes to 17.52.

(iv) A transfer of `10171.65 crore goes to education in terms of percentage it comes to 7.13.

(v) The third highest transfer of `16000.00 crore and `15000.00 crore goes to natural calamity relief and maintenance of roads and bridges respectively.

(vi) The lowest transfer of `1000.00 crore and `625.00 crore goes to maintenance of forests and heritage conservation respectively

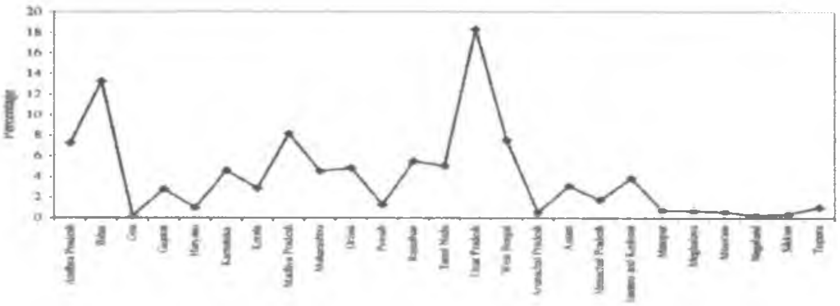
Table 5: Eleventh Finance Commission Total Transfer

S.No	*States*	*Total transfer (? in crcre)*	*Percentage*
1	Andhra Pradesh	31011.18	7.24
2	Bihar	56727.90	13.24
3	Goa	821.56	0.19
4	Gujarat	12000.52	2.80
5	Haryana	4205.77	0.98
6	Karnataka	19691.88	4.59
7	Kerala	12316.72	2.87

S.No	States	Total transfer (? in crore)	Percentage
8	Madhya Pradesh	34998.38	8.17
9	Maharashtra	19387.49	4.52
10	Orissa	20754.40	4.84
11	Punjab	5428.53	1.27
12	Rajasthan	23588.53	5.50
13	Tamil Nadu	21601.43	5.04
14	Uttar Pradesh	78509.30	18.32
15	West Bengal	32219.82	7.52
16	Arunachal Pradesh	2315.18	0.54
17	Assam	13280.86	3.09
18	Himachal Pradesh	7460.43	1.74
19	Jammu and Kashmir	16428.22	3.83
20	Manipur	3215.91	0.75
21	Meghalaya	2961.41	0.69
22	Mizoram	2535.27	0.59
22	Nagaland	1119.76	0.26
24	Sikkim	1633.96	0.38
25	Tripura	4361.04	1.01
	Total	428575.45	100.00

From the above table , it can be deducted that the highest total share of `78509.30 crore received by Uttar Pradesh through the eleventh finance commission transfer from the centre for the years 2000-01 to 2004-05. In terms of percentage it comes to 18.32. The total transfer to all the 25 states in absolute amount comes to `428575.45 crore. The low income special category states receive more funds from the centre than the developed general category states. The lowest share of `821.56 crore received by Goa, which covers only 0.19 per cent of the total transfers of eleventh finance commission.

Figure 3: Eleventh Finance Commission Total Transfer



Journal of Accounting and Finance
Volume 36, No. 1 · October 2021-March 2022

Table 6: Tenth Finance Commission Total Transfer

S.No	*States*	*Total Transfer (? in Crore)*	*Percentage*
1	Andhra Pradesh	18081.54	7.97
2	Arunachal Pradesh	1768.36	0.78
3	Assam	8328.05	3.67
4	Bihar	24655.56	10.88
5	Goa	622.25	0.27
6	Gujarat	8875.59	3.91
7	Haryana	2793.11	1.23
8	Himachal Pradesh	4761.66	2.10
9	Jammu and Kashmir	7322.08	3.23
10	Karnataka	10520.83	4.64
11	Kerala	7721.81	3.40
12	Madhya Pradesh	16093.97	7.10
13	Maharashtra	13709.08	6.04
14	Manipur	2136.62	3.94
15	Meghalaya	1888.85	0.83
16	Mizoram	1802.01	0.79
17	Nagaland	2793.04	1.23
18	Orissa	9706.55	4.28
19	Punjab	3589.47	1.58
20	Rajasthan	11400.87	5.03
21	Sikkim	689.89	0.31
22	Tamil Nadu	13360.57	5.89
23	Tripura	2873.21	1.26
24	Uttar Pradesh	36158.91	15.95
25	West Bengal	14980.42	6.60
	Total	226634.30	100.00

The following are the deductions from the above table. The total fiscal transfers from the government of India to the 25 states in absolute amount comes to `226634.30 crore for the years 1995-96 to 1999-2000, through the recommendations of the tenth finance commission. The highest total fiscal transfers from the center viz. `36158.91 crore goes to the largest state Uttar Pradesh. It comes to 15.95 per cent of the total transfers. The second highest fiscal transfer namely `24655.56 crore goes to Bihar. It covers 10.88 per cent of the total fiscal transfer from the centre. The third highest fiscal transfers viz. `18081.54 crore goes to Andrha Pradesh. It covers 7.97 per cent of the total transfers from the centre. The lowest fiscal transfers viz. `622.25 crore from the centre goes to Goa. It covers only 0.27 per cent of the total transfers. Sikkim received `689.89 crore from the centre. It covers only 0.31 per cent of the total fiscal transfers.

Table 7: Ninth finance Commission Total Transfer

S.No	*States*	*Total Transfer (? in Crore)*	*Percentage*
1	Andhra Pradesh	7239.00	6.8
2	Arunachal Pradesh	835.00	0.8
3	Assam	3956.00	3.7
4	Bihar	11176.00	10.3
5	Chhattisgarh	--	--
6	Goa	509.00	0.5
7	Gujarat	3713.00	3.5
8	Haryana	1195.00	1.1
9	Himachal Pradesh	1860.00	1.8
10	Jammu and Kashmir	3359.00	3.2
11	Jharkhand	--	--
12	Karnataka	4063.00	3.8
13	Kerala	3448.00	3.2
14	Madhya Pradesh	7843.00	7.3
15	Maharashtra	6201.00	5.8
16	Manipur	1085.00	1.0
17	Meghalaya	822.00	0.8
18	Mizoram	1021.00	1.0
19	Nagaland	1244.00	1.2
20	Orissa	5223.00	4.2
21	Punjab	1674	1.6
23	Rajasthan	6256	6.2
23	Sikkim	252	0.2
24	Tamil Nadu	6198	5.8
25	Tripura	4334.00	4.0
26	Uttar Pradesh	17449.00	16.1
27	Uttaranchal	--	--
28	West Bengal	7409.00	7.0
	Total	108364.00	100.00

The following are the deductions from the above table the total fiscal transfers from the government of India to the 28 states, in absolute amount comes to `108364.00 crore for the years 1990-91 to 1994-95, through the recommendations of the ninth finance commission. The highest total fiscal transfers from the centre viz. `17449.00 crore goes to the largest state Uttar Pradesh. It covers 16.1 per cent of the total transfers. The second highest fiscal transfer namely `11176.00 crore goes to Bihar. It covers 10.3 per cent of the total fiscal transfer from the centre. The third highest fiscal transfer viz. `7843.00 crore goes to Madhya Pradesh. It covers 7.3 per cent of the total transfers from the centre. The lowest fiscal transfers viz. `252.00 crore from the centre goes to Sikkim. It covers only 0.2 per cent of the total transfers. Goa received `509.00 crore from the centre. It covers only 0.5 per cent of the total fiscal transfers.

Figure 4: Ninth Finance Commission Total Transfer

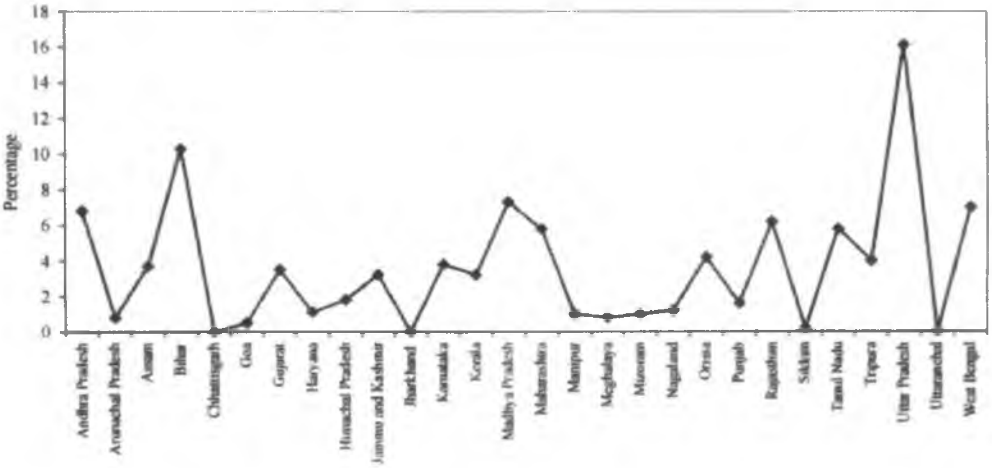


Table 8: Share In Total Grants in Aid

S.No	*State*	*Nine*	*Tenth*	*Eleventh*	*Twelfth*
	General Category States	58.6	67.4	46.7	58.4
1	Andhra Pradesh	3.2	8.6	3.5	3.7
2	Bihar	6.4	6.7	3.1	5.6
3	Chhattisgarh	0.0	0.0	0.0	1.4
4	Goa	1.0	0.5	0.1	0.1
5	Gujarat	1.3	4.2	2.4	2.6
6	Haryana	1.0	1.2	1.1	1.0
7	Jharkhand	0.0	0.0	0.0	2.1
8	Karnataka	0.7	2.4	1.9	2.8
9	Kerala	1.7	2.5	1.4	2.3
10	Madhya Pradesh	4.8	4.0	2.3	3.6

S.No	State	Nine	Tenth	Eleventh	Twelfth
11	Maharashtra	2.0	4.2	3.3	3.9
12	Orissa	6.4	4.5	2.9	3.7
13	Punjab	3.0	2.1	1.9	3.4
14	Rajasthan	7.3	5.6	5.1	3.3
15	Tamil Nadu	1.6	3.6	2.3	2.9
16	Uttar Pradesh	12.2	13.0	6.8	10.7
17	West Bengal	6.0	4.3	8.6	5.3
	Special Category States	41.4	32.6	53.3	41.4
18	Arunachal Pradesh	3.2	2.0	2.4	1.2
19	Assam	6.9	6.2	1.6	3.1
20	Himachal Pradesh	4.7	5.0	8,3	7.9
21	Jammu and Kashmir	9.5	7.0	19.8	9.4
22	Manipur	3.0	2.2	3.1	3.3
23	Meghalaya	2.2	1.7	2.9	1.5
24	Mizoram	3.7	2.0	3.1	2.2
25	Nagaland	3.9	2.9	6.2	4.1
26	Sikkim	0.7	0.7	1.6	0.3
27	Tripura	3.6	2.7	4.3	4.1
28	Uttaranchal	0.0	0.0	0.0	4.5
	Grand Total	100.0	100.0	100.0	100.0

The above table represents the percentage share in total grants in-aid from the centre Ninth Finance Commission share in total grants-inaid the highest percentage comes to 12.2 per cent. The Twelfth Finance Commission highest percentage comes to 10.7 per cent, Tenth Finance Commission highest percentage comes to 13.0 per cent goes to Uttar Pradesh. The second highest share in total grants-in-aid ninth finance commission the percentage comes to 9.5 percent goes to Jammu and Kashmir. Eleventh finance commission grants-in-aid the percentage comes to 8.3 per cent goes to Himachal Pradesh. Twelfth finance commission grants-in-aid percentage comes to 9.4 per cent goes to Jammu and Kashmir. The third highest share in total grants-in-aid percentage of ninth finance commission comes to 6.9 per cent goes to Assam. The Twelfth Finance Commission grants-in-aid percentage comes to 7.9 per cent goes to Himachal Pradesh. The lowest percentage of Ninth Finance Commission share in total grants-in-aid comes to 0.7 per cent goes to Sikkim. Twelfth Finance Commission share in total grants-in-aid comes to 0.3 per cent goes to Sikkim. Ninth, Tenth, Eleventh and Twelfth Finance Commission highest percentage of eleventh finance commission grants in-aid comes to 19.8 per cent, goes to Jammu and Kashmir.

Data Analysis - Finance Commission's Fiscal Transfers to Southern States

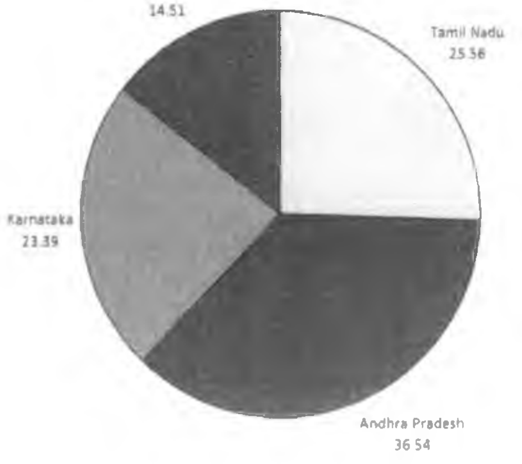
It is useful to look at three basic features of the four southern states and their contribution in the economic activities of the country, share of excise duties, grants-in-aid and relative position of Income tax. The issues of fiscal transfers relate to their vertical and horizontal dimensions. The vertical dimensions relates to the relative shares of resources between the centre and the states taken as a group. The horizontal dimension relates to the inter-state distribution of the resources. There are issues both of inter-state and intra-state imbalance. Here we look at some dimensions of inter-district imbalances in the case of Tamil Nadu. Similar problems are therefore the southern states. Tamil Nadu has thirty two districts. In about 2/3rd of the districts, the per capita income is below the per capita income of the state.

Table 9: Twelfth Finance Commission Total Transfer to the Southern States

S.No	*States*	*Total Transfer (? in Crore)*	*Percentage*
1	Tamil Nadu	36688.13	26.57
2	Andhra Pradesh	50353.26	36.47
3	Karnataka	31416.28	22.75
4	Kerala	19607.72	14.21
	Total	138065.39	100.00

The table shows that the twelfth finance commission total transfer to the southern states from the Government of India in terms of absolute amount comes to `138065.39 crore. The highest share of `50353.26 crore goes to the largest state Andhra Pradesh which covers 36.47 per cent of the total transfers. The second highest share of `36688.13 crore has received by Tamil Nadu, which covers 26.57 per cent of the total transfers. The lowest share of `19607.72 crore has received Kerala which covers 14.21 per cent of the total transfers. In total transfer of the Twelfth Finance Commission period, Southern states received viz. 18.27 per cent and over states in India received 81.73 per cent

Figure 6: Twelfth Finance Commission Total Transfer To The Southern States.



The following table 5.2 presents the share of sharable taxes and duties to the Southern states during the period of Twelfth Finance Commission transfer from the Government of India for the years 2005-06 to 2009-10.

Table 10: Twelfth Finance Commission Transfer - Taxes and Duties

S.No	*States*	*Share in central taxes and duties (? in crore)*	*Percentage*
1	Tamil Nadu	32552.74	26.81
2	Andhra Pradesh	45138.68	37.18
3	Karnataka	27361.88	22.54
4	Kerala	16353.21	13.47
	Total	121406.51	100.00

The following are the deductions from the above table. The highest share of Twelfth Finance Commission transfer taxes and duties of `45138.68 crore among the southern states. The largest state of Andhra Pradesh which covers only 37.18 per cent of the total. 2. The second highest share of taxes and duties of `32552.74 crore has received by Tamil Nadu which covers 26.81 per cent of the total share in taxes and duties. 3. The lowest share of taxes and duties of `16353.21 crore has received by Kerala which covers only 13.47 per cent of the total. 4. The total transfer of share in taxes and duties of Twelfth Finance Commission for southern states in absolute amount comes to `121406.51 crore for the years 2005-06 to 2009-10. In total transfer of taxes and duties the southern states received 19.08 per cent and all other states in India received 80.92 per cent of the Twelfth Finance Commission period.

The following table 11 presents the Twelfth Finance Commission transfer to the southern states in the form of Grants-in-aid for the years 2005-06 to 2009-10. It is important to note that the amount received by the states from the centre in grants-in-aid need not be repaid to centre whereas the amount received by the states from the centre on loan component should be repaid with interest.

Table 11: Twelfth Finance Commission Transfer - Grants-in-aid

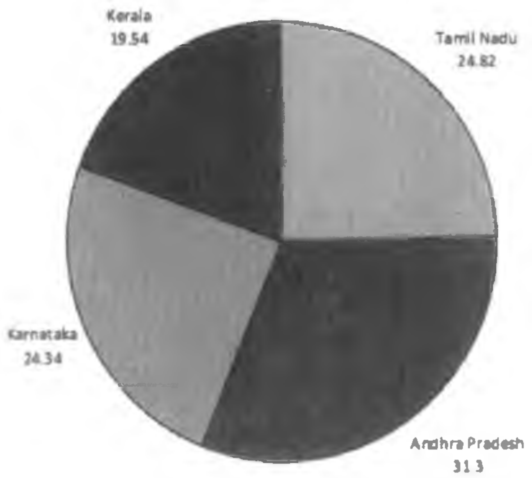
S.No	*States*	*Share in grants-in-aid (? in crore)*	*Percentage*
1	Tamil Nadu	4135.39	24.82
2	Andhra Pradesh	5214.58	31.30
3	Karnataka	4054.40	24.34
4	Kerala	3254.41	19.54
	Total	16658.91	100.00

The following are the deductions from the above table:

- The highest share of Twelfth Finance Commission transfer grants-inaid of `5214.58 crore received by Andhra Pradesh. In terms of percentage it comes to 31.30.

- The second highest grants-in-aid of `4135.39 crore received by Tamil Nadu. In terms of percentage it comes to 24.82.
- The third highest grants-in-aid of `4054.40 crore received by Karnataka. In terms of percentage it comes to 24.34. 132
- The lowest grants-in-aid of `3254.51 crore received by Kerala. In terms of percentage it comes to 19.54. In terms of absolute amount of `16658.88 crore has been distributed to all the southern states. In total transfers of share of grants-in-aid in the Twelfth Finance Commission period, the southern states received 11.67 per cent and all other states in India received 88.33 per cent.

Figure 7: Twelfth Finance Commission Transfer Grants-in-aid.



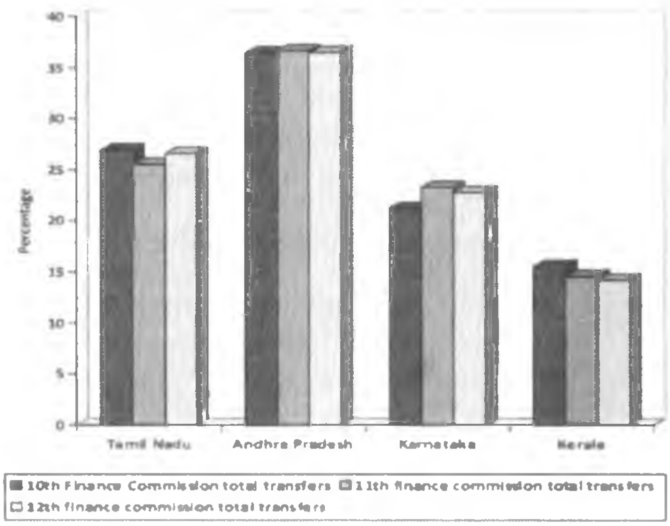
The following table presents the Eleventh Finance Commission transfer to the southern states in the share at sharable taxes and duties for the years 2000-01 to 2004-05

Table 13: Tenth, Eleventh and Twelfth Finance Commission Total Transfer to the Southern States

S.No	*States*	*10th finance commission Total transfers (? in crore)*	*%*	*11th finance commission Total transfers (? in crore)*	*%*	*12th finance commission Total transfers*	*%*
1	Tamil Nadu	13360.57	26.89	21601.43	25.52	366688.13	26.57
2	Andhra Pradesh	18081.54	36.39	31011.18	36.65	50353.26	36.47
3	Karnataka	10520.83	21.18	19691.98	23.27	31416.28	22.75
4	Kerala	7721.81	15.54	12316.72	14.56	19607.72	14.21
	Total	49684.75	100.00	84621.31	100.0	138065.39	100.0

From the above table it can be deducted that the highest total share of explained share of total transfer Tenth Finance Commission to Twelfth Finance Commission. Among the four states highest amount received by Andhra Pradesh which is `18081.54 crore, `31011.18 crore and `50353.26 crore respectively interest of percentage it comes 36.39 per cent, 36.65 per cent and 36.47 per cent only. The total transfer in absolute amount comes to `49684.75 crore, `84621.31 crore and `138065.39 crore, received by 10th, 11th and 12th finance commission. The lowest share of 10th finance commission `7721.81 crore, 11th finance commission `12316.72 crore and 12th finance commission `138065.39 crore received by Kerala. It covers 15.54 per cent, 14.56 per cent and 14.21 per cent of the total transfers of 10th finance commission 11th finance commission and 151 Twelfth Finance Commission to the Southern states. All other states received from Tenth to Twelfth Finance Commission are southern states in India, received only 21.9, 19.58 and 18.27 per cent remaining states of India received 78.1, 80.42 and 81.73 per cent

Figure 10: Tenth, Eleventh and Twelfth Finance Commission Total Transfer to the Southern States.



Conclusion

The present study analyzes the Finance Commission Fiscal transfers to the Southern states such as Tamil Nadu, Andhra Pradesh, Kerala and Karnataka. Out of the above four states the highest fiscal transfer goes to Andhra Pradesh and lowest fiscal transfers from the center such as shares of sharable taxes and duties and the Grants-in-aid from the Government of India. Generally, Finance Commissions follow the equitation criteria than the efficient based criteria for distribution of funds from the center to the states, hence the less developed backward states, i.e., the north and northeast hill states termed as special category states receive more funds from the center, whereas the developed states receive less fund. As per the revenue realization is concerned, the highest revenue from taxes and duties goes to the center from the developed General category states - than the Special category states. This is the contradictory position of the Indian Federal financial system. All the Special category states are in need of more funds from the center for their developments and defense purpose as well as the emergency expenditures. If the all funds may be used for infrastructural development alone, which would be the green signal to the development of the nation.

References

Alexander, 2011. "13th Finance Commission." Journal of the Association of Economist of Tamil Nadu, Peninsular Economist, 48:17-18.

Amaresh Bagchi, 2002. Fiscal Federalism in India.

Balakrishnan, P., 1990. "Union Budget for 1990-91." Economic and Political Weekly, 25:893-894.

Bhatia, H.L., 2008. Federal Financial Adjustments, India, Noida: Vikas Publishing House Pvt. Ltd., pp.315-320.

Bhuvaneswari, P., and Jayachandran, 2012. "An Overview of Thirteenth Finance Commission Recommendations." Journal of the Association of Economist of Tamil Nadu, Peninsular Economist, 44:98.

Chaarlas, L.J., 2011. "13th Finance Commission: Implications of Key Recommendations for State Governments." Journal of the Association of Economist of Tamil Nadu, Peninsular Economist, 48:105-106.

Chakraborty and Rao, 2010. "The Articles Raise Several Issues."

Goel, S.L., 2002. "Creation and Functions of Finance Commission." Public Financial Administration, pp.45-47. Govinda Rao, 2011. Fiscal Decentralization in Developing Countries.

Govindan, 2011. "13th Finance Commission and its Recommendation for Panchayat raj Institution." Journal of the Association of Economist of Tamil Nadu, Peninsular Economist, 48:7-9.

Guhan, S., 1995. "Report of Tenth Finance Commission." Economic and Political Weekly, 30:16, 877-878.

Guhan, S., 1997. "Centre-State Fiscal Transfers Beyond the Tenth Finance Commission." Economic and Political Weekly, 32:7, 353.

Musgrave and Musgrave, 1984. Public Finance in Theory and Practice, Singapore: McGraw Hill International Book Company, pp.524-561.

Natarajan and Santhakumar, 2011. "Finance Commission Fiscal Transfer in India." Fiscal Federalism in India, pp.17-18.

Natarajan, P., 2013, "A Study on the Grants-in-aid Revenue of the Government of Tamil Nadu." Liberalization Perspective of Public Expenditure, 4:96-97.

Natarajan, P., and Ravindran, C., 2011. "Chanalization of Fiscal Transfers in India with Special Reference to Finance Commission Transfers." Journal of the Association of Economist of Tamil Nadu, Peninsular Economist, 44:120-121.

Pinaki Chakraborthy, 2010. "Report of the 13th Finance Commission: Introduction and Overview." Economic of Political Weekly, 45:48, 35-37.

Prabakaran, P., 2011. "Local Finance and 13th Finance Commission Recommendations." Journal of the Association of Economist of Tamil Nadu, Peninsular Economist, 48:44-46.

Rajendran, R., 2012. "Recommendations of 13th Finance Commission on Sharing of Union Tax Revenue - An Evaluation." Journal of the Association of Economist of Tamil Nadu, xxiv:101-102.

Rangarajan, C., and Srivastava, K., 2008. Reforming India's Fiscal Transfer System Resolving Vertical and Horizontal Imbalances, pp.1-4.

Srivastava, K., 2009. "Finance Commission and the Southern States: Overview of Issues." pp.2-3.

Sulthana Barvin, 2011. "Grants in India: The Thirteenth Finance Commission Perception." Journal of the Association of Economist of Tamil Nadu, Peninsular Economist, 44:1-3.