

A Study on Financial Administration of Centre and State In India-A Review Paper

Dr.KuldeepWalia¹

In a federal set up, the effective working of the whole system is fundamentally contingent upon perfect understanding, co-operation and coordination between the federating units of the government. In addition to text books on the subject of Public Finance I have been able to review following studies so as to develop an insight on the subject relating to various aspects of the financial relations between Union government and State governments in India.

B.S. Grewal, in his book Centre-State Financial Relations in India has done economic evaluation of fiscal federalism in India. The book mainly analysis the policies of the Planning Commission and the Finance Commission. He has tried to find out the steps by which fiscal federalism in India has strayed from its economic goals and has gradually shifted towards increasing adhocism. He has mainly dealt with revenue side and that too transfer of resources from the Union government to the State governments.

In the beginning he has reviewed the principles of inter-governmental financial transfers for plan purposes, non-plan purposes and discretionary transfers and has concluded that the transfers recommended by the Finance Commission are and should continue to be general and unconditional. Any scheme of general transfer has to be guarded.

P.K. Bhargava in his book Essays on Indian Public Finances has compiled some of the articles written by him from time to time. These papers mainly deal with important problems relating to Centre-State financial relations, agricultural taxation, sales taxation, resource mobilization by the states, etc. He has not dealt with all the issues in an integrated form but has made general observations with regard to the growth of revenue and expenditure with in the Indian situation.

In another paper, P.K. Bhargava, has reviewed the need of resources of the states and has concluded that “there is ample scope for States to raise additional resources. He has referred to the suggestion made by the Fifth Finance Commission that there is “an urgent need to raise additional resources from the agricultural sector”. He has suggested that a surcharge imposed on a sliding scale without much difficulty. He further says that “betterment levies and cess on commercial crops are another sphere of taxing the rural population”. He also suggests that “states must suitably modify their structure to water rates so that they may at least not incur losses on these projects. They must also try to minimize the working expenses of irrigation projects without impairing their efficiency”. He has also suggested for the mobilization of resources through the State electricity and transportation services and through increasing efficiency in such undertakings. He recommends State sponsored lotteries.

Sanjaya Basu, in a write up in Economic Times says that “constitutional structure has been so evolved that it is the State Governments which have been burdened with a bulk of developmental work, apart from the provision

¹ **Assistant Professor, Sri GuruGranth Sahib World University.**

of infrastructure and welfare, while their control on fiscal resources has weakened” . . . He also tells that what the Centre devolves to the states, excluding loans and grants, are the State’s constitutionally defined and rightful share of Centrally collected revenue. The State’s own deficit must be calculated after their share of Central revenues have been added to the State’s revenue.

In similar article in Economic and Political Weekly, KalyanRaipuria reviews the sustainability of the financial transfers to the States through the Finance Commission, Planning Commission and through other government departments. And has observed that parameters with which transfers have to take place as given by the constitution (institutional bases, resources imbalance, and the slower growth in the face of large development requirements required assistance for unforeseen situations and natural disasters etc.) need revision. He further points out that “total resources transfers to States and Union Territories in recent years have been around 40 per cent of the total receipt of the Centre. The less developed States getting relatively larger share (and still not satisfied) and relatively developed states have shown their concern about the decline in their share in the total”. He refers to various suggestion made by different reviewers and suggests that the basic issue is how the level of grants unrelated to emerging growth and inflation and can really serve the purpose, and if specific problem – related grants would not be preferable to block Finance Commission and Planning Commission transfer together should be made in isolation, particularly because of rising dearness allowances liabilities; constrained mobilization of small savings to supplement own resources; limited scope for mobilizing borrowings from the deposits of the banking sector; and possibility of rising imbalances in miscellaneous capital receipts (MCR) due to expected increase in debt payment liabilities and low recovery of advances made by minimum requirement of financial transfers to the States are likely to be quite larger in future.

In an Article, “Does the Indian Tax Policy Have a Rationale”, K.B.K. Rao has observed that in spite of the numerous changes the Indian tax structure could not acquire the requisite stability with revenue stability.

Adolph Wagner is of the view that the level of government expenditure changes according to the given historical situation, economic situation and economic structure and development. For example, he relates public expenditure with population growth and transportation needs.

Peacock and Wiseman, in a very popular study examine the time pattern of public expenditure there are other aspects of the developments of public expenditures, such as the time pattern of public expenditure growth which seems to be equally significant.

G.S. Lall in his book Public Finance and Financial Administration in India has very lucidly explained Union State fiscal relations in India, problems which may arise with the working of federal finance, how these problems can be solved and what basic principles should be observed so as to avoid any conflict, to what extent Indian federal system has been able to avoid conflicts, to what extent distribution of financial resources between Union government and States i.e. federating units is correct, Author has also explained at length the general Principles of financial Administration, how budgets are prepared, what is the role of legislature in the preparation of the budgets how budgets are executed and what is the role of Audit in the system of government accounts etc.

H.L. Bhatia in his book Public Finance has discussed very elaborately both the theoretical and applied aspects of public finance in the context of the Indian institutional framework. The authority also examines Indian federal finance, public debate in India and also other related aspects of the India public finance.

D.T. Lakdawal in his book *Union State Financial Relations* has very critically analyzed the working of federal finance in India and has also reviewed the recommendations of various Finance Commissions.

The federal Constitution must provide such as in-built mechanism that the federal harmony and co-ordination is continuously maintained. The prime cause of misunderstanding or suspicion in federal countries is usually on account of some unsatisfactory financial arrangement between the federating units of the government. It is, therefore, important to define precisely the financial powers of the different layers of government. A satisfactory arrangement of transfer of resources must also be evolved so that federal relations are not disturbed.

Under the Indian Constitution, the tax powers of both the Union and State governments are specifically indicated. The Union list consists of taxes on income other than agricultural income, customs duties, corporation tax, taxes on capital values of the assets of individuals and companies, estate and succession duties on non-farm property, excise duties except on alcoholic, liquors and narcotics, taxes on railway fares and freights, terminal taxes on goods or passengers, taxes on transactions in stock exchanges and future markets and rates of stamp duty on bills of exchange etc., taxes on sale or purchase of land, advertisements in newspaper; taxes on inter-State sales and any other tax not specifically mentioned in either the Union or State list of taxes

The State list of taxes includes such taxes as land revenue; taxes on agricultural incomes; taxes on lands and buildings; succession duties on agricultural lands; taxes on mineral rights subject to any limitations imposed by the Parliament; taxes on the entry of goods into local area for consumption or sale; excise duties on alcohol, opium etc., taxes on sale and purchase of goods other than newspapers; taxes on advertisements other than advertisements in newspapers; taxes on consumption and sale of electricity; taxes on passengers or goods carried by road or inland waterways; capitation taxes; taxes on luxuries including entertainments, betting and gambling; vehicles tax and taxes on animals and boats etc. Apart from these sources of revenues, the States can also undertake borrowings from the Union Government, from the Reserve Bank of India and from the market after due permission of Union government.

The major part of State revenues consists of relatively less elastic tax sources. However, the expenditure responsibilities of the States are quite large. The development expenditure of states includes such items as social and community services like education, public health, scientific research, housing, social security and welfare, relief against natural calamities, general economic services, agriculture, allied services, industry and minerals, water and power development etc. The non-development expenditure of States includes such items as administrative services, pensions, interest payments, on borrowings etc.

As the Constitution of India has assigned wide functions to States that involve heavy expenditure, they are faced with ever-increasing demands from the general public. That creates financial stringency and budgetary deficits and naturally states seek that their financial resources should be reasonably augmented so that they can fulfill the varying requirements of the people.

An essential feature of all the federal constitutions is the distribution of sovereign powers between the Union government and the Constituent units. It requires distribution of financial powers between the Union and Constituent Units. In the distribution of function and sources of revenue between the Union and states in India, the principle of economy, administrative convenience and efficiency remained as the guiding force.

It is also considered that a federal system is likely to work satisfactorily if it provides for: (i) fiscal autonomy and independence for the Union and its Constituent Units in their respective spheres; (ii) adequacy of the financial resources according to the respective needs with built-in-elasticity and flexibility; (iii) equity; (iv) economy; and (v) flexibility. To make the Indian federal system workable we have demarcated the areas, for expenditure and revenue, both for the Union government and the State governments. There is no overlapping either of the functions to be discharged or of taxing powers.

To make the system operational, we have also provided in the Constitution, for the appointment of Finance Commission after every five years so as to resolve any dispute, if arises between the Union government and the State Governments in the distribution of resources. We have also provided for tax sharing and grants so as to supplement the resources needed by the States

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