

Acknowledgements

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THE NINTH FINANCE COMMISSION

Issues and Recommendations

Foreword

Appointment of the Finance Commission every five years as mandated by the Indian Constitution has been a matter of great public interest in India. The recommendations of the Finance Commission constitute in many ways the cornerstone of federal fiscal relations in the country. It is thus not surprising that every time a new Finance Commission is appointed, its terms of reference are subjected to close scrutiny as are the recommendations made at the end of their deliberations.

Never before, however, did the terms of reference of a Finance Commission give rise to controversies and protests as followed in the wake of the Presidential Order appointing the Ninth Finance Commission in 1987. Observers of the Indian fiscal scene noticed departures from the past in the tasks set for the Commission in its terms of reference which, depending upon one's viewpoint, appeared to be undesirable and uncalled for, while to others these were timely and essential. The misgivings and controversies centred primarily around two issues. First, whether it was appropriate and legal for the terms of reference to lay down for the Finance Commission its approach to the tasks set for it, as was done in the case of the NFC by requiring it to adopt a normative approach to assess the revenue receipts and expenditures of the States. Could there be objective norms for determining how much resources a State should raise and how much it should spend to discharge its constitutional obligations? Would the reference to "normative" basis lead invariably to imposition of subjective judgements on how much the State

governments should spend and on what and thus erode the already heavily dented autonomy of the States further? Would the norms do adequate justice to the poorer and weaker States? Further, if the States' needs were to be determined normatively why not apply norms in the case of the Centre also uniformly?

The second point stemmed from the mandate given to the NFC to assess revenue needs of the States on the plan side too, a matter which (since the Third Finance Commission's days) was left to the Planning Commission to decide. While some saw in this move an attempt to undermine the Planning Commission's role and authority, others felt that this was perfectly in consonance with the constitutional provisions since the Planning Commission was not a creature of the Constitution and there was no authority in the Constitution for the large transfers which have been taking place from the Centre to the States by way of Plan assistance. Light was sought from the history of the relevant constitutional provisions and as was to be expected, legal experts too joined the fray.

By contrast, the reports of the NFC, however, went almost unnoticed. While there was an extensive debate over the First Report of the Commission which came out in 1988, the Second Report evoked very little public discussion. Of course, one understandable reason is that once a Finance Commission presents its report, it is almost a *fait accompli* and any discussion of its recommendations or the approach underlying them becomes academic. The fact that the report was accepted in its entirety by the Central government (where there was a change in the ruling party when the report was submitted) also served to dispel many of the doubts and apprehensions expressed earlier, although, as is perhaps inevitable, not all the States were happy with the dispensation given to them.

However, there were several significant departures in the approach and methodology followed by the NFC from those of the earlier Commissions which merited closer examination as they reflect an attempt to grapple with some of the basic problems which have surfaced on the fiscal scene in the country and

to use scientific tools in assessing the revenue requirements of the States on a normative basis. It would be fair to say that despite shortcomings, these lay the foundation for the application of principles which would be less subjective in deciding the share of the States in the flow of federal funds.

In order to facilitate dispassionate discussion of the issues involved, the NIPFP had organized two seminars focussed on the approach, methodology and recommendations of the NFC. The first seminar held after the appointment of the NFC and focussed on the terms of reference (February, 1988) and the second held in April 1990 examined the methodology and recommendations after the Commission submitted its second (and final) report. Participants of both the seminars were drawn from leading legal experts and economists, as also policy makers (civil servants) in the Central and State governments. The first seminar was attended by the Chairman, Shri N.K.P. Salve and other Members of the Commission. Both the seminars were inaugurated by Prof. D.T. Lakdawala. Presented below is a selection of papers presented at the seminars along with the inaugural addresses and a record of the discussion on legal issues. Though the first seminar took place four years ago and several of the papers presented therein have since been published, it is felt that it would be useful to put them together so that they are readily available. As many of the issues which came up at the time are still unresolved and might again come up, it might be helpful to have a publication which gives a flavour of the debate that took place not long ago.

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