

## CENTRE AND STATE

Relevant for: Indian Polity | Topic: Issues and Challenges Pertaining to the Federal Structure, Dispute Redressal Mechanisms, and the Centre-State Relations

In the midst of testing times for Centre-state relations, the 15th Finance Commission, on Monday, submitted its report to the president, which includes recommendations on the sharing of tax revenues between the Centre and states for the coming five-year period. With recent events signalling the Centre's attempt to reassert its dominance over the country's fiscal architecture, how the commission, as a neutral arbiter, seeks to balance the contesting claims, will be critical. The commission's recommendations will have a bearing on how Centre-state relations are reshaped as the country recovers from the COVID shock.

Ever since the framing of the terms of reference of this Finance Commission, there have been concerns about what is being seen by many as attempts by the Centre to claw back the fiscal space ceded to states. The 14th Finance Commission had pushed for greater fiscal autonomy for states by increasing their share in the divisible tax pool from 32 per cent to 42 per cent. In reality, though, states' share never touched 42 per cent of tax collections, simply because the Centre began to rely more on cesses and surcharges to raise resources, revenue from which is not shared with the states. Reportedly, the commission has maintained devolution at the existing level. On the other hand, any attempt to reduce the divisible tax pool that is shared with the states — by, for example, acceding to the Centre's demand for sequestering a part of the tax revenue for defence and security spending — would mean a fall in the states' share of taxes. This would be unfortunate, especially in the current circumstances. States are at the forefront of fighting the [pandemic](#), and need to be assured of more resources, more so in light of the breakdown in consensus over the issue of compensating them for the loss of their GST revenues. This is not to suggest, of course, that spending on defence does not need to be ramped up. But more resources could be found by reorienting the Centre's expenditure priorities — over the past few decades, central government spending has risen on items that fall in the state and concurrent lists, while falling on items in the Union list.

Equally important will be the Commission's views on other issues that form part of its terms of reference — the roadmap for fiscal consolidation, performance-based incentives for states in line with the Centre's priorities, among others. How it reconciles the centralising tendencies of this government with its role as a neutral arbiter which must maintain a delicate balance will have a bearing on the future of the federal framework. Considering its far-reaching ramifications, especially in light of growing strains on the relationship between the Centre and the states, it would be prudent for the government to table the report without delay, and address any apprehensions it may give rise to.

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