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Role of Central Finance Commission in Punjab State Finances: A Study of Tenth to Fourteenth Central Finance Commission

Rashpaljeet Kaur *
Assistant Professor,
PG Department of Commerce,
Mata Gujri College,
Sri Fatehgarh Sahib, Punjab,
India.
rashpalseerha@gmail.com

Rajinder Kaur
Professor,
Department of Commerce,
Punjabi University,
Patiala, Punjab,
India.
rajindergb@yahoo.com

Structured Abstract:

Purpose: The aim of this paper is to study the role of Central Finance Commission in development of Punjab State with the special reference of Tenth to Fourteenth Finance Commission. The role of Central Finance Commission in Punjab is to act as an instrument to transfer the shareable proceeds from the Union Government to Punjab State Government and also to Local Bodies.

Methodology: These Central Finance Commissions have made recommendations for next five-years like Fourteenth Finance Commission has made recommendations for 2015 to 2020. So, the operational duration of these Commissions is from 1995 to 2020.

Findings: The results of the paper disclose that the Tenth to Fourteenth Finance Commissions have recommended the share of central taxes and duties, grants in aid and also debt relief to Punjab. These Commissions in its award period have made relevant efforts to improve the financial position of Punjab State Government as well as Local Bodies in Punjab by recommending the devolution of resources from Union Government. But still the financial health of Punjab State is not good enough. The study suggested that the successive Finance Commission should recommend the increased share of Punjab in resources transferred by Union Government.

Research Limitation: The study is based mainly on secondary data collected from the reports of Finance Commission and other sources. The limitations of using secondary data may affect the results.

Practical Implications: Central transfers are usually considered effective in improving the fiscal health of Punjab. But still, the Punjab state government should made relevant efforts to increase its own revenue sources and reducing its dependency on central funds.

Originality: This paper deals with the contribution of Central finance Commission in finances of Punjab state. This paper assumes that own revenue sources of Punjab Government are inadequate to cover up its expenditure for development of State's economy, so its dependence on central funds are increasing day by day.

Keywords: Constitution, Commission, Finance, Devolution, Government.

Paper Type: Research Paper.

Introduction

The Seventh Schedule of Indian Constitution has distributed the functions between Central Government and State Governments according to three lists: a union list, a state list and a concurrent list. The functions of the Central Government relating to currency, taxation, banking and finance, defense, foreign affairs, economic relations with foreign countries, matters affecting the country as a whole and relating to inter-state relations are included in union list. The functions assigned to the State Governments like agriculture, irrigation, public health services, local government, infrastructure, State taxes and duties etc., are enumerated in the State list. The matters like economic and social planning, labour welfare, forests, law, education, electricity and social security etc. have been placed in the third list known as the concurrent list under the concurrent legislative powers of the Central and State Governments but concurrent list does not contain any head of taxation which means the union and the states have no concurrent powers of the taxation. Therefore, to discharge all these functions and responsibilities, the Central and State Governments need funds which have to be collected from various sources like taxes, non-taxes and public debt etc. In a federal structure, the States carry out many functions and bear responsibilities towards development of the economy. The finances of State Governments become instrumental in fulfilling the responsibilities given to the States. The State Governments through their expenditure on social and economic developments lay down the framework for the achievement of their objectives. The State Governments have to mobilize resources to meet the ever-growing expenditure on social and economic development in their respective regions. But, the State Governments' own sources of revenue i.e. state taxes and non- tax revenue are inadequate to meet their expanding responsibilities. The States fiscal imbalances began to be focused in the late nineties. The fiscal transfers' mechanism as provided in the Constitution (under Article 268 to 276) is the main instrument in order to correct the fiscal imbalances (i.e. vertical and horizontal imbalances). The fiscal transfers' mechanism is a design of transfer of resources from one layer of Government to the other layer of Government in a particular federation.

The Central Finance Commission is an institutional mechanism of fiscal transfers in India to improve the financial relations of different levels of Government. The role of Central Finance Commission in India was to act as an instrument to transfer the shareable proceeds from the Union Government to State Governments. This Commission recommended the devolution of revenue resources from the Union Government to States according to their financial needs for development purposes. Like other States, Central Finance Commission also transfers resources to Punjab state. However, in the early nineties, the fiscal health of the Punjab state deteriorated and has continued to worsen by accumulating more debt as compared to the growth of state's economy. There is a need of financial support from Union Government to Punjab state. This study has been planned to know the contribution or role of Tenth to Fourteenth Finance Commissions for the growth of Punjab, by recommending the share of central taxes and duties, grants in aid and debt relief to state.

Literature Review

Prakash (1983) conducted a study on the finances of Punjab State. The study examined the role of Central transfers through shared taxes and grants. The study found that the annual rate of growth of Central grants and shared taxes was higher than that of State tax and non-tax revenue which signified the growing importance of Central transfers in the revenue structure of the State. **Aruna (1992)** studied the State Government finances in terms of the trends in revenue and expenditure pattern of Andhra Pradesh Government during 1980-81 to 1989-90. The study showed that the central assistance to the State of Andhra Pradesh attained 303.3 per cent overall rise during the study period. She suggested that the State Governments should increase non tax revenue sources and there was a need for a change in the outlook of Planning Commission and Finance Commission in their approaches in transferring central resources to the States. **Rani (2008)** studied the finances of Punjab State with special reference to the working of the Planning Commission and Finance Commission. The study was based on the secondary data and covered the period from 1981-82 to 2005-06. The study indicated that the Planning and Finance Commissions have adopted the criteria regarding transfer of resources which were not favourable for the developed States like Punjab and West Bengal. So, the development path of these States was affected, especially of Punjab. **Bala (2010)** studied the Centre-State financial relations and economic development of Punjab. The system of federal government had not proved to be very fruitful for Punjab's economic development. The study recommended that the Central Government should enhance its resource allocation to Punjab keeping in view the developmental plans, changing needs of state economy and current phase of economic transition through which the state is passing. Most of the reviewed studies are related to Punjab state finances. These studies show that the central transfers are always remaining important for improving the financial position of Punjab but the criteria adopted by Finance Commissions was not favourable for developed states. These studies are not the detail study of particular Finance Commission for analyzing the recommendations given by it in favour of Punjab state. That's why; the present study is to be required to know the detail analysis of recommendations given by the Tenth to Fourteenth Finance Commissions in favour of Punjab state and its local bodies.

Objectives

The objectives of the present study are given below:

- To study the role of Central Finance Commission in Punjab State finances.
- To study the role of Central Finance Commission in improving the financial position of Local Bodies in Punjab.

Research Methodology

The Central Finance Commissions have made recommendations for next five-years (which is called award period). The data for the award period (i.e. 1995-2000 to 2015-2020) of Tenth to Fourteenth Finance Commission has been collected from secondary sources. The data has been collected from the books, journals and reports of various Finance Commissions. The data has also been collected from the web sites. The collected data is tabulated and analyzed by using Annual Growth Rate.

Findings

The role of Central Finance Commission in Punjab can be analyzed on the basis of recommendations given by different Finance Commissions in favour of Punjab for sharing of taxes, duties and grants-in-aid. The study is based on post reform period so the role of Tenth, Eleventh, Twelfth, Thirteenth and Fourteenth Finance Commissions in Punjab has been studied.

1. Sharing of Central Taxes and Duties

Table I depicts the share of Punjab in total share recommended to all States in Central taxes and duties by Tenth to Fourteenth Finance Commission. It can be seen from the table I that the Tenth Finance Commission recommended 1.461 per cent share for Punjab in each of shareable income tax and union excise duties. It also recommended 3.422 per cent share in shareable additional excise duty and 3.280 per cent share in grant in lieu of passenger fare tax for Punjab. The table I shows that from Eleventh to Fourteenth Finance Commission, Punjab has got the share in all recommended shareable Central taxes to States. The share of Punjab in all shareable taxes excluding service tax has marginally increased from 1.147 per cent under Eleventh Finance Commission to 1.577 per cent under Fourteenth Finance Commission as shown in Table I.

2. Grants-in-aid to Punjab

Table II represents the grants for non-plan revenue deficit, upgradation and special problems, disaster relief, maintenance, education and environment, improving outcomes and for Local Bodies recommended by Tenth to Fourteenth Finance Commission in their award period to Punjab. It shows that the total recommended grants increased from Rs. 429.06 crores under Tenth Finance Commission to Rs. 8482.07 crores in Fourteenth Finance Commission but the Thirteenth Finance Commission recommended the different types of grants to Punjab as compared to other Commissions. The table shows that the Fourteenth Finance Commission recommended only two types of grants to Punjab because it observed that the mechanism of Finance Commission grants may not be appropriate to improve the fiscal relations between Union and States.

Due to the 73^{rd} and 74^{th} amendments, all these Commissions have given the importance to Local Bodies in Punjab. The recommended grants for Local Bodies to Punjab have shown increasing trend from Tenth (Rs. 133.95 crores) to Fourteenth Finance Commission (Rs. 6544.07 crores). The table II depicts that more grants were recommended for PRIs to Punjab as compared to ULBs under all these Finance Commissions. It also shows that the annual growth rate of total grants was higher (77.4%) in case of Twelfth Finance Commission as compared to other Commissions.

3. Debt Relief to Punjab

The report of Tenth Finance Commission showed that during 1995-2000, an amount of Rs. 1471.90 crores was due for repayment on account of special term loans by Punjab Government which were given to it to fight militancy and insurgency. While keeping in mind the purpose of loan and need for the State to strengthen its development efforts, it recommended that one-third of the amount due for repayment during 1995-2000 should be ignored. The estimated debt relief of the State was Rs. 490.63 crores during its award period. The Eleventh Finance Commission recommended that a moratorium on payment of installments of debt and interest during the period 2000-05 on the Special Term loan (Rs. 3772 crores) due for repayment may be given to the State of Punjab so that the State was able to build its economy and should be in a better position to repay the loan and the interest accruing thereon in subsequent years. It further recommended that debt relief to Punjab and Jammu Kashmir on the basis of specified expenditure incurred on security.

The Twelfth Finance Commission recommended that the Punjab State would get the relief in interest payment of Rs. 523.18 crores and Rs. 351.48 crores on repayment of principal amount during the award period of 2005-10 on account of consolidation of Central loans to States contracted till 31.3.2004 and outstanding on 31.3.2005. It further recommended that the moratorium on repayments and interest payments on the outstanding special term loan of Rs.3772 crores as on 31.03.2000 given to Punjab may continue for another two years i.e. up to 2006-07, during this time the Central Government must finalize the quantum of debt relief to be allowed in terms of the recommendations of the Eleventh Finance Commission.

The Thirteenth Finance Commission recommended that during the period 2010-11 to 2014-15, Punjab was eligible for relief of Rs. 703.34 crores in case of loans from National Small Saving Fund (NSSF) according to the conditions prescribed. There was no specific provision mentioned regarding the debt relief for Punjab in the report of Fourteenth Finance Commission.

Conclusion and Suggestions

At last, it can be concluded that these Commissions in its award period have made relevant efforts to improve the financial position of Punjab State Government as well as Local Bodies in Punjab by recommending the devolution of resources in different forms from the Union Government. But still the financial health of Punjab State is not good enough. The reviewed literature already shows that the system of federal government has not proved to be very fruitful for developed states. The own revenue sources of Punjab Government are inadequate to cover up its expenditure for development of State's economy, so its dependence on central funds are increasing day by day. The study suggested that the successive Finance Commission should recommend the increased share of Punjab in resources transferred by Union Government.

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Table I

Percentage Share of Central Taxes and Duties recommended by Tenth to Fourteenth Central Finance Commission to Punjab

Finance Commission	Percentage Share
Tenth Finance Commission	1.461(in income tax and union excise duties) 3.422(in additional excise duty) 3.280(in grant-in-aid in lieu of passenger fare tax)
Eleventh Finance Commission	1.147
Twelfth Finance Commission	1.299
Thirteenth Finance Commission	1.389
Fourteenth Finance Commission	1.577

Source: Compiled from the Reports of Tenth to Fourteenth Finance Commission of India.

Table II

Total Grants to Punjab from Tenth Finance Commission to Fourteenth Finance Commission

(Rs. in crore)

Items	Tenth Finance Commission	Eleventh Finance Commission	Twelfth Finance Commission	Thirteenth Finance Commission	Fourteenth Finance Commission
Non-Plan Revenue Deficit Grants	-	284.21	3132.67	-	-
Grants for Upgradation and Special Problems/Specific needs	81.31	110.01	96	1480	-
Disaster Relief Fund	213.80	508.57	605.16	948.8 (including capacity building of 24.96)	1938
Maintenance Grants	-	-	584.76	612	-
Education and Environment	-	-	-	553.2	-
Improving Outcomes	-	-	-	192.4	-
Grants for Local Bodies: (1) PRIs (2) ULBs	133.95 103.35 30.60	209.37 154.64 54.73	495 324 171	1753.8 1125.1 628.7	6544.07 4091.13 2452.94
Total Grants	429.06	1112.16 (61.4%)	4913.59 (77.4%)	5540.2 (11.3%)	8482.07 (34.7%)

Source: Annual Financial Statement and Explanatory Memorandum on the Budget of the Government of Punjab 2009-10, 2013-14 and report of Fourteenth Finance Commission.

Note:

1. Bracket denotes annual growth rate.
2. In Thirteenth Finance Commission, an amount of Rs. 60000 crore (comprises of three grants i.e. GST compensation grant of Rs. 50000 crore, grant for reduction in IMR of Rs. 5000 crore and renewable energy grant of Rs. 5000 crore) is not included in the total transfers to all States for calculation of percentage share of Punjab because the Statewise allocation of these grants are not possible at this stage as this is dependent on their future performance.
3. Maintenance Grants includes maintenance of roads & bridges, buildings, forests and heritage conservation.