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ANALYSIS**

TOPIC

**DISPARITIES IN INTRA-STATE
FUND TRANSFERS**

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DISPARITIES IN INTRA-STATE FUND TRANSFERS

Context

- Given the rising levels of inequality and disparity among the States, it is important the **16th Finance Commission** gives **intra-State disparities as much importance as inter-State disparities**.

Understanding Regional Disparities in Finance Commission Devolutions

- The **Finance Commission** in India plays a crucial role in distributing financial resources between the central government and the states. Its recommendations impact state finances, development, and governance.
- One critical aspect it grapples with is the balance between equity and efficiency.

Intra-State Disparities

- While inter-state disparities have received significant attention, **disparities within states — often referred to as intra-state disparities**—are equally important. These disparities can manifest in various ways, such as **differences in income, infrastructure, and access to public services**.
- It extends to **institutional capacities, healthcare facilities, education, and more**. As a result, a development-disparity paradigm emerges, leaving certain regions lagging behind.
- Uneven Landscape:** Within a state, there's often a stark asymmetry between the capital city and its peripheral districts. For example, **Bangalore for Karnataka** and **Mumbai in Maharashtra** etc.
 - The capital tends to hog the lion's share of government expenditure, while the other districts remain comparatively neglected.
- These **intra-state disparities** can have **far-reaching consequences** for development, social harmony, and overall well-being.
- Addressing them becomes politically crucial, especially given the rise of neoliberalism and the institutionalisation of fiscal discipline.

Consequences

- Neglected districts breed resentment. When people feel left behind, their grievances find expression — sometimes in the form of violence.
- Districts lying along **India's red corridor**, spanning states like **Bihar, Jharkhand, Chhattisgarh, and Odisha are affected by Left-wing extremism (LWE)**.
- These districts constitute the bottom rung of our developmental pyramid. Their sense of neglect, whether real or perceived, has **fueled Maoist insurgency**.

Neglected Districts

- An earlier study by the **12th Finance Commission** highlighted shocking disparities in government expenditure across five Hindi-belt states and West Bengal.
- For instance, the per capita health expenditure in Arwal district was a mere ₹14, while in Patna district, it stood at 927. Similar disparities existed across other states as well.
- Unfortunately, without effective equalisation measures, these disparities persist.

Finance Commission

- It is a Constitutionally mandated body that is at the centre of **Fiscal Federalism**. It is **constituted by the President of India** under **Article 280 of the Constitution**.
- The Constitution requires a Finance Commission (FC) to be **set up every five years**, and the **1st Finance Commission** was constituted vide Presidential Order under the **chairmanship of Shri K.C. Neogy** on 6th April 1952.
- The **15th Finance Commission's** mandate was extended by a year till 2025-26, breaking the cycle.

15th Finance Commission

- It was constituted **in 2017** under the **chairmanship of N K Singh** against the backdrop of the abolition of the Planning Commission (as also of the distinction between Plan and non-Plan expenditure) and the introduction of the Goods and Services Tax (GST), which has fundamentally redefined federal fiscal relations.
- The **Terms of Reference (ToR)** of the current Commission have some distinctive features, including recommending monitorable performance criteria for important national flagship programmes and examining the possibility of setting up permanent non-lapsable funding for India's defence needs.

16th Finance Commission

- It was constituted by the Government of India, with the approval of the President of India, in pursuance to **Article 280(1) of the Constitution, under the Chairmanship of Dr. Arvind Panagariya.**
- It focuses on **devolution of the consolidated fund to states and local bodies.**
- Its recommendations will cover a period of **five years starting from April 1, 2026.**
- **Grants-in-Aid Principles:** Define principles governing grants-in-aid of State revenues from the Consolidated Fund of India.
- Specify sums to be granted to States under **Article 275**, excluding purposes specified in provisos to **clause (1) of that article.**
- **Augmentation of State Consolidated Fund:** Recommend measures to enhance the Consolidated Fund of a State.
 - ♦ It aims **to supplement resources for Panchayats and Municipalities** within the State, based on recommendations from the respective State Finance Commissions.

Role of Finance Commission

- It plays a crucial role in resource allocation. Traditionally, the FC has followed principles of equity, equalisation, and efficiency.
- When determining the inter-se share of individual states, equalisation—aiming to address inter-state disparities — has been a dominant factor.
- The income distance criterion, which considers how far a state's per capita income lags behind the highest-per-capita income state, guides these transfers. But this approach doesn't account for intra-state disparities.

Equity vs. Efficiency

- The tension between **equity (fairness) and efficiency (resource optimisation)** lies at the heart of Finance Commission deliberations.
- Successive Finance Commissions **need to trade-off both equity and efficiency** in a system that prioritises resource management efficiency over social justice.

Norm-Based Equalisation

- Over the years, the concept of 'equalisation' has gained prominence. The objective is to equalise basic services across states at an average level.
- The **12th Finance Commission**, for instance, **aimed to achieve both equity and efficiency** within a framework of fiscal consolidation.
- However, critics argue that norm-based approaches sometimes fail to address regional disparities effectively.

Rural and Urban Local Bodies

- In the **three-tier system** of governance in India, the **weakest link** has always been the **last tier of the Rural and Urban Local Bodies.**

- There are **about 250,000 and 5,000 Rural and Urban Local Bodies respectively** in India, which are institutions of political participation and governance at the grassroots level.
- The **73rd and 74th Constitutional Amendments** legitimise their authority and mandated the constitution of the **State Finance Commission (SFC)** by every State to recommend devolution of State resources to the local bodies, **just as the Union Finance Commission** recommends devolution of Central resources to the States.
 - ♦ However, these local bodies are beset with many structural weaknesses due to lack of capacity, skill and resources.
- Most States have now constituted their SFCs, but in the **absence of relevant data on income and other backwardness parameters**, there is **no equalisation criteria** in the transfers recommended by them.

Way Forward: A Call for Intra-State Equity

- Given the rising levels of inequality and disparity, it's high time that intra-state disparities receive as much attention as their inter-state counterparts.
 - ♦ The 16th Finance Commission should consider mechanisms to address these gaps within states.
- It needs to consider allocating resources **not just based on income distance** but also with an eye toward **levelling the playing field within states**.
- Understanding and addressing both inter-state and intra-state disparities are essential for effective finance commission devolutions.
- Balancing equity and efficiency remains a delicate task—one that requires thoughtful policy design and a keen awareness of regional nuances.

Mains Practice Question

[Q] How does the increasing disparity in intra-state fund transfers in India impact regional development and social equity? Analyse the role of the Finance Commission of India to address this issue?