

EVA STALIN IAS ACADEMY

12/24, Muthuranga Mudali St, next to Deepam Hospital,
West Tambaram-600045

Central transfers and the issue of shares of some States

There are many issues that the Sixteenth Finance Commission will have to deal with. In this article, we focus on one issue which has been raised by many States, particularly those in the south of India. The issue (or the complaint) is that these States have been facing a decline in their share out of the resources transferred from the Centre to the States, from Finance Commission to Finance Commission.

In finding a solution to this issue, we need to look at: which States have been gaining and which are losing their share over time; the criteria of horizontal distribution which has led to some States steadily losing their share; and what can be done to reverse this trend.

In Table 1, the shares of groups of States and those for selected States are shown, for the Twelfth Finance Commission to the Fifteenth Finance Commission (final report). In the case of the southern States, there has been a steady fall in their share, from 19.785% to 15.800%. In a comparison of these two Commissions, the northern and eastern States have also lost. The 'gainer States' were the hilly, central, and western States including Maharashtra.

The distance criterion

The shares of individual States in tax devolution depend on the criteria and the weights used by different Commissions. Table 2 provides a list of the different criteria used by Finance Commissions, from the Twelfth to the Fifteenth.



C. Rangarajan

is former Chairman, Prime Minister's Economic Advisory Council and former Governor, Reserve Bank of India



D.K. Srivastava

is former Director, Madras School of Economics

The income distance criterion and cesses and surcharges are areas that need review

Table 2: Relative weights for different tax devolution criteria: FC12 to FC15 [2]

#	Criteria	FC12	FC 13	FC 14	FC 15 (final)
1	Population	25	25	17.5	15.0
2	Demographic change	-	-	10	12.5
3	Income/ fiscal capacity distance	50	47.5	50	45.0
4	Area	10	10	15	15.0
5	Forest cover	-	-	7.5	10.0
6	Tax effort	7.5	-	-	2.5
7	Fiscal discipline	7.5	17.5	-	-

Source (basic data): Reports of Finance Commissions (Twelfth to Fifteenth)

Table 3: Share of Centre and States in combined revenue (%)

FC period	Pre-transfer		Post-transfer	
	Centre	States	Centre	States
12th FC	64.3	35.7	38.7	61.3
13th FC	61.8	38.2	36.1	63.9
14th FC	62.3	37.7	31.9	68.1
15th FC (first 3 years)	62.6	37.4	31.3	68.7
2020-21	62.3	37.7	29.3	70.7
2021-22	64.1	35.9	32.3	67.7
2022-23	61.5	38.5	32.5	67.5

Source (basic data): IPFS, Union Budget documents, RBI
Notes: (1) Transfers include tax devolution and Finance Commission as well as other grants. (2) Grants from the Centre to States after 2015-16 are taken from the Union Budget. It includes grants-in-aid to the Union Territories.

Share of States/groups of States in tax devolution

Table 1: Share of States (%) in Commission-wise tax devolution for groups and selected States

Region	Overall				Overall	Distance criterion
	FC12	FC13	FC14	FC15 (final)		
Northern of which:	32.666	33.031	30.285	30.897	-1.769	4.907
Bihar	11.028	10.917	9.665	10.058	-0.970	0.862
Uttar Pradesh	19.264	19.677	17.959	17.939	-1.325	2.509
Central	12.726	12.392	13.767	14.564	1.838	1.298
West of which:	14.434	14.359	14.478	16.207	3.773	2.822
Maharashtra	5.082	5.284	5.649	6.317	1.235	1.758
Gujarat	3.625	3.101	3.156	3.478	-0.147	-0.089
Southern of which:	19.785	18.575	17.978	15.800	-3.985	-8.055
Tamil Nadu	5.395	4.969	4.023	4.079	-1.226	-1.736
Eastern	15.453	15.671	15.277	15.179	-0.274	-0.192
Hilly	3.639	4.421	6.361	7.353	3.714	-0.020

Source (basic data): Reports of Finance Commissions (Twelfth to Fifteenth) and writers' estimates
Notes: (1) The Fifteenth Finance Commission had submitted two reports. Here, the reference is to the final report. (2) Shares are not strictly comparable across Commissions because of change in the status of Jammu and Kashmir for FC15.

The distance criterion has been accorded the highest weight amongst these criteria. Its weight was reduced from 50% to 47.5% by the Thirteenth Finance Commission and further reduced to 45% by the Fifteenth Finance Commission. Earlier, the Eleventh Finance Commission had given this criterion a weight of 62.5%. The equalisation principle has always been regarded in India and elsewhere as a key principle governing distribution. Economic and social justice demand this.

The main reason for the loss of the southern States is the income distance criterion (Table 1). Distance criterion means that the farther a State is from the highest income State, the higher its share. The main reason for the gain of the hilly States is area/forest criterion, although its impact is not separately shown. Between these two Finance Commissions, the loss to the southern States due to the distance criterion amounted to 8.055% points, although the overall loss was much less at 3.985% points, implying that there was a gain under other criteria.

Although on account of the distance criterion,

low-income States such as Bihar and Uttar Pradesh have gained over time, they have lost on account of other criteria. Bihar and Uttar Pradesh show, in terms of their overall share, a loss of 0.970% points and 1.325% points.

On population

One other criterion that has caused some controversy is population. Until the Fourteenth Finance Commission, the data for the population in 1971 was used. For the Fifteenth Finance Commission, data for the population in 2011 was used. However, in order not to penalise States that showed better performance in reducing fertility rates, the demographic change criterion was introduced. The joint impact of these two changes has been marginal for all groups of States. For Tamil Nadu, the joint impact was marginally positive.

Steps to take

As mentioned, we cannot give up the income distance criterion. Some raise the question whether such a criterion can continue indefinitely. This is a legitimate question. But this question can be raised in relation to many other issues. Perhaps one step that the Sixteenth Finance Commission can consider is to reduce its weight while correspondingly raising the weights attached to other criteria.

Related to the question of share is also the quantum of the divisible pool. While accepting the recommendation of the Fourteenth Finance Commission to raise the share of all States to 42% from 32%, the Centre increased the cesses and surcharges, thereby reducing the size of the divisible pool. This is not desirable. One option is to limit the share of cesses and surcharges to 10% of the Centre's gross tax revenues. After the recommendation of the Fourteenth Finance Commission, the share of the States in the combined revenue receipts increased from 63.9% to 68.1% (Table 3). It increased further to 70.7% in 2020-21. Since then, it has fallen to 67.5% in 2022-23, although this level is still higher than 61.3% in the Twelfth Finance Commission period.

To sum up, there is a case to address the issue raised by some of the States regarding their declining shares. The major factor contributing to this situation is the adoption of income distance criterion and giving it a weight as high as 45%. But in any scheme of fair distribution, this criterion cannot be given up.

The Finance Commission can reduce the weight of this criterion by 5% to 10% points. Also, cesses and surcharges may be subjected to some upper limit by the Sixteenth Finance Commission.

The views expressed are personal

EVA STALIN IAS ACADEMY

12/24, Muthuranga Mudali St, next to Deepam Hospital,
West Tambaram-600045

A tribe in the Western Ghats in need of a lifeline

In Karnataka's section of the Western Ghats, lies Makuta village, under Betoli gram panchayat of Virajpet taluka in Kodagu district. More specifically, the village falls under the Makuta Aranya Valaya which is in the vicinity of the Kerti reserved forest. This area is in the Talacauvery sub-cluster, identified as one of the 10 World Heritage Sites in Karnataka and is a region of dense tropical evergreen forests that have remained undisturbed to a large extent.

The village has a Girijan colony inhabited by the 'Phani Yerava' tribe. In 2021, with the help of two local people including a Muslim gram panchayat member, all the 19 Yerava households here were able to successfully claim their 'land' in the forest, under the Forest Rights Act. In a joint survey conducted by the Forest, Revenue and Social Welfare Departments, officials found that the Yervas reside on 135 acres of forest land, right from the time of their ancestors.

When asked about the importance of acquiring forest rights, the tribals did not appear to be very enthusiastic because their dependence on the forest exclusively for their livelihood has been reducing over some time.

The reason they gave was that they found going into the forest to collect minor forest produce to be a tiresome job. Besides, selling the produce was no longer lucrative given the volatile market and also rampant exploitation by middlemen. This bitter experience led them to believe that for the same effort, they would get better wages if they worked as labour. Hence, working as daily labour (casual or agriculture) is now the primary occupation of these forest dwellers. The majority of them prefer to go to Kasaragod in Kerala State which is less than 10 kilometres from their habitation, as they are comfortable speaking Malayalam.



Madhusudan Bandi

is a faculty member with the Gujarat Institute of Development Research, Ahmedabad, Gujarat

Issues such as alcohol abuse that are threatening to overwhelm the 'Phani Yerava' tribals in Karnataka need to be on the policy radar

Nevertheless, along with fuelwood and honey, the other minor forest produce they collect includes *dhoopa* (*Vateria indica*)/incense, and *shekakai* (soap pod). The quantity collected depends on the availability of the produce in the forest as well as the need to procure them. However, most of those who gather forest produce said that the amount they collected was most often for their own consumption. There is no stockpiling.

The scourge of addiction

However, there is an issue that is a cause for worry. When this writer-researcher visited them to understand their socio-economic status after the implementation of the Forest Rights Act, almost the entire community was found to be in an intoxicated state due to alcohol abuse. According to non-tribal locals and others in the area, they picked the habit in the city seeing other labourers doing the same in the evenings after returning home to unwind after the pain from the day's hard work. Not surprisingly, the tribals in the village were not in a position to recall how they got into this. Even adolescent children have taken to this vice. This has affected children's attendance in schools too. Intoxication has slowly turned the community's life into one of a miserable existence. As a result, the community is found to be uninformed about happenings in the external world around them. Given this development, important documents such as ration cards, Aadhar cards, voter identity cards, or even government documents such as rights given under the Forest Rights Act have to be kept in the safe custody of trustworthy non-tribal members.

Officials from the Department of Social Welfare working in this area have also been concerned

about this issue because they find the state of the habitants to be 'disheartening'. A case worker, who expressed deep empathy for them, said that efforts are being made to conduct a de-addiction drive. In another habitation in Nerugalale gram panchayat in Somwarpet taluka in the same district, a headman of the 'Yarava' tribe expressed sadness that a number of his relatives had lost their lives due to addiction. He cited this as the cause behind the population in his hamlet reducing to half. He hoped that good sense would prevail and that the tribals would lead a vice-free life.

It was the same story, but with varying degrees, in every tribal village that this writer-researcher visited in the Western Ghats region in Karnataka during the study (this article is drawn from a larger research study titled "Tribals, Forest Rights and Heritage Conservation: A Study of Western Ghats in Karnataka", sponsored by the Indian Council of Social Science Research, New Delhi).

Non-government organisation activists and government officials working in the jurisdiction of the villages have said that such issues do not get enough attention in the policy matters in the State – a view also expressed by the leaders of some local tribal communities such as the Hasalaru, Gowdalu, and Jenu Kurubas. According to them, only a few communities which are numerically dominant among the Scheduled Tribes have been gaining benefits over recent years, in every walk of life. They expressed the wish that the government should consider these kinds of social issues seriously and take steps that are in the best interest of those groups. It is only then, they believe, that existential concerns such as addictions haunting forest dwellers can be addressed effectively.