PUBLIC FINANCE VERTICAL AND HORIZONTAL IMBALANCES

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- Vertical and horizontal imbalances are common features of most federations and India is no exception to this.
- The Constitution assigned taxes with a nation-wide base to the Union to make the country one common economic space unhindered by internal barriers to the extent possible.
- **vertical imbalances :** States being closer to people and more sensitive to the local needs have been assigned functional responsibilities involving expenditure disproportionate to their assigned sources of revenue .
- Horizontal imbalances across States are on account of factors, which include historical backgrounds, differential endowment of resources, and capacity to raise resources

- In addition to provisions enabling transfer of resources from the Centre to the States, a distinguishing feature of the Indian Constitution is that it provides for an institutional mechanism to facilitate such transfers. transfer of resources from the Centre to the States,

- The institution assigned with such a task under Article 280 of the Constitution is the Finance Commission, which is to be appointed at the expiration of every five years or earlier.

Indian Constitution embodies the following enabling and mandatory provisions to address them through the transfer of resources from the Centre to the States

- Levy of duties by the Centre but collected and retained by the States (Article 268)
- Taxes and duties levied and collected by the Centre but assigned in whole to the States (Article 269).
- Sharing of the proceeds of all Union taxes between the Centre and the States under Article 270.
- Statutory grants-in-aid of the revenues of States (Article 275)
- Grants for any public purpose (Article 282).
- Loans for any public purpose (Article 293).

Under the Constitution, the main responsibilities of a Finance Commission are the following:

- The distribution between the Union and the States of the net proceeds of taxes which are to be divided between them and the allocation between the States of the respective shares of such proceeds.
- Determination of principles and quantum of grants-in-aid to States which are in need of such assistance.
- Measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State.

- The last function was added following the 73rd and 74th amendments to the Constitution in 1992 conferring statutory status to the Panchayats and Municipalities.

- These Constitutionally mandated functions are the same for all the Finance Commissions and mentioned as such in the terms of reference (ToR) of different Finance Commissions.

- To enable the Finance Commission to discharge its responsibilities in an effective manner, the Constitution vests the Finance Commission with power to determine its procedures.

- Under the Constitution, the President shall cause every recommendation made by the Finance Commission together with an explanatory memorandum as to the action taken thereon to be laid before each House of Parliament.

What is a consolidated fund ?

- Consolidated Fund of India is the most important of all government accounts. Revenues received by the government and expenses made by it, excluding the exceptional items, are part of the Consolidated Fund.
- All revenues received by the government by way of direct taxes and indirect taxes, money borrowed and receipts from loans given by the government flow into the Consolidated Fund of India.
- All government expenditure is made from this fund, except exceptional items which are met from the Contingency Fund or the Public Account. Importantly, no money can be withdrawn from this fund without the Parliament's approval.