

UPSC

(Please do not write anything except the question number in this space)

कृपया इस स्थान में प्रश्न संख्या के अतिरिक्त कुछ न लिखें।

Answer Questions in NOT MORE THAN the Word Limit specified for each in the Parenthesis.
Content of the Question is more important than length.
(Specimen Answer Booklet - For Practice Purpose Only)

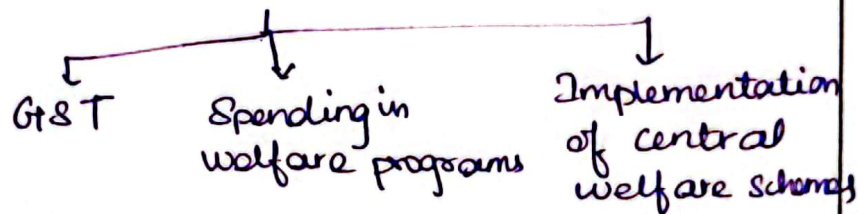
उम्मीदवारों को इस स्थान में केवल प्रश्न संख्या लिखनी चाहिए।
Candidates must not write on this margin

FISCAL FEDERALISM

Fiscal federalism refers to the relation between federal governments in respect to finance. Article 246 & 7th schedule of the Constitution gives the list of things governed by state and central government.

Finance is in the concurrent list which can be shared by both central & state.

ISSUES IN FISCAL FEDERALISM



GST

The collection of taxes and allocation of income is always an issue between center & state regarding taxes for various goods, compensation cess.

These issues are sorting out by GST council which have representatives from both central and state government.

Spending in welfare program

State have to prioritize the welfare program spending. Discretionary expenditure have to be minimized.

Welfare schemes in current demand & formation leads to fiscal deficit in the state's income. Investment in capital formation will be a long term beneficiary step.

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~~Imp~~ The fiscal deficit has been monitored by RBI which found the downfall in the state's income by UDAY scheme. The GSDP (Gross State Domestic Product) has been decreased from 22.6 in 2013 to 33.2 in 2020.

Central government issues

Horizontal imbalance by changing planning commission by NITI Aayog.

Vertical imbalance → Investments at local government level is always an issue and cannot be rectified.

Unequal distribution of funds among states with different needs.

Way forward:

Decentralisation of funds to reach the local level government.

Transparent function of NITI Aayog & Finance Commission which is effective & independent.

Prioritisation of welfare schemes + fund allocations.

Raising additional resources at sub-national level

Center to maintain fiscal discipline to ensure the sustainability of fiscal federalism