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Introduction

- The Eleventh Finance Commission constituted by the President on July 3, 1998 with Prof. A.M. Khusro as its Chairman and Mr. Amaresh Bagchi, Mr. M.C. Jain, Mr. J.C. Jetli, Mr. T.N. Srivastava, Mr. D.K. Srivastava and Mr. K.M. Thomas.

- The seven member commission has been directed to submit its report covering a period of five years (2000-2005) commencing from April 1, 2000. The Eleventh Finance Commission was given the liberty to evolve its own methodology for the purpose.

- **Recommendations:**

(i) A lump-sum provision of Rs 11,000 crore in the Central Budget 2000-2001 for revenue deficit grants to states.

(ii) For the period of five years commencing from April 1, 2000, the total share of the States in the net proceeds of Union taxes and duties would be 29.5 per cent.

(iii) Grants totaling to Rs 4,972.63 crore be given towards upgradation of standards of administration and specific grants to certain States for special problems for the five years commencing from April 1, 2000.

(iv) Grants totaling Rs 10,000 crore for local bodies during 2000-2005, to be utilised (except the amountearmarked for maintenance of accounts and audit and for development of database) for maintenance of civic services (excluding payment of salaries and wages). Of this, Rs 1,600 crore per annum is for rural local bodies and Rs 400 crore per annum is for urban local bodies.

(v) Continuance of the existing scheme of Calamity Relief Funds in States with an aggregate size of Rs 11,007.59 crore during 2000-2005. This includes the Centre's share of Rs 8,255.69 crore, and the States' share of Rs 2,751.90 crore. Discontinuation of the existing National Fund for Calamity Relief.

The Central assistance to the States in national calamities should be financed by levy of a special surcharge on the central taxes for a limited period and to be kept in a separate fund, to be known as National Calamity Contingency Fund, created in the Public Account of the Government of India.

(vi) In deciding the total quantum of devolution of share in Central taxes/duties to States and grants-in-aid to States, tax devolution and plan/non-plan grants from the Centre to the States should not exceed 37.5 per cent of total Centre's revenues, both tax and non-tax.

(vii) Grants-in-Aid under Article 275(1) of the Constitution, amounting to Rs 35,359 crore during 2000- 2005 to be provided to such States (15 States) which will have deficit non-plan revenue account even after the devolution of central tax revenues, equal to the amount of deficits assessed during the period 2000-2005.

(viii) In its Supplementary Report, the majority view had recommended monitor able fiscal reforms programmes for all States.

(ix) For the purpose of drawing up State-specific monitor able fiscal reforms programmes, a monitor able fiscal reforms programme aimed at reduction of revenue deficit of the States is envisaged.

(x) A group designated as Monitoring Agency may be constituted by the Government of India for drawing up State-Specific monitor able fiscal reforms programmes for all States in the context of the broad parameters suggested by the EFC and as accepted by Government of India.

Thus from the aforesaid recommendations, it is observed that EFC has recommended devolution of 28 per cent of the revenue from central taxes to states and has also recommended transfer of additional 1.5 per cent of the net proceeds of Central taxes to those states which do not levy sales tax on sugar, tobacco and textiles, making the total devolution to 29.5 per cent of the net proceeds of Union taxes and duties.

The EFC has also put a cap on the overall Central taxes and non-tax transfers at 37.5 per cent of the gross receipts.

The EFC has also recommended discontinuation of the existing National Fund for Calamity Relief and instead suggested setting up of a 'National Calamity Contingency Fund' which would be created with an initial outlay of Rs 500 crore.

Evaluation:

The EFC was called upon to recommend measures not only for fair sharing of both tax and non-tax revenue between the Centre and States but also to provide scheme of things that brings down the fiscal deficits attained by both the Centre and the States to the minimum within next five fiscal years.

The report of the Commission accepted by the government at the Centre stressed on the paramount importance of reducing the revenue expenditure drastically and putting a cap on guarantees given by the Centre to the States for borrowings, through an amendment of the constitution.

It has also rightly linked transfer of shareable resources from the Centre to States partly to fiscal discipline and suggesting indexing of user changes by tariff commissions on electricity, railway tariff, administered prices etc. and also to constitute an independent body to regularly revise royalty on minerals.

The EFC suggests that the Centre also, like the States, should go for priority based government expenditure, tightening of expenditure on salaries, pensions, interest payments and subsidies.

Apart from suggesting the taxing of the farm sector and imposition or services tax on a larger scale to improve buoyancy of indirect taxes and amendment of the Constitution to impose professional tax, the Commission has recommended the discontinuance of the National Calamity Fund and setting up of National Centre for Calamity Management.

Recommendations:

(i) The EFC was not able to provide the required amount of resources to the States from the Centre.

(ii) The EFC also failed to offer any realistic suggestion to check evasion of taxes.

However, in the context of the present unsatisfactory fiscal and financial scenario of the country, the EFC was able to provide a road map for the journey to be undertaken by the Centre and States towards the goal or the minimum fiscal deficit and maximum rate of economic growth.