

45 Finance Commission

Article 280 of the Constitution of India provides for a Finance Commission as a quasi judicial body. It is constituted by the president of India every fifth year or at such earlier time as he considers necessary.

COMPOSITION

The Finance Commission consists of a chairman and four other members to be appointed by the president. They hold office for such period as specified by the president in his order. They are eligible for reappointment.

The Constitution authorises the Parliament to determine the qualifications of members of the commission and the manner in which they should be selected. Accordingly, the Parliament has specified the qualifications of the chairman and members of the commission¹. The chairman should be a person having experience in public affairs and the four other members should be selected from amongst the following:

1. A judge of high court or one qualified to be appointed as one.
2. A person who has specialised knowledge of finance and accounts of the government.
3. A person who has wide experience in financial matters and in administration.
4. A person who has special knowledge of economics.

FUNCTIONS

The Finance Commission is required to make recommendations to the president of India on the following matters:

1. The distribution of the net proceeds of taxes to be shared between the Centre and the states, and the allocation between the states of the respective shares of such proceeds.
2. The principles that should govern the grants-in-aid to the states by the Centre (i.e., out of the consolidated fund of India).
3. The measures needed to augment the consolidated fund of a state to supplement the resources of the panchayats and the municipalities in the state on the basis of the recommendations made by the state finance commission².
4. Any other matter referred to it by the president in the interests of sound finance.

Till 1960, the commission also suggested the grants given to the States of Assam, Bihar, Odisha and West Bengal in lieu of assignment of any share of the net proceeds in each year of export duty on jute and jute products. These grants were to be given for a temporary period of ten years from the commencement of the Constitution.

The commission submits its report to the president. He lays it before both the Houses of Parliament along with an explanatory memorandum as to the action taken on its recommendations.

ADVISORY ROLE

It must be clarified here that the recommendations made by the Finance Commission are only of advisory nature and hence, not binding on the government. It is up to the Union government to implement its recommendations on granting money to the states.

To put it in other words, 'It is nowhere laid down in the Constitution that the recommendations of the commission shall be binding upon the Government of India or that it would give rise to a legal right in favour of the beneficiary states to receive the money recommended to be offered to them by the Commission'³.

As rightly observed by Dr. P.V. Rajamannar, the Chairman of the Fourth Finance Commission, "Since the Finance Commission is a constitutional body expected to be quasijudicial, its recommendations should not be turned down by the Government of India unless there are very compelling reasons".

The Constitution of India envisages the Finance commission as the balancing wheel of fiscal federalism in India. However, till 2014, its role in the Centre-state fiscal relations was undermined by the erstwhile Planning Commission, a non-constitutional and a non-statutory body. Dr. P.V. Rajamannar, the Chairman of the Fourth Finance commission, highlighted the overlapping of functions and responsibilities between the Finance Commission and the erstwhile Planning Commission in federal fiscal transfers.⁴ In 2015, the Planning Commission was replaced by a new body called NITI Aayog (National Institution for Transforming India).

Table 45.1 *Finance Commissions Appointed so far*

Finance Commission	Chairman	Appointed in	Submitted Report in	Period of implementation of Report
First	K.C. Neogy	1951	1952	1952–57
Second	K. Santhanam	1956	1957	1957–62
Third	A.K. Chanda	1960	1961	1962–66
Fourth	Dr. P.V. Rajamannar	1964	1965	1966–69
Fifth	Mahavir Tyagi	1968	1969	1969–74

Sixth	Brahamananda Reddy	1972	1973	1974–79
Seventh	J.M. Shelat	1977	1978	1979–84
Eighth	Y.B. Chavan	1982	1984	1984–89
Ninth	N.K.P. Salve	1987	1989	1989–95
Tenth	K.C. Pant	1992	1994	1995–2000
Eleventh	A.M. Khusro	1998	2000	2000–2005
Twelfth	Dr. C. Rangarajan	2002	2004	2005–2010
Thirteenth	Dr. Vijay Kelkar	2007	2009	2010–2015
Fourteenth	Y.V. Reddy	2013	2014	2015–2020
Fifteenth	N.K. Singh	2017	2020 (expected)	2020–2026

Table 45.2 *Articles Related to Finance Commission at a Glance*

Article No.	Subject-matter
280.	Finance Commission
281.	Recommendations of the Finance Commission

NOTES AND REFERENCES

1. Vide the Finance Commission Act, 1951.
2. This function was added by the 73rd and 74th Constitutional Amendment Acts of 1992, which have granted constitutional status and protection on the panchayats and the municipalities respectively.
3. D.D. Basu, *Introduction to the Constitution of India*, Wadhwa 19th Edition, 2001, p. 331.
4. Report of the Fourth Finance Commission, New Delhi, Government of India, 1965, p. 88–90.