

Press Release

Speech for the Hon'ble Finance Minister of Tamil Nadu at the Conclave of Finance Ministers on the 16th Finance Commission

Hon'ble Finance Ministers of State Governments,

Respected Finance Secretaries and senior officers of the State Governments,

Distinguished Economists and my dear friends,

Vanakkam,

I would like to sincerely appreciate the Government of Kerala for organizing this conclave of similarly placed States to exchange their views on the 16th Finance Commission. This platform affords an excellent opportunity for all the participating states to voice our shared concerns.

As you all know, the Indian polity has an inherent imbalance in the distribution of powers and responsibilities between the Union and the States. While States are entrusted with the majority of responsibilities related to the development of society and the delivery of public services including education, health, agriculture, social welfare, the Union retains majority of the powers of revenue generation. It is in this context that the successive finance commissions have tried to increase the distribution of net proceeds between Centre and States. However, while 41% has been recommended by the 15th Finance Commission, the effective devolution has been only 31.42% of the gross tax revenue in the first four years of the award.

While on one hand, the effective devolution is less due to imposition of cess and surcharges, on the other, the counterpart funding of the State Governments in centrally sponsored schemes has been increased due to change in the sharing pattern. This has resulted in a double blow to the States, which has reduced their fiscal space for existing and new state schemes for sectors mandated under the constitution.

It is imperative that States collectively advocate for a 50% share in the central tax devolution. We must urge the Commission to ensure that reliance on discretionary grants is reduced, and that predictable and objective resource transfers are increased. The Commission must devise a mechanism to restrict the use of cess and surcharges and recommend appropriate measures to protect the interests of States.

In the experience of Tamil Nadu, the State has been consistently penalized by successive Finance Commissions for its better performance. Its share in devolution has been reduced from 7.931 per cent during the 9th Finance Commission to a mere 4.079 per cent in the 15th Finance Commission. This continuous reduction has caused a loss of Rs.3.57 lakh crore to the State of Tamil Nadu, which is equal to 43 per cent of our outstanding debt. This reduction has not only put a crumbling burden on the State finances, but also reflects the lost opportunity for the State to achieve its full potential.

When deciding the inter-se share of States, all commissions have to make a balance between equity and efficiency. However, an excessive emphasis on redistribution can not only skew incentives in favor of non-performance, but also deprive fast growing regions of critical development resources. When the growth of fast-growing regions is constrained by inadequate resources, the whole nation, including the potential beneficiaries of redistribution, suffers.

It is also important to point out that this approach of redistribution to poorer states has been adopted by every Finance Commission, but even with this approach, the desired levels of development in poorer States have not been achieved. It is an indication that the Commission must rethink its approach and adopt a framework that incentivizes performance and fosters an environment where all States can thrive, rather than constraining the progress of those leading the way.

I look forward to a constructive dialogue in this Conclave and hope that together, we can push for a more balanced approach that supports both equity and growth, ensuring that all states can achieve their full potential.

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