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DEMOGRAPHIC CHANGE –AN OBSTACLE FOR TAMIL NADU IN SHARING OF RESOURCES BETWEEN THE UNION AND THE STATES

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I. INTRODUCTION:

This research is intended to assess the impact of a new factor introduced by the Fourteenth Finance Commission namely demographic change in determining the share of Central taxes to the States. There are three main sources of revenue for the States namely, State's Own Tax Revenue, Share from the Union and Grants-in-aid from the Centre. The States' Own Tax Revenue includes tax revenue such as VAT on Petroleum Products, Liquor, SGST, Excise Duty on Liquor, etc., and non-tax revenue such as fee, fine, charges, etc., and the State Governments are at liberty to spend the amount according to their discretion. Another source of transfer from Centre to the States is Grants-in-Aid. It is meant for three purposes namely, disaster relief, local bodies and revenue deficit as per the recommendations of the Finance Commission. Yet another main source of revenue for the States is sharing of Union taxes. Let us now discuss the factors involved in determining the central taxes to be shared with the States

II. Role of Finance Commission:

As far as Central share is concerned, it is distributed among the States based on the formula prescribed by the Finance Commission. The Finance Commission is a constitutional body formed every five years to give recommendations on Centre-State financial relations. The purpose of constituting Finance Commissions is to set right the imbalances due to vast regional disparities between the States. So far fourteen Finance Commissions were constituted and gave recommendations. The Fifteenth Finance Commission has been constituted during November, 2017 to make recommendations on the transfer of resources from the Centre to States for the five year period between 2020 and 2025. At present, for the period between 2015 and 2020, the central taxes devolved to States are based on the recommendations of the Fourteenth Finance Commission. Most ofthe States have been expecting a sizeable share of the Unionbecause the Centre collects majority of taxes like Income Tax, CGST, Customs Duty, etc. Some of the States are fully dependent on the sharing of Union taxes.The reason for the dependency is that the Stateshave the responsibility of delivering public goods in their areas due to their proximity to local issues and needs

III. Purpose of Study:

In ordertofind out the flow of funds from the Centre to the State of Tamil Nadu as per the award of Fourteenth Finance Commission, the following pointsmust be discussed:

1. Whether there is an increased shareof revenue from the Centre to Tamil Nadu
2. If not, what criteria that affects the growth of transfer.

IV. Flow of Central Share:

The flow of Central share to the States is based on the recommendations of the Finance Commissions. Prior to XI Finance Commission, the sharing of union taxes, there was a compulsory sharing of the net proceeds of the Income Tax (Article 270) and Union excise duties (Article 272) except on medicinal and toilet preparations. After the enactment of Eighth Amendment Act, 2000, Article 272 was dropped and a new article 270 was inserted providing sharing of all the taxes and duties referred to in the Union List except taxes and duties referred to in Articles 268, 269 and surcharges mentioned in Article 271. The following table highlights the flow of Central Share to the States according to 11th, 12th, 13th and 14th Finance Commissions.

Table I-Inter-se Share of States

States	Share of States (in per cent)			
	11th FC	12th FC	13th FC	14th FC
Andhra Pradesh	7.701	7.356	6.937	4.305
Arunachal Pradesh	0.244	0.288	0.328	1.370
Assam	3.285	3.235	3.628	3.311
Bihar	14.597	11.028	10.917	9.665
Chhattisgarh	--	2.654	2.470	3.080
Goa	0.206	0.259	0.266	0.378
Gujarat	2.821	3.569	3.041	3.084
Haryana	0.944	1.075	1.048	1.084
Himachal Pradesh	0.683	0.522	0.781	0.713
Jammu & Kashmir	1.290	1.297	1.551	1.854
Jharkhand	--	3.361	2.802	3.139
Karnataka	4.930	4.459	4.328	4.713
Kerala	3.057	2.665	2.341	2.500
Madhya Pradesh	8.838	6.711	7.120	7.548
Maharashtra	4.632	4.997	5.199	5.521
Manipur	0.366	0.362	0.451	0.617
Meghalaya	0.342	0.371	0.408	0.642
Mizoram	0.198	0.239	0.269	0.460
Nagaland	0.220	0.263	0.314	0.498
Odisha	5.056	5.161	4.779	4.642
Punjab	1.147	1.299	1.389	1.577
Rajasthan	5.473	5.609	5.853	5.495
Sikkim	0.184	0.227	0.239	0.367
Tamil Nadu	5.385	5.305	4.969	4.023
Telangana	-	-	-	2.437
Tripura	0.487	0.428	0.511	0.642
Uttar Pradesh	19.798	19.264	19.677	17.959
Uttarakhand	-	0.939	1.120	1.052
West Bengal	8.116	7.057	7.264	7.324

Source: Finance Commissions Reports

It is seen from the above table that the share of the State of Tamil Nadu has been reduced by 0.946Itis a huge loss for the State of Tamil Nadu. For the year 2015-16, a sum of Rs. 5,14,657.17 crore has been distributed to the States towards net proceeds of union taxes and duties. Of which, a sum of Rs. 20,774.43 crore has been given to the State of Tamil Nadu. If the criteria used by the XIII Finance Commission are used, the share of Tamil Nadu would be Rs. 25,573.31crore. there was a loss of Rs. 4,798.88crores. Likewise, for the year 2016-17, a sum of Rs. 24780.70 crores was distributed to Tamil Nadu and the criteria used by XIII Finance Commission were used, the distribution would be Rs. 30509.41crores. Again there was a loss of Rs. 5,728.61crores. Similarly for the year 2017-18, Rs. 25,847.13 crore was distributed to the State of Tamil Nadu. If the criteria adopted by the XIII Finance Commission are applied, the devolution would be Rs. 31,925.01crores which again resulted in a loss of Rs. 6,077.90crores.For the year 2018-19, a sum of Rs. 7, 68,412.57 crore has been distributed towards net proceeds of union taxes and duties, which accounts for 42% of the total share of union taxes and duties. According to the recommendation of the Fourteenth Finance Commission based on the criteria given at Table II, the amount for Tamil Nadu works out to Rs. 30,913.24 crore. If the formula adopted by the Thirteenth Finance Commission is taken into account, the amount for Tamil Nadu by way devolution works out to Rs. 38,182.42croresfor the year 2018-19. There is a loss of Rs. 7,269.18crore because of the criteria used by the Fourteenth Finance Commission. From 2015-16 to 2018-19, there was a loss of Rs. 23,874.57crore because of the criteria adopted and weight givenby the Fourteenth Finance Commissionto various factors. The share of the Tamil Nadu has been on the decreasing side continuously from the XI Finance Commission and there was a difference of 1.362 per cent between the XI Finance and Fourteenth Finance Commission. The contribution of Tamil Nadu to Union taxes rose by 31% during thefinancial 2016-17. This is due to an increase in direct as well as indirect tax revenue for the Centre. On the other hand, Tamil Nadu receives 4.023% of the Centre’s total allocation from tax revenue each year, as per the 14th Financial Commission recommendations. Though Tamil Nadu opposed the 14th commission recommendations as the percentage of its tax share decreased from the allotment by the previous commission, the state has actually been receiving more money each year. Tamil Nadu’s tax share will be 31,707.09 crorefor 2018-19, compared to Rs. 27,099.72 crore under the revised budget for 2017-18 and 23,986.85 crore in 2016-17.(Medium Term Fiscal Plan -Tamil Nadu Government Budget for the year 2018-19)Though the allocation percentage has decreased by 0.946% under the 14th Finance Commission, the state will get more money in absolute terms from the Centre as the total percentage for sharing the central taxes for all states increased to 42% from 32%. (Statement showing State-wise distribution of net proceeds of Union Taxes and Duties for Actual 2016-17, RE 2017-18 and BE 2017-18 -Receipts Budget 2018-19

There has been a persistent demand from various States, especially the developed States that the Tax Effort has to be taken into consideration in recommending Central transfers to the States. Though the various Finance Commissions agreed that the tax effort should be taken into account in the distribution of Central transfers among the States, the Fifth Finance Commission approved the principle of tax effort for the first time and took into account tax effort in the allocation of grants-in-aid to the States. Thereafter, the 11th and 12th Finance Commissions have given 5% and 7.5% weights to Tax Effort respectively. However, the Thirteenth Finance Commission removed the criteria of Tax Effort and incorporated factor viz. Fiscal Capacity Distance and given a weight of 47.5%. In the absence of tax effort and introducing the new criteria such as demographic change and forest cover with weightage of 10% and 7.5% respectively, Tamil Nadu was put into great hardship. The details of the criteria used by the eleventh, twelfth, thirteenth and fourteenth Finance Commissions are summarized below

Table II-Criteria and Weights

Criteria	Weight (in per cent)			
	11th FC	12th FC	13th FC	14th FC
Population	10	25	25	17.5
Demographic Change (2011 Population)	-	-	-	10
Income Distance	62.5	50	-	50
Area	7.5	10	10	15
Index of infrastructure	7.5	-	-	-
Forest Cover	-	-	-	7.5
Tax Effort	5.0	7.5	-	-
Fiscal Capacity Distance		-	47.5	-
Fiscal Discipline	7.5	7.5	17.5	-

Source: Finance Commissions Reports

On a perusal of the above table, it is seen that the Fourteenth Finance Commission has introduced two new criteria namely Forest Cover and Demographic Change. By comparing the Table I with Table II, it is an established fact that after the removal of factor 'tax effort' in the XI Finance Commission with a weightage of 5 per cent and XII Finance Commission with a weight of 7.5% by the XIII Finance Commission, the share of the Tamil Nadu in devolution of union taxes has come down during the XIII Finance Commission period by 0.381 per cent. During the Fourteenth Finance Commission period, the share of Tamil Nadu has come down heavily by 0.946 per cent. The reason for this was the introduction of Demographic Change factor

V. Criteria adopted by the Fourteenth Finance Commission:

While constituting the Fourteenth Finance Commission, one of the Terms of Reference was that the Commission shall generally take the base of population figures as of 1971 in all cases where population is a factor for determination of devolution of taxes and duties and grants-in-aid; however, the Commission may also take into account the demographic change that have taken place subsequent to 1971. In other words, the Terms of Reference recognized the changing demographic realities and provided a space for the demographic changes that have taken place subsequent to 1971.(Terms of Reference of the Fourteenth Finance Commission) The Commission deliberated on the possible demographic changes that have taken place since 1971. While submitting its memorandum to the Fourteenth Finance Commission, the Government of Tamil Nadu submitted that 33.3% weightage for 1971 Population, 33.3% weightage for Fiscal Capacity and 33.3% weightage for Fiscal Length Discipline should be given.(Criteria and Weights suggested by the States before the Fourteenth Finance Commission -Fourteenth Finance Commission Report)However, the Commission as per the Terms of Reference examined the possible demographic changes that have taken place since 1971 and came to the conclusion that there has been a change in the composition of population and also migration. It was of the view that a large number of migrants pose several challenges resulting in additional administrative and other costs. It was also felt that the pressure of migration to bigger cities does impose fiscal challenges on the destination States and a grant is absolutely necessary to deal with this specific problem. On the basis of the exercise conducted, the Commission decided that a weight to the 2011 population would capture the demographic changes and assigned a 10 per cent weight to the 2011 population. Accordingly, the States with more population during 2011 will get higher share from devolution of funds. (Report of the Fourteenth Finance Commission)

VI. Population of States in India:

In order to see the consequence of the 'Demographic Changes' criteria adopted by the Fourteenth Finance Commission based on the Terms of Reference, a study has to be undertaken with regard to change in population taken place between 1971 and 2011. The details of state-wise population are summarised belo

States	1971	2011	Change in Percentage
Andhra Pradesh	43503	84581	94.4
Arunachal Pradesh	468	1384	296
Assam	14625	31206	113
Bihar	42126	104099	147
Chhattisgarh	11637	25545	120
Goa	795	1459	84
Gujarat	26697	60440	126
Haryana	10036	25351	153
Himachal Pradesh	3460	6865	99
Jammu & Kashmir	4617	12541	171.6
Jharkhand	14227	32988	132
Karnataka	29299	61095	108.5
Kerala	21347	33406	56.5
Madhya Pradesh	30017	72627	142
Maharashtra	50412	112374	122.8
Manipur	1073	2856	166
Meghalaya	1012	2967	193
Mizoram	332	1097	230.5
Nagaland	516	1979	383.5
Odisha	21945	41974	91.2
Punjab	13551	27743	104.7
Rajasthan	25766	68548	166
Sikkim	210	611	191
Tamil Nadu	41199	72147	75
Tripura	1556	3674	136
Uttar Pradesh	83849	199812	138.3
Uttarakhand	4493	10086	124.5
West Bengal	44312	91276	106

Source: Economic Survey, 2014-15, Government of India

On an examination of the above table, anyone can easily understand that the population of India has crossed 1 billion mark. It is a fact that India is the second most populous country in the world after China. According to the above table, Kerala stood first in controlling the population followed by Tamil Nadu, Goa, Odisha, Andhra Pradesh and Himachal Pradesh. Between 1971 and 2011, over a period of forty years, the population of Tamil Nadu was increased only by 75%. The population growth was more than doubled in States like Nagaland, Arunachal Pradesh, Mizoram, Meghalaya, Manipur, Madhya Pradesh, Bihar, Haryana, Uttar Pradesh, Rajasthan, Sikkim, etc

VII. Causes for the growth of Population

The main social causes of increasing the growth of population are early marriage and universal marriage system, poverty and illiteracy, age old cultural norm, illegal migration, etc. There are common causes leading to over population are the birth rate is still higher than the death rate and the fertility rate due to population policies and other measures has been falling but even then it is much higher compared to other countries. (Over population in India -Causes, Effects and How to Control it? by Rumani Saikia Phukan 2014 -www.mapsofindia.com -Accessed on 29-9-2018)

VIII. Steps taken to reduce the population growth:

The above table shows that Tamil Nadu has been implementing the Family Planning Programme effectively by creating massive awareness among the people through village health nurses and social workers and also by giving incentives. Family Planning method implies family by choice and not by chance. By applying preventive measures, people can regulate birth rate. The population control slogan of "Hurry for the first child, Delay the second child and avoid the third" has been well propagated and reached the people in an extensive manner resulting in substantial reduction in population growth. (Over population in India -Causes, Effects and How to Control it? By Rumania Saikia Phukan 2014 -www.mapsofindia.com -Accessed on 29-9-2018)

increasing the welfare and status of women and girls, spread of education, increasing awareness for the use of contraceptives and family planning methods, sex education, encouraging male sterilisation and spacing births, free distribution of contraceptives and condoms among the poor, encouraging female empowerment, more health care centres for poor, etc. have played a major role in controlling population in Tamil Nadu. The achievement in population control is vital for the growth of the nation, development of the economy and equal distribution of resources among all the people. For controlling the population, Tamil Nadu has to be rewarded

IX. Health and Education Indicators:

The Health and Education Indicators highlight the achievement made by the Government of Tamil Nadu in controlling the population as these indicators play a vital role in regulating the population growth. The Maternal Mortality Rate (MMR) has come down to 79 during the year 2013 from 167 during the year 2001. Likewise, the Infant Mortality Rate (IMR) has come down to 21 during the year 2013 from 49 during the year 2001. However, all India average was 167 and 40 respectively during the year 2013. As faras Education indicator is concerned, the Literacy Rate has risen to 78 per cent during the year 2012 from 61 per cent during the year 1994 and the all India average was 70 per cent during the year 2012. Similarly, in respect of Secondary education and above, it has risen to 39 per cent during the year 2012 from 19 during the year 1994 and the national level average was 32 per cent during the year 2012. (Tamil Nadu Indicators at a Glance -www.documents.worldbank.org -Accessed on 30.9.2018)

The above will clearly establish a fact that Tamil Nadu has been consistent in not only controlling the population growthbut also in achieving success in health sector like MMR and IMR and education sector viz. literacy rate which were above the national average. Forthis achievement, the Stateof Tamil Naduhas to be rewardedsuitablyand some sort of incentive has to be given through Finance Commission by introducing certain factors which will ultimately helpful to increase the central share of Tamil Nadu in the devolution of Union taxes and duties. However, the reality is otherwise. The State of Tamil Nadu was punished for controlling the population growthand achieving remarkable results in health and education sectors

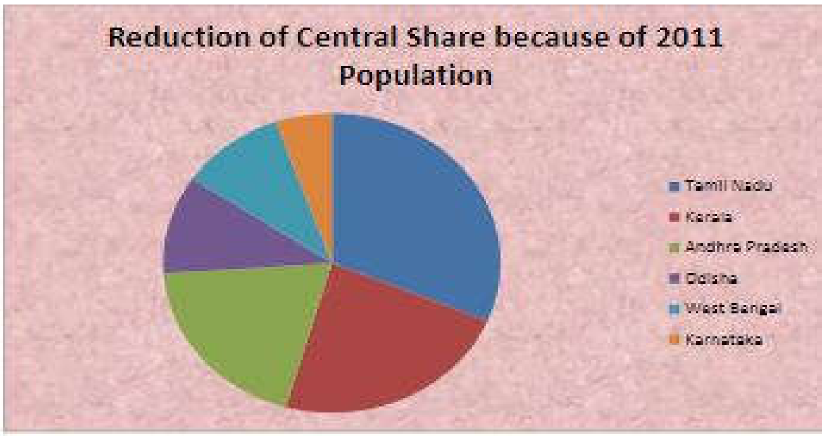
Table IV-Comparison of share of each State based on 1971 Population and 2011 Population

States	Population (Million)		Share of each State in All States Population		Difference in percentage of share
	1971	2011	1971	2011	
Andhra Pradesh	27.685	49.387	5.098	4.149	(-) 0.949
Arunachal Pradesh	0.467511	1.383727	0.086	0.116	0.030
Assam	14.625152	31.205576	2.693	2.621	(-) 0.072
Bihar	42.126236	104.099452	7.757	8.745	0.988
Chhattisgarh	11.637494	25.545198	2.143	2.146	0.003
Goa	0.79512	1.458545	0.146	0.123	(-)0.023
Gujarat	26.697475	60.439692	4.916	5.077	0.161
Haryana	10.036431	25.351462	1.848	2.130	0.282
Himachal Pradesh	3.460434	6.864602	0.637	0.577	(-)0.060
Jammu & Kashmir	4.616632	12.541302	0.850	1.053	0.203
Jharkhand	14.227133	32.988134	2.620	2.771	0.151
Karnataka	29.299014	61.095297	5.395	5.132	(-) 0.263
Kerala	21.347375	33.406061	3.931	2.806	(-) 1.125
Madhya Pradesh	30.016625	72.626809	5.527	6.101	0.574
Maharashtra	50.412235	112.374333	9.283	9.440	0.157
Manipur	1.072753	2.57039	0.198	0.216	0.018
Meghalaya	1.011699	2.966889	0.186	0.249	0.063
Mizoram	0.33239	1.097206	0.061	0.092	0.031
Nagaland	0.516449	1.978502	0.095	0.166	0.071
Odisha	21.944615	41.974218	4.041	3.526	(-) 0.515
Punjab	13.55106	27.743338	2.495	2.330	(-)0.165
Rajasthan	25.765806	68.548437	4.744	5.758	1.014
Sikkim	0.209843	0.610577	0.039	0.051	0.012
Tamil Nadu	41.199168	72.14703	7.586	6.061	(-) 1.525
Telangana	15.818	35.194	2.913	2.956	0.043
Tripura	1.556342	3.673917	0.287	0.309	0.022
Uttar Pradesh	83.848797	199.813241	15.439	16.785	1.346
Uttarakhand	4.492724	10.086292	0.827	0.847	0.020
West Bengal	44.312011	91.276115	8.159	7.667	(-) 0.492

Source: Fourteenth Finance Commissions Report

On a perusal of the above table, the States which were not controlled the population growth have given higher share in respect of 'Demographic Change' criteria with a weight of 10%. The population growth of States like Kerala, Tamil Nadu, Goa, Odisha, Andhra Pradesh, Himachal Pradesh, Punjab, West Bengal, Karnataka and Assam was between 56.5% and113% over a period of 40 years, i.e. Between 1971 and 2011. These States were given punishment during the Fourteenth Finance Commission by introducing the 'Demographic Change' factor. The affected States are Tamil Nadu, Kerala, Andhra Pradesh, Odisha, West Bengal, Karnataka, Punjab, Assam, and Himachal Pradeshand Goa. Of which, Tamil Nadu stood at first. Though the growth of population in respect of Tamil Nadu was increased by 75%, its share has come down by 1.525 per cent by applying the 2011 population for the Demographic Criteria. The share of Kerala, Andhra Pradesh, Odisha, West Bengal, Karnataka, Punjab, Assam, Himachal Pradesh and Goa has also come down by 1.125 per cent, 0.949 per cent, 0.515 per cent, 0.492 per cent,0.263 per cent,0.165 per cent, 0.072 per cent, 0.060 per cent and 0.023 per cent respectively. On the other hand, the population growth of States like Chhattisgarh, Maharashtra, Uttarkhand, Gujarat, Jharkhand, Tripura, Uttar Pradesh, Madhya Pradesh, Bihar, Haryana, Manipur, Rajasthan, Jammu & Kashmir, Telengana, Sikkim, Meghalaya, Mizoram, Arunachal Pradesh and Nagaland was between 120% and 383.5% over a period of forty years i.e. Between 1971 and 2011. However, the share of these States has gone up by 0.003 per cent, 0.157 per cent, 0.020 per cent, 0.161 per cent, 0.151 per cent, 0.022 per cent, 1.346 per cent, 0.574 per cent, 0.988per cent, 0.282 per cent, 0.018 per cent, 1.014 per cent,0.203 per cent, 0.043 per cent, 0.012 per cent, 0.063 per cent, 0.031 per cent, 0.031 per cent and 0.071 per cent respectively. By applying the criteria 'Demographic Change', the most benefitted States are Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh. The following chart will clearly indicate the States which are badly affect by the Demographic Change factor, i.e. 2011 Population.

Chart -I



X. Terms of Reference of Fifteenth Finance Commission:

The recommendations of the Fourteenth Finance Commission will come to an end during March, 2010. Thereafter, the recommendations of the Fifteenth Finance Commission will come into force and the Fifteenth Finance Commission has already been constituted to make recommendations for the distribution of net proceeds of Union Taxes and Duties to the States. There is a difference between the Terms of Reference of the Fourteenth Finance Commission and Fifteenth Finance Commission. In the Terms of Reference inrespect of Fourteenth Finance Commission, it has been stated that the Commission shall generally take the base of population figures as of 1971 in all cases where population is a factor for determination of devolution of taxes and duties and grants-in-aid; however, the Commission may also take into account the demographic changes that have taken place subsequent to 1971. (Terms of Reference of fourteenth finance commission)However, in respect of Fifteenth Finance Commission, it has been stated that the Commission shall use the population data of 2011 while making its recommendations. (Terms of Reference of Fifteenth Finance Commission)There is a difference between the word ‘may’ and ‘shall’. The term 'shall' is considered as more intense or forceful in nature compared to 'may'. Based on the above terms of reference, the Fifteenth Finance Commission had already decided on the percentage of financial devolution and grants-in-aid taking the 2011 census as the basis for central assistance. If this factor is applied, it would definitely lead to progressive States getting lesser allocation for the 2020-25 period. The share of Tamil Nadu will come down drastically. It is relevant to point out here that while answering to a question that some States have expressed concern over using 2011 census data as the basis for the award, the Chairman of the Fifteenth Finance Commission stated that "States like Kerala and Tamil Nadu which have a very credible record in demographic management, have brought it up. Other states, however, have either not raised it or are quite happy. The commission has no say on the terms of reference which are fixed by the President. However, in what manner it chooses to respond is entirely in the Commission's domain. We cannot dis-incentivize states which have a credible record not just on population stabilization but on many other parameters. At the same time, considerations of equity cannot be lost sight of by any constitutional body looking at a fair distribution of resources. These are not necessarily contradictory approaches. The terms of reference do not prohibit the commission from assigning weights or using other variables as well. By an imaginative and innovative use, it may be possible to harmonize issues of equity and performance. (Times of India dated 17.9.2018 -Chennai Edition, Page 10)

XI. Conclusion:

On a perusal of the recommendations of the Fourteenth Finance Commission the Terms of Reference of the Fifteenth Finance Commission and the share given to each State, anyone can draw inference that the intention of the Central Government is to help the northern States, especially the BIMARU States at the cost of Southern States. Because of the 'Demographic Change' factor i.e. 2011 population factor used partly by the Fourteenth Finance Commission, except the State of Telengana where the margin of gain is very meagre i.e. 0.043%, all the southern States were badly affected, of which the State of Tamil Nadu stood at the top. In the Fifteenth Finance Commission, 2011 population will be taken into account fullyand this will lead to reduce the Central share of southern States, especially Tamil Nadu, to a great extent. To compensate the loss under this factor, new criteria like tax effort, Human Development Index, Fiscal Capacity should be introduced with more weight. The Fifteenth Finance Commission may also consider giving incentives to the States which controlled the population growth. Based on the interview given by the Chairman of the Fifteenth Finance Commission, it will be hoped that the better performing States like Tamil Nadu will be rewarded suitably