

"Federal Finance: Principles"

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Government activities have their financial counterparts, both in revenue and expenditure. Therefore, in a federation, along with the political problem of division of the functions as between different layers of the government, the issues connected with financial arrangements have also to be sorted out.

In a federation, functions are distributed among different layers of government. Since each Govt. is responsible for its own sphere of activity there should be adequate provision for source of revenue and its efficient administration for discharging the assigned functions independently and in a satisfactory way.

Let us discuss what should be the guiding principles regarding the division of functions and resources among different layers of Govt.

These principles governing

resource allocation are explained below:—

1) Principle of Independence:—

Under the system of federal finance, a Government should be autonomous and free about the internal financial matters concerned. It means each Govt. should have separate sources of revenue, authority to levy taxes, to borrow money and to meet the expenditure. The Govt. should normally enjoy autonomy in fiscal matters.

2) Principle of Equity:—

From the point of view of equity, the resources should be allocated and distributed among the different states so that each state receives a fair share of revenue.

3) Principle of Uniformity:—

In a federal system, each state should contribute equal tax payments for federal finance. But this principle cannot be followed in practice because the taxable capacity

of each unit is not of the same.

4) Principle of Adequacy:—

The principle of adequacy means that the resources of each Government i.e. Central and State should be adequate to carry out its functions effectively. Here adequacy must be decided with reference to both current as well as future needs. Besides, the resources should be elastic in order to meet the growing needs and unforeseen expenditure like war, floods, famine etc.

5) Principle of Fiscal Access:—

In a federal system, there should be possibility for the Central and State Governments to develop new source of revenue within their prescribed fields to meet the growing financial needs. In other words, the resources should grow with the increase in the responsibilities of the Government.

6) Principle of Integration and Coordination:—

The financial system as a whole should be well integrated. There should be a perfect coordination among different layers of the financial system of the country. Then only the federal system will prosper. This should be done in such a way to promote the overall economic development of the country.

7) Principle of Efficiency:—

The financial system should be well organized and efficiently administered. Different sources of public revenue can best be handled at different levels. Some sources of revenue are, by their very nature, national in character, while some are of regional or even of local character. There should be no scope for evasion and at the same time double taxation should be avoided.

8) Principle of Administrative Economy:—

Economy is the important criterion of any federal financial system. That is, the assignment of various financial

Powers to different governments should also be with reference to the economy in the cost of collection. A non-economical and expensive way of collecting a revenue would be wasteful for the economy. The cost of collection should be at the minimum level and the major portion of revenue should be made available for the other expenditure outlays of the governments.

9) Principle of Accountability:-

In a federal set up, the governments both central and states enjoy financial autonomy. Each government should be accountable to its own legislature for its financial decisions i.e. the central to the Parliament and the state to the Assembly.
