

Federal Finance: Meaning

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The Federal Set-up

Each state has its own government with the union (or central) government for the country as a whole. Thus, in a federal set-up there are at least two layers of government. The topmost layer is the central or federal (or union) government and below it lies the layer of state governments. The same principle may extend further if there are local or municipal governments within each state.

A federation is not a static and rigid concept. It has evolved into different forms in different countries. However, in most of the federations, functions covering the entire country have gravitated towards the centre with functions with regional character going to states. In this way, even the unitary

types of governments have moved nearer the federal form, while the federations have exhibited a tendency to develop strong unitary powers in certain spheres. This is the basis and spirit of a federation.

India's Political Structure is federal.
Federations have come into being as the result of a unitary government developing certain powers to the provinces through a process of decentralisation. In fact, the distribution of powers on a permanently satisfactory basis may be difficult and disputes often arise regarding the competence of state and national governments in respect of particular matters. Therefore, there is a judicial authority, such as the Supreme Court, to settle any disputes and interpret the Constitution in this regard.

Federal Finance : Meaning

From the division of power in a federal state follows the division of financial operations. Federal finance

refers to the system of assigning the source of revenue to the Central as well as State Governments for the efficient discharge of their respective functions i.e. clear-cut division is made regarding the allocation of resources of revenue between the Central and State authorities.

India with a federal form of Govt. has a federal finance system. The Centre and the States have their separate lists of functions and, therefore, must have separate powers of spending and taxing. So, the sources of income and heads of expenditure are distributed between the Central and State governments according to the Constitution. Their jurisdiction and rights are clearly defined in the Constitution. There is, consequently, a clear demarcation of the sources of revenue for each
