

GS-II Issues and challenges pertaining to the Federal Structure, Devolution of Powers and Finances up to local levels and challenges therein.

- 1. Briefly explain the concept of 'Fiscal Federalism'? What are the challenges to Indian Fiscal Federalism and Explain the measures to overcome the same?**

Why this Question?

- ▶▶ Centre now proposed that there should be a permanent expenditure fund created for defence spending out of the total tax revenue pool. This will be stripped off the state government's taxation power.

Key Demands of Question:

- ▶▶ Briefly explain the concept of Fiscal Federalism.
- ▶▶ Explain how it works in India by mentioning FRBM act, Finance Commission, Taxation, etc.
- ▶▶ Discuss the specific challenges to the India's fiscal federalism.
- ▶▶ Explain the measures to overcome the challenges. For examples, need for empowering the local governments, etc.

Structure of Answer:

Introduction:

- ▶▶ Begin with the definition of Fiscal Federalism and briefly write about its importance.

Body:

- ▶▶ Explain in detail about the concept of fiscal federalism in the context of the India.
- ▶▶ Discuss the specific challenges for India's Fiscal Federalism. For example lack of taxation power for state government and local government.
- ▶▶ Discuss the issues in sharing taxation, the vertical imbalances, etc.
- ▶▶ Mention about the impact of the FRBM Act, Finance Commission, centre state taxation powers, etc.,

Conclusion:

- ▶▶ Conclude with the way forward measures to overcome the issues in the Fiscal Federalism.