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GSDP Share as Criterion for Central-State Transfers

Context

- The architecture of fiscal federalism in India is designed around the **constitutional obligation** of resource sharing between the Union and the States.
- Central to this framework are the **Finance Commissions (FCs)**, which periodically determine the share of Union tax revenues devolved to States and the formula used to distribute them.
- While the recommendations of fifteen FCs have been implemented, the Sixteenth FC's report is awaited, and the broader system of transfers has come under scrutiny.

Central Transfers and Fiscal Autonomy

- Central transfers take three primary forms: **tax devolution**, grants-in-aid and Centrally Sponsored Schemes (CSS).
- Over time, concerns have grown that this system has progressively reduced fiscal autonomy for States.
- The Goods and Services Tax (GST) curtailed independent revenue-raising powers and created compensation dependencies, while GST rate cuts generated additional revenue shortfalls.
- At the same time, CSS expanded in scope, prescribing expenditure patterns and reducing flexibility for State-level prioritisation.
- Another contentious issue is the Union's increasing **reliance on cesses** and surcharges, which are constitutionally excluded from the divisible pool.
- High-performing States also argue that FC recommendations privilege equity over efficiency, with frequent changes in weighting of variables such as population and income distance.
- These decisions have contributed to perceptions of arbitrariness, especially given persistent disparities in expenditure needs and fiscal capacity across regions.

Tax Contribution versus Collection

- Economically advanced States such as Maharashtra, Karnataka and Tamil Nadu argue that they contribute **disproportionately to Union revenues** while receiving relatively smaller shares through devolution.
- The challenge lies in distinguishing between where taxes are collected and where income is generated.
- Direct taxes are often recorded in States where corporate headquarters or high-income individuals file returns, rather than where economic value is actually created.
- Multi-State firms, labour mobility and complex **inter-State transactions** exacerbate this attribution gap.

- Examples illustrate these distortions: automobile firms based in Tamil Nadu produce for a national market, yet tax payments may be recorded in other States.
- Plantation companies headquartered in Kerala generate profits nationwide, though taxes accrue locally.
- These patterns underscore that direct tax collections are not a reliable measure of State-wise contribution.

Central tax collections, transfers and GSDP GSDP, reflecting accrual of central taxes, strikes a balance between efficiency and equity in tax devolution

State-wise direct tax and gross GST collections, central transfers and GSDP from 2020-21 to 2024-25

States	Direct tax and GST collection		Central transfers		FC devolution	GSDP		Transfers using GSDP share	Loss or gain
	(₹ lakh crore)	% share	(₹ lakh crore)	% share	% share	(₹ lakh crore)	% share	(₹ lakh crore)	(₹ lakh crore)
Andhra Pradesh	3.32	2.97	3.23	4.30	4.07	64.35	4.97	3.74	0.51
Assam	0.75	0.67	2.93	3.90	3.13	24.48	1.89	1.42	-1.51
Bihar	0.76	0.68	6.5	8.65	10.06	38.48	2.97	2.23	-4.27
Chhattisgarh	1.68	1.50	2.36	3.14	3.41	23.03	1.78	1.34	-1.02
Gujarat	7.69	6.88	2.55	3.39	3.48	108.38	8.37	6.29	3.74
Haryana	6.02	5.39	0.83	1.10	1.09	48.82	3.77	2.83	2.00
Himachal Pradesh	0.48	0.43	1.19	1.58	0.83	9.58	0.74	0.56	-0.63
Jharkhand	1.58	1.41	2.22	2.96	3.31	20.69	1.60	1.20	-1.02
Karnataka	14.14	12.65	2.93	3.90	3.65	113.94	8.80	6.61	3.68
Kerala	1.81	1.62	2.03	2.70	1.93	51.19	3.96	2.97	0.94
Madhya Pradesh	2.17	1.94	5.56	7.40	7.85	61.26	4.73	3.56	-2.00
Maharashtra	40.3	36.06	4.99	6.64	6.32	179.83	13.90	10.44	5.45
Odisha	2.61	2.34	3.32	4.42	4.53	36.40	2.81	2.11	-1.21
Punjab	1.47	1.32	1.57	2.09	1.81	34.71	2.68	2.02	0.45
Rajasthan	2.83	2.53	4.57	6.08	6.03	67.96	5.25	3.94	-0.63
Tamil Nadu	8.5	7.61	3.5	4.66	4.08	120.41	9.30	6.99	3.49
Telangana	4.32	3.87	1.84	2.45	2.10	64.81	5.01	3.76	1.92
Uttar Pradesh	5.14	4.60	11.88	15.81	17.94	116.28	8.98	6.75	-5.13
Uttarakhand	0.9	0.81	1.24	1.65	1.12	14.84	1.15	0.86	-0.38
West Bengal	4.46	3.99	5.23	6.96	7.52	74.64	5.77	4.33	-0.90
8 small States	0.82	0.73	4.63	6.16	5.79	20.07	1.55	1.17	-3.46
Total	111.75	100.00	75.12	100.00	100.02	1294.15	100.00	75.12	0.00

GSDP as a Proxy for Tax Accrual and The Mismatch

• GSDP as a Proxy

- Gross State Domestic Product (GSDP) provides a more accurate proxy for assessing the underlying tax base.
- Since GSDP reflects the scale of economic activity and assuming comparable tax administration efficiency across States, a State's share in national GSDP can approximate its contribution to Union

revenues.

- This relationship is especially strong for GST, a destination-based tax whose attribution across States aligns with consumption.
- From 2020–21 to 2024–25, the Union devolved 41 percent of gross tax revenues to States, supplemented through grants and CSS, amounting to ₹75.12 lakh crore.

• The Mismatch

- Uttar Pradesh received the largest share (15.81 percent), followed by Bihar (8.65 percent) and West Bengal (6.96 percent).
- However, these States accounted for only 4.6, 0.67 and 3.99 percent of combined direct and GST collections.
- In contrast, Maharashtra contributed 40.3 percent but received just 6.64 percent, while Karnataka and Tamil Nadu contributed 12.65 and 7.61 percent, receiving 3.9 and 4.66 percent respectively. **These imbalances have intensified concerns about fairness.**
- Correlation patterns further illuminate this mismatch. The Fifteenth FC's devolution shares correlate strongly with actual transfers but weakly with tax collections.
- GSDP shares correlate strongly with collections and moderately with transfers, indicating that **GSDP aligns contribution with redistribution.**
- Only Haryana, Karnataka and Maharashtra show GSDP shares below tax shares, due to headquarters clustering.
- Tamil Nadu shows the opposite pattern, reflecting production whose taxes accrue elsewhere.

Potential Reforms and Redistribution Effects

- If central transfers were allocated purely on GSDP shares, nine of twenty major States would gain, with Maharashtra, Gujarat, Karnataka and Tamil Nadu benefiting most.
- Uttar Pradesh, Bihar and Madhya Pradesh would experience the largest reductions.
- These changes would be moderate because GSDP shares differ less sharply from tax collection shares than current devolution outcomes.

Conclusion

- The debate over India's central transfers is ultimately a contest between competing principles of federal design: equity, efficiency and legitimacy.
- The Indian system prioritises **equity through redistribution**, benefiting fiscally weaker States but generating dissatisfaction among high-contributing States.
- Increasing the weight of GSDP in the formula could better reflect economic contributions, enhance legitimacy and strengthen cooperative federalism without abandoning redistribution.

GSDP Share as Criterion for Central-State Transfers FAQs

Q1. What role do Finance Commissions play in India's fiscal system?

Ans. Finance Commissions recommend how much of the Union's tax revenues should be shared with States and how the distribution should occur.

Q2. Why do some States argue that they contribute more than they receive?

Ans. They argue that they generate a higher share of national income and tax revenues but receive smaller shares through central transfers.

Q3. Why are direct tax collection figures considered misleading for judging State contributions?

Ans. They are misleading because taxes are often paid where companies are registered rather than where economic activity occurs.

Q4. How does GSDP function as a proxy for tax accrual?

Ans. GSDP reflects the scale of economic activity within a State and can approximate its underlying tax base.

Q5. What would happen if transfers were based primarily on GSDP shares?

Ans. If transfers were based on GSDP shares, economic leaders like Maharashtra, Gujarat, Karnataka and Tamil Nadu would gain, while large low-income States would lose.

Source: **The Hindu**

Top Court's Green Governance, Cause for Uncertainty

Context

- Over the past decade, the Supreme Court has gone beyond simply checking whether government decisions are lawful and has started issuing detailed, forward-looking directions in major environmental cases.
- This has often happened because regulators failed to act properly, forcing the Court to step in.
- However, instead of fixing the regulatory process and then withdrawing, the Court has continued to play a supervisory role.
- This prolonged involvement blurs the line between judging and regulating, creates uncertainty for governments and regulated industries, and can weaken accountability. The approach, while well-intentioned, needs restraint.
- This article highlights how the Court's growing role in issuing forward-looking environmental directions has blurred the line between judging and governing, creating uncertainty, accountability gaps, and institutional strain.

How Supreme Court Environmental Rulings Have Shifted Over Time

- **Broad Rules, Later Modified**

- In 2022, the Court ordered a minimum 1-km eco-sensitive zone (ESZ) around all protected areas.

- By 2023, it softened this rule, exempting areas where the Environment Ministry had already issued ESZ notifications, after States said a blanket rule was impractical.

- **Vehicle Bans: From Strict to Flexible**

- In 2015, the Court banned registration of large diesel vehicles in Delhi-NCR.
- Less than a year later, it lifted the ban and replaced it with a compensatory charge.
- In 2025, it again began with a broad protection for older vehicles, then narrowed it to apply only to those below BS-IV standards.

- **Firecracker Restrictions**

- The Court followed a similar pattern on firecrackers—sometimes imposing near-total bans due to air pollution, then relaxing them for festivals and “green crackers”, citing enforcement and public order challenges.

- **Stepping Into the Regulator’s Role**

- Weak enforcement, delayed rules, and poor monitoring by authorities often prompted judicial intervention.
- Instead of fixing regulatory failures, the Court frequently took over regulatory decision-making itself.

- **From Legal Principles to Managing Consequences**

- In **Vanashakti vs Union of India (2025)**, the Court initially ruled that post-facto environmental clearances violate core principles.
- Months later, it reversed course, worried about disrupting ongoing projects—showing a shift from legal doctrine to managing practical fallout.

- **Key Concern**

- The pattern reflects a move from judging legality to governing outcomes, where strong principles are announced first and adjusted later—raising questions about consistency and institutional limits.

The Problem of Expertise in Court-Led Environmental Decisions

- **Relying on Experts — Then Reconsidering**

- When the Court issues forward-looking environmental directions, it often depends on expert committees.
- For example, in the **Aravalli hills** case, the Court adopted a unified definition to regulate mining based on expert findings.
- Soon after, it paused the order and set up a new committee, fearing unintended legal consequences.
- This shows how expert advice is used, questioned, and sometimes reversed.

- **One-Size-Fits-All Rules Don't Always Work**

- In the eco-sensitive zone (ESZ) issue, a uniform buffer initially appeared decisive.
- But as stakeholders highlighted differences in ecology and feasibility across regions, resistance grew.
- What sounded scientifically sound on paper proved difficult to apply everywhere.

- **A Push-Pull with Expertise**

- The Court uses expert inputs to overcome its own technical limits, but it also challenges or re-evaluates that expertise.
- This back-and-forth is not inherently wrong, but it has led to frequent course corrections and uncertainty.

- **Early Court Intervention Limits Public Challenge**

- A bigger concern is the Court acting like an **approving authority** too early. As environmental experts note, project developers and governments often approach the Court before statutory regulators finish their review.
- This gives decisions a sense of finality that discourages later challenges.
- When the Court steps in early, it can weaken meaningful scrutiny by other forums.
- Later changes to Court-made rules then reshape who gets heard and what evidence matters—narrowing space for public participation and legal review.

Why Environmental Governance Needs Stability and Clear Roles

- Many environmental cases continue under ongoing court supervision, with repeated interim orders and changes. While this makes course correction easy, it often creates uncertainty.
- Instead, the Court could take a steadier approach by pushing governments to do their regulatory job properly rather than managing it itself.
- This means setting clear limits on when the Court will intervene, demanding time-bound action backed by data and reasons, and focusing on reviewing legality and procedure.
- Avoiding broad rules that need quick exceptions would also bring clarity.
- Such an approach would create predictable rules for businesses, reduce confusion for governments, and give citizens a clear path to challenge environmental harm.

Top Court's Green Governance, Cause for Uncertainty FAQs

Q1. Why has the Supreme Court expanded its role in environmental cases?

Ans. Regulatory failure, weak enforcement, and delayed state action have pushed the Court to issue managerial directions, moving beyond legality checks into ongoing governance.

Q2. How have Supreme Court environmental rulings evolved over time?

Ans. The Court often announces broad rules first, then narrows or modifies them later due to feasibility, enforcement limits, or economic consequences.

Q3. What problems arise from continuing mandamus in environmental cases?

Ans. Serial interim orders and modifications allow correction but undermine stability, create uncertainty for stakeholders, and blur institutional responsibility.

Q4. How does the Court's use of expert committees contribute to uncertainty?

Ans. The Court relies on experts but frequently revisits or overturns their advice, leading to policy U-turns and confusion over scientific and legal authority.

Q5. What alternative approach does the article suggest for environmental governance?

Ans. The Court should discipline regulators into action, set clear intervention thresholds, insist on time-bound decisions with data, and focus on reviewing legality and procedure.

Source: TH

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