2) What do you understand by fiscal federalism? Why is it needed in India? What are the challenges in face in realising this objective?

Fiscal Federalism (FF) deals with the division of governmental functions and financial relations among levels of government. This theory of FF assumes that the federal government can be economically stable and efficient by a judicious distribution of income and adequate allocation of resources.

The Government of India Act 1919 and 1935 formalised the duties of FF and revenue sharing between centre and states. Other institutions involved include:

1) 14th Finance Commission - Y.V. Reddy - recommended 42% devolution of revenue to states.
2) Goods and Service Tax (2017) - promote cooperative federalism.
3) NITI Aayog (2015) - replaced Planning Commission
4) Decentralisation - local public finance (PRIs).

This idea of FF is bound to favour more organisational and political innovations. It would help in addressing the regional differences better.

Despite all these benefits, there are certain challenges incurred by FF in India, which include:

- Lack of accountability of states and LSGs
- Lack of qualified staff
- Unavailability of infrastructure of public expenditure at local level
- Lack of independence from national level
Some states might acquire a similar party-rule bias and might receive disproportionate levels of resources.

What is to be done?

* Proportion of shareable taxes between CFS should be fixed.
* More autonomy to the lower levels to function independently.
* Institution to resolve inter-state and centre-state financial disputes.
* Adequate financial resources with the states.

In order to enhance the economic stability and maintain the efficiency and effectiveness, the concept of fiscal federalism with the broad idea of financial inclusion should be justly implemented.