

16th Finance Commission: Fiscal Federalism and Efficiency Concerns

Recent discussions on the 16th Finance Commission report highlight growing concerns over balancing performance efficiency with fiscal equity among States.

The Finance Commission is a constitutional body established under Article 280 to recommend the distribution of tax revenues between the Union and States.

KEY EXAM POINTS

- The **16th Finance Commission** report prioritises **fiscal performance** and discipline while raising equity concerns for economically performing States.
- The Commission functions as a constitutional corrective institution to resolve **vertical and horizontal fiscal imbalances** in **Indian federalism**.
- **Vertical devolution** determines the share of Union taxes transferred to States, whereas **horizontal devolution formula** determines inter-state allocation.
- Concerns remain that overemphasising **fiscal discipline** without equity mechanisms disadvantages developed States like **Tamil Nadu**.

STATICS & SYLLABUS FOCUS

Article 280 of the Constitution mandates the **President of India** to constitute a Finance Commission every five years or earlier.

Article 281 requires the recommendations of the Finance Commission to be laid before both Houses of **Parliament** along with an explanatory memorandum.

The First Finance Commission of India was established in **1951** with **K.C. Neogy** as its Chairman.

The 16th Finance Commission was constituted in **December 2023** under the chairmanship of **Dr. Arvind Panagariya**.

Sarkaria Commission (1983) and **Punchhi Commission (2007)** reviewed Centre-State relations, including institutional strengthening of fiscal transfers.

The **Rajamannar Committee** constituted by Tamil Nadu Government in **1969** recommended constitutional reforms in Centre-State financial relations.

REVISION FLASHCARD

Article 280 mandates Finance Commission; 16th FC Chairman is Dr. Arvind Panagariya (appointed Dec 2023).

Syllabus Relevance: High priority topic for Unit 5 (Indian Polity) covering Constitutional Bodies (Article 280) and Fiscal Federalism.

Daily Current Affairs

Read the most important daily exam-relevant news summaries easily on Essaar.

[Read Online: essaaracademy.in/ca](https://essaaracademy.in/ca)