Polity & Governance · GS - II

How have the recommendations of the 14th Finance Commission of India enabled the states to improve their fiscal position?

EXAM YEAR	PAPER	SUBJECT
2021	GS - II	Polity & Governance

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Fourteenth Finance Commission, Y. V. Reddy, fiscal federalism, vertical devolution, 42% tax devolution, untied funds, state autonomy, fiscal consolidation, local bodies, centrally sponsored schemes, fiscal discipline.

Model Answer

Introduction

The Fourteenth Finance Commission, chaired by Y. V. Reddy, recommended a major increase in the states' share of the divisible pool of central taxes to strengthen fiscal federalism.

Key Recommendations and Their Impact

- **Higher tax devolution:** It recommended increasing states' share from 32% to 42% of the divisible pool for 2015–20, providing greater untied resources.
- **Greater fiscal autonomy:** States gained more flexibility to allocate funds according to local priorities rather than relying exclusively on centrally designed schemes.
- **Improved expenditure planning:** Predictable tax transfers helped states plan infrastructure, health, education and welfare expenditure.

- **Local government funding:** Grants to rural and urban local bodies strengthened decentralised service delivery.
- **Fiscal discipline:** The Commission emphasised responsible borrowing and fiscal consolidation to improve long-term financial stability.

Limitations

Greater devolution did not automatically eliminate state deficits. Uneven revenue capacity, committed expenditure, changing centrally sponsored schemes and dependence on other transfers continued to affect fiscal outcomes.

Conclusion

The Fourteenth Finance Commission strengthened states' fiscal autonomy and the federal character of public finance. Its benefits depended on prudent expenditure, revenue mobilisation and sound fiscal management.

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