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EDITORIAL ANALYSIS

Panchayats Need Real Money, Not Just Real Elections

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THE LIFT LINE

India held its rural self-government experiment to a high constitutional standard when it enacted the **73rd Constitutional Amendment Act, 1992**, giving **Panchayati Raj Institutions** a permanent place in the constitutional order. More than three decades later, panchayats are reliably elected but rarely empowered. They hold regular polls and receive **functions** on paper, yet command little money of their own and depend heavily on **tied grants** that arrive with instructions attached. Decentralisation that stops at the ballot is decentralisation half done. The unfinished task is **fiscal autonomy**: untied funds, a stronger revenue base, and the actual staff to spend. Without real money and real hands, the elected panchayat remains an administrative shell rather than a genuine third tier of government.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Local government sits at the intersection of federalism, service delivery and grassroots democracy, which makes it a durable theme in the polity paper. You are expected to explain not just the architecture created by the 73rd Amendment, but why it has underdelivered and what a credible reform agenda looks like. The examiner rewards candidates who move past the celebratory account of "constitutional status" to the harder question of why that status has not become functional strength.

The analytical edge is the gap between **de jure** empowerment and **de facto** dependence. A panchayat can exist in the Constitution, hold elections every five years, and still be unable to fix a road or run a scheme without waiting for a tied transfer. Getting this right lets you write with precision about the **three Fs** and avoid treating regular elections as proof of successful decentralisation.

GS Paper 2: Devolution of powers and finances to local levels and challenges therein; functions and responsibilities of the Union and States; issues in federal structure.

For **Prelims**, hold the specifics: the **73rd Constitutional Amendment Act, 1992** inserted **Part IX** (Articles **243** to **243-O**) and added the **Eleventh Schedule** listing **29 subjects** for devolution to panchayats; the **Gram Sabha** is the basic unit of the system; **State Finance Commissions** are constituted under **Article 243-I** every **five years** to review the financial position of panchayats and recommend the sharing of taxes and grants; and the **Fifteenth Finance Commission** recommended substantial grants to local bodies, split into tied and untied components.

For **Mains**, the argument is that genuine decentralisation needs untied funds, empowered State Finance Commissions, own-revenue mobilisation and a real transfer of **functionaries**, not simply the ritual of elected panchayats.

BACKGROUND AND CONTEXT

The **73rd Amendment** was a landmark because it made a third tier of government constitutionally mandatory rather than a matter of state discretion. **Part IX** required states to constitute panchayats at the village, intermediate and district levels, hold regular elections through **State Election Commissions**, reserve seats for **Scheduled Castes**, **Scheduled Tribes** and **women**, and set up **State Finance Commissions**. The **Eleventh Schedule** offered a menu of **29 subjects**, from drinking water and rural roads to poverty alleviation, that states could devolve.

Yet the design was deliberately federal in its incompleteness. The Constitution created the frame but left the actual devolution of the **three Fs**, funds, functions and functionaries, to state legislatures. That discretion is where the promise has thinned. Many states have listed functions on paper and held elections faithfully while retaining control over money and staff. Panchayats often lack a dependable stream of **own-source revenue**, and the transfers they do receive are frequently **tied** to specific schemes.

The result is a structural mismatch: political decentralisation has advanced far faster than fiscal decentralisation. Panchayats are accountable at the ballot yet fiscally dependent and administratively thin, which blunts the accountability that local democracy was meant to deliver.

THE CORE ARGUMENT / ISSUE

The core argument is that decentralisation is a fiscal question as much as an electoral one. An elected panchayat without untied money, an independent revenue base and its own staff cannot function as a genuine unit of self-government. The reform frontier is therefore fiscal, not electoral.

Untied Funds Versus Tied Grants

Money that arrives with instructions attached is not autonomy. When most transfers are **tied** to centrally or state-designed schemes, the panchayat becomes an implementing agency rather than a decision-maker. Untied funds, by contrast, let the **Gram Sabha** and elected council set local priorities, whether a culvert, a water point or a school repair. Shifting the balance toward untied, formula-based transfers is the single most important lever for real empowerment.

State Finance Commissions Must Be Taken Seriously

Article 243-I requires a **State Finance Commission** every **five years** to recommend how state revenues should be shared with local bodies. In practice, many are constituted late, staffed thinly, or their recommendations are quietly set aside. A commission whose advice is ignored cannot rationalise local finance. Strengthening these bodies, and making the tabling and acceptance of their reports a firm obligation, is essential to give panchayat finance a predictable footing.

Own-Revenue and Functionaries

Autonomy also requires a base of **own-source revenue**, such as property taxes, user charges and local fees, which most panchayats collect weakly. Equally, functions mean little without **functionaries**: without engineers, accountants and technical staff under panchayat control, devolved subjects cannot be delivered. The transfer of staff has lagged furthest of the three Fs.

FEATURE	ELECTED BUT DEPENDENT PANCHAYAT	FISCALLY AUTONOMOUS PANCHAYAT
Primary funding	Tied, scheme-specific grants	Untied, formula-based transfers plus own revenue
State Finance Commission	Delayed, advisory ignored	Timely, recommendations acted upon
Own-source revenue	Weak property tax and fee collection	Buoyant local taxes and user charges
Functionaries	Borrowed or absent staff	Dedicated technical personnel
Real role	Implementing agency	Self-governing unit

HOW TO THINK ABOUT THIS (ANALYTICAL FRAME)

Frame local government through three questions. First, **elections or empowerment?** Regular polls establish democratic legitimacy but say nothing about capacity, so ask whether the elected body actually controls money and staff. Second, **which of the three Fs is missing?** Funds, functions and functionaries devolve at different speeds; the binding constraint is usually funds and functionaries, not functions on paper, so locate the real gap before prescribing a fix. Third, **who holds the fiscal lever?** Because the Constitution leaves devolution to states, ask whether the **State Finance Commission** is respected and whether transfers are tied or untied. Applied together, these questions prevent the mistake of reading constitutional status and regular elections as evidence of successful decentralisation, and keep attention on the fiscal and administrative conditions that make a panchayat genuinely self-governing.

THE DIAGRAM IN WORDS

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73rd Amendment gives panchayats constitutional status -> Part IX and Eleventh Schedule create the frame -> but devolution of the three Fs left to states -> elections happen, functions listed on paper -> yet funds stay tied and functionaries absent -> State Finance Commissions weak or ignored -> panchayats depend on tied grants, own revenue thin -> elected body becomes an implementing agency -> real autonomy needs untied funds, strong SFCs, own revenue and staff -> only then does decentralisation become genuine self-government
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WAY FORWARD

1. **Shift the balance toward untied funds.** Route a larger share of transfers as formula-based, untied grants so the **Gram Sabha** and elected council can set local priorities rather than merely implement schemes designed elsewhere.
2. **Empower State Finance Commissions.** Constitute them on time under **Article 243-I**, staff them properly, and make the tabling and acceptance of their recommendations a firm statutory obligation so local finance rests on predictable rules.
3. **Mobilise own-source revenue.** Build panchayat capacity to levy and collect property taxes, user charges and local fees, giving rural bodies a revenue base they control rather than total dependence on transfers.
4. **Transfer functionaries, not just functions.** Place dedicated technical and administrative staff under panchayat control so that devolved subjects in the **Eleventh Schedule** can actually be delivered on the ground.

PYQ LINKAGE AND PRACTICE

UPSC returns often to local government and fiscal federalism (2018: "Assess the importance of the Panchayat system in India as a part of local government. Apart from government grants, what sources the Panchayats can look out for financing developmental projects?"; 2015: "In absence of a well-educated and organised local level government system, Panchayats and Samitis have remained mainly political institutions and not effective instruments of governance. Critically discuss."). This editorial equips you to argue why fiscal autonomy, not elections alone, is the real measure of decentralisation.

Practice question: "Regular elections have made panchayats democratic, but weak finances have kept them from becoming genuine units of self-government." Critically examine with reference to the devolution of funds, functions and functionaries. (15 marks, 250 words)

Sources: Business Standard, Ministry of Panchayati Raj

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