ujiyari

UPSC & STATE PCS CURRENT AFFAIRS · UJIYARI.COM

EDITORIAL ANALYSIS

Same 41%, Less Federalism: What the 16th Finance Commission Quietly Changed

MINT

9 August 2026 · POLITY ECONOMY · GS2 GS3

CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator

linkedin.com/in/epicbharat

Same 41%, Less Federalism: What the 16th Finance Commission Quietly Changed

Mint 9 August 2026 GS2 GS3

INTERVIEW ANGLE

"If the headline devolution number stays unchanged but every mechanism around it shifts power toward the Centre, is that a technical adjustment within the Finance Commission's mandate, or a substantive change to India's constitutional design that deserves the same scrutiny a formal amendment would get?"

Source: Original editorial ↗ Mint

Every fact web-verified against primary sources

THE LIFT LINE

The number that gets quoted stayed the same. The architecture underneath it did not.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Polity and economy answers on fiscal federalism default to citing the vertical devolution percentage as the whole story. This editorial supplies the sharper, testable distinction between nominal devolution, the headline percentage, and effective devolution, what states actually receive once cess and surcharge growth, discontinued grants and local body transfer design are accounted for. That distinction is exactly what separates a strong Mains answer from a recited one on Centre-State fiscal relations.

GS Paper 2: Centre-State relations; Finance Commission and its role, Article 280; devolution of powers and finances up to local levels and challenges therein; the 73rd and 74th Constitutional Amendments.

GS Paper 3: Government budgeting; mobilisation of resources; public finance and fiscal federalism.

CONCEPT	MEANING	WHY IT IS TESTABLE
Vertical devolution	The share of the divisible pool of central taxes distributed to states as a whole	The headline 41 per cent figure, but only half the picture
Horizontal devolution	How the states' combined share is then distributed among individual states	Where the GDP-criterion and dropped fiscal-effort criterion changes actually operate
Nominal vs effective devolution	The stated percentage versus what states actually receive once cess, surcharge and grant changes are factored in	The editorial's core analytical distinction
Cess and surcharge	Central levies excluded from the divisible pool and therefore not shared with states	The main channel through which effective devolution can fall even if the nominal ratio holds
73rd and 74th Amendments	Constitutional provisions establishing Panchayati Raj and urban local bodies as the third tier of governance	The constitutional basis for the local-body-bypass concern

BACKGROUND AND CONTEXT

The **16th Finance Commission**, chaired by **Dr Arvind Panagariya**, submitted its report to President Droupadi Murmu and it was **tabled in Parliament on 1 February 2026**, covering the award period **2026-27 to 2030-31**. Its headline recommendation retained the vertical tax devolution to states at **41 per cent** of the divisible pool, unchanged from the **15th Finance Commission**.

ELEMENT	15TH FINANCE COMMISSION	16TH FINANCE COMMISSION
Vertical devolution to states	41 per cent	**41 per cent (unchanged)**
Revenue deficit grants	Recommended for eligible states	**Discontinued**
Sector-specific / state-specific grants	Recommended	**Discontinued**
Horizontal criterion: tax and fiscal effort	Included	**Removed**
Horizontal criterion: contribution to GDP	Not included	**New, 10 per cent weight**
Local body grants (award period)	Lower base	**Rs 9.47 lakh crore** total

The **Rs 9.47 lakh crore** local body allocation for 2026-31 splits into **Rs 4.35 lakh crore** for rural local bodies, **Rs 3.56 lakh crore** for urban local bodies, and **Rs 1.56 lakh crore** for disaster management, with release conditioned on entry-level criteria such as the **timely constitution of State Finance**

Commissions. Critics, including Mint's Rajrishi Singhal, argue the design increasingly enables **direct Union-to-local-body transfer mechanisms** that reduce the intermediary role state governments have constitutionally exercised since the **73rd and 74th Constitutional Amendments** established Panchayati Raj institutions and urban local bodies as a distinct third tier.

THE ANALYSIS

1. The headline percentage is real, but it is not the whole devolution story. Vertical devolution at 41 per cent tells you what share of the divisible pool goes to states collectively. It says nothing about how that pool is calculated, how it is split among individual states, or what other transfer mechanisms exist alongside it, which is precisely where the Commission's substantive changes are concentrated.

2. Discontinuing revenue deficit grants removes a specific, structurally weaker-state-focused cushion. These grants existed to help states whose own revenue-raising capacity could not meet their expenditure needs. Removing them without a replacement mechanism shifts more of the fiscal adjustment burden onto exactly the states least able to absorb it through their own tax base.

3. The GDP-criterion swap changes horizontal devolution's underlying philosophy. Replacing a tax-and-fiscal-effort criterion, which rewarded states for how hard they worked their own revenue base, with a contribution-to-GDP criterion, which rewards states for the absolute size of their existing economy, mechanically privileges already-larger, more industrialised states in the horizontal split, even though the vertical total remains the same 41 per cent.

4. Cess and surcharge growth is the quiet erosion mechanism. Because the divisible pool excludes cesses and surcharges, and because the Union's reliance on these instruments has grown over successive years, the effective share states receive out of total central tax collection can fall in real terms even while the formal 41 per cent devolution ratio against the (shrinking, proportionally) divisible pool holds steady. This is the clearest example of a nominal figure not reflecting economic reality.

5. The local body funding design raises a distinct, third-tier federalism concern. Article 280 directs the Finance Commission to recommend local body support based on State Finance Commission inputs, but the practical difficulty of consistently timely State Finance Commissions has, per critics, been used to justify more centrally administered, conditional transfer mechanisms that reduce state governments' intermediary role, even though panchayats and municipalities are constitutionally situated under state oversight.

6. The counter-argument has real institutional weight. Every one of these changes emerged from the Finance Commission's own constitutionally mandated deliberative process, not a unilateral executive order, and a GDP-linked criterion rewarding productive contribution, or conditionalities encouraging State Finance Commission compliance, are defensible policy choices independent of any centralising intent. The disagreement is less about legitimacy of process and more about whether the cumulative distributional effect, whatever the intent, is a meaningful shift of practical fiscal power toward the Centre.

DATA AND INSTITUTIONS VAULT

PRELIMS-GRADE FACTS:

- 16th Finance Commission: Chair Dr Arvind Panagariya; report tabled in Parliament 1 February 2026; award period 2026-27 to 2030-31
- Vertical devolution to states: 41 per cent of the divisible pool, unchanged from the 15th Finance Commission
- Discontinued: revenue deficit grants, sector-specific grants, state-specific grants (all recommended by the 15th FC)
- New horizontal criterion: contribution to GDP, weighted 10 per cent; removed: tax-and-fiscal-effort criterion
- Local body grants, 2026-31: Rs 9.47 lakh crore total, Rs 4.35 lakh crore rural, Rs 3.56 lakh crore urban, Rs 1.56 lakh crore disaster management
- Constitutional basis: Article 280 (Finance Commission's composition and functions); Article 275 (grants-in-aid); 73rd and 74th Amendments (Panchayati Raj, urban local bodies)
- Divisible pool excludes: cost of collection, cesses and surcharges

WATCH THE TRAP: DO NOT ANSWER A QUESTION ON THIS EDITORIAL BY SIMPLY STATING "DEVOLUTION STAYED AT 41 PER CENT." THE ENTIRE ANALYTICAL POINT IS THAT THE UNCHANGED HEADLINE FIGURE COEXISTS WITH, AND CAN CONCEAL, SUBSTANTIVE CENTRALISING CHANGES ELSEWHERE IN THE SAME FINANCE COMMISSION'S RECOMMENDATIONS.

THE DEBATE

Argument FOR reading this as meaningful fiscal centralisation. The combination, discontinued revenue deficit grants, a GDP-linked horizontal criterion favouring larger states, continued cess and surcharge growth eroding effective devolution, and local body grant mechanisms that reduce states' intermediary role, cumulatively shifts practical fiscal power toward the Centre regardless of the unchanged headline percentage. Structurally weaker states lose a specific cushioning mechanism with no replacement.

Argument AGAINST overstating the shift. Every change was made through the Finance Commission's own Article 280 deliberative process, not executive fiat, and each individual change has a defensible policy rationale, rewarding GDP contribution, winding down grant dependency, improving local body accountability, independent of any centralising motive. The vertical devolution ratio, the single most consequential number in the framework, is genuinely unchanged.

Balanced verdict. Both facts can be true together: the process was constitutionally proper, and the cumulative distributional effect still tilts practical fiscal power toward the Centre and toward larger states. The disagreement over intent does not resolve the disagreement over effect, and states with weaker revenue bases will experience a real fiscal squeeze from the discontinued grants and the GDP criterion regardless of how the changes were arrived at.

HOW TO THINK ABOUT THIS

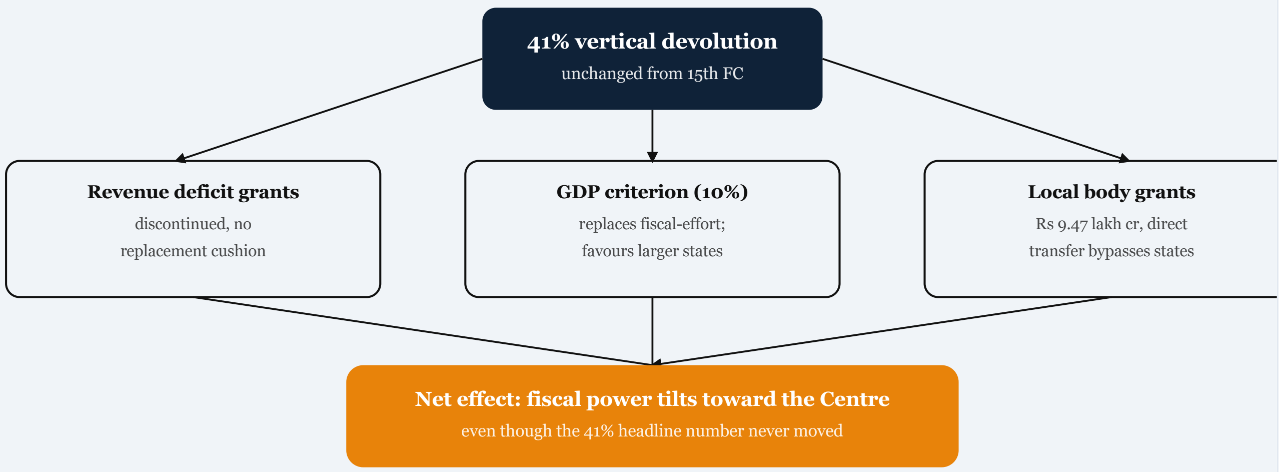
The transferable pattern: **when assessing whether power has shifted between two levels of government, check the mechanisms surrounding a headline figure, not only the figure itself, because architecture can be redesigned around an unchanged number.**

A single, prominently reported number, a devolution percentage, a subsidy total, a tax rate, is easy to hold constant precisely because it attracts scrutiny. The more consequential changes often happen in the less-reported structural layer around it: the base the percentage is calculated against, the formula that splits an aggregate among recipients, and the conditions attached to related transfer mechanisms. A rigorous assessment always asks three questions of any headline figure: what is it calculated against, how is the resulting amount then distributed, and what parallel or conditional transfer channels exist alongside it.

The same pattern applies to reading a stable corporate tax rate alongside changing exemptions and surcharges, a stable minimum support price alongside changing procurement volumes, or a stable subsidy allocation alongside changing eligibility conditions.

DIAGRAM-IN-WORDS

The unchanged headline, and what moved around it



A single unchanged number sits above three structural changes, each individually defensible, that together shift practical fiscal power and discretion toward the Union without altering the figure most public commentary quotes.

TAKEAWAY BOX

Ask what a stable number is standing on before deciding it means stability.

16th Finance Commission chaired by **Dr Arvind Panagariya**, *tabled in Parliament* **1 February 2026**, *award period* **2026-27 to 2030-31**; *vertical devolution held at* **41 per cent**; *revenue deficit, sector-specific and state-specific grants* **discontinued**; *new* **10 per cent GDP-contribution** *weight replaces the tax-and-fiscal-effort criterion; local body grants* **Rs 9.47 lakh crore** (**Rs 4.35 lakh crore** *rural,* **Rs 3.56 lakh crore** *urban,* **Rs 1.56 lakh crore** *disaster management); constitutional basis* **Article 280**; *local governance basis,* **73rd and 74th Amendments**.

when a body constitutionally tasked with balancing Centre-State fiscal equity redesigns its formula in ways that concentrate more resources with fewer, larger states, does procedural legitimacy fully answer the substantive federalism concern, or does intent matter less than distributive effect?

UPSC has repeatedly tested the Finance Commission's role, Article 280, and Centre-State fiscal relations; this editorial updates the theme with the live 16th Finance Commission's actual 2026-31 recommendations and a nominal-versus-effective devolution analytical frame.

"An unchanged headline devolution ratio can still conceal a substantive shift toward fiscal centralisation." Examine this claim with reference to the 16th Finance Commission's recommendations for 2026-31.

Sources: Mint, PRS Legislative Research, Finance Commission of India, PIB

KEY ARGUMENTS AT A GLANCE

Rajrishi Singhal argues in Mint that the 16th Finance Commission, chaired by Dr Arvind Panagariya and tabled in Parliament on 1 February 2026 for the 2026-31 period, has weakened India's constitutional fiscal federalism even while holding the headline vertical tax devolution to states unchanged at 41 per cent, because it has simultaneously discontinued revenue deficit grants that cushioned structurally weaker states, introduced a GDP-linked criterion that rewards already-larger state economies, and structured a substantial share of local body grants, Rs 9.47 lakh crore over the award period, in ways that increase Union leverage over sub-state governance, together amounting to a real shift of fiscal power toward the Centre that the unchanged 41 per cent figure conceals rather than reflects.

✓ SUPPORTING

- The headline number is genuinely unchanged, the 16th Finance Commission retained states' share of the divisible pool of central taxes at 41 per cent, identical to the 15th Commission's recommendation, which is the figure most public commentary and government messaging has emphasised.
- Beneath that unchanged figure, the Commission discontinued revenue deficit grants, sector-specific grants and state-specific grants of the kind the 15th Finance Commission had recommended, removing a cushioning mechanism that had specifically supported states with structurally weaker revenue-raising capacity, and replaced the tax-and-fiscal-effort criterion in the horizontal devolution formula with a new 10 per cent weight for a state's contribution to GDP, a change that mechanically favours larger, already more industrialised state economies over smaller and revenue-constrained ones.
- The divisible pool itself is arrived at after excluding cesses and surcharges from gross central tax revenue, and the continued, unchecked growth of cess and surcharge collections relative to shareable tax revenue means the effective share states receive has been eroding in real terms even though the formal 41 per cent devolution ratio has not changed on paper.
- On local body funding, the Commission recommended Rs 9.47 lakh crore for the 2026-31 period, split across rural local bodies, urban local bodies and disaster management, but structured with entry-level conditions, including the timely constitution of State Finance Commissions, and with a design that critics say allows direct Union-to-local-body transfer

mechanisms that bypass state government channels, weakening states' constitutional role in overseeing decentralisation to the third tier under the 73rd and 74th Amendments.

⚠ COUNTER

The Finance Commission's core constitutional mandate under Article 280 is precisely to recommend the distribution of the divisible pool and measures to augment state and local body resources, and every one of these changes, the GDP criterion, the discontinuation of revenue deficit grants, and the local body grant conditions, was arrived at through the Commission's own deliberative and consultative process, not through unilateral Union government fiat, and remains subject to the same constitutional checks as every previous Finance Commission's recommendations. The GDP-linked criterion can also be defended as rewarding productive economic contribution rather than penalising fiscal effort, and revenue deficit grants were themselves a form of dependency that successive Finance Commissions have gradually wound down as states are expected to achieve fiscal consolidation. Centralised, standardised conditions on local body grants can equally be read as enforcing accountability and preventing leakage, not as an attack on federalism.

→ WAY FORWARD

Assess fiscal federalism by the substantive distribution of usable fiscal power, not only the headline devolution percentage, which means tracking the effective share of the divisible pool after cess and surcharge growth, the net impact of discontinued revenue deficit grants on structurally weaker states' finances, and the actual channel through which local body funds reach panchayats and municipalities. States, particularly those with lower GDP contribution but genuine developmental need, should push through the Inter-State Council and GST Council for cess and surcharge rationalisation, and Parliament should require an explicit accounting of the effective, not nominal, devolution ratio in each Finance Commission cycle so that the headline percentage cannot function as a substitute for the fuller distributional picture.

MAINS ANSWER FRAMEWORK

QUESTION

The 16th Finance Commission has retained the vertical tax devolution to states at 41 per cent while altering the structure of grants and local body transfers. Examine whether these structural changes represent a meaningful shift toward fiscal centralisation despite the unchanged headline devolution figure. (250 words)

INTRODUCTION

The 16th Finance Commission, chaired by Dr Arvind Panagariya, was tabled in Parliament on 1 February 2026 for the award period 2026-27 to 2030-31, and retained states' vertical share of the divisible pool of central taxes at 41 per cent, unchanged from the 15th Commission. Mint's Rajrishi Singhal argues that this headline continuity conceals a substantive shift toward fiscal centralisation embedded in the Commission's other structural changes.

BODY

Three specific changes carry the substantive argument. First, the Commission discontinued revenue deficit grants, along with sector-specific and state-specific grants, that the 15th Finance Commission had used to cushion states with weaker revenue-raising capacity, replacing the tax-and-fiscal-effort criterion in the horizontal devolution formula with a new 10 per cent weight for a state's contribution to GDP. This formula change mechanically favours states with larger existing economies over smaller and less industrialised ones, shifting the distributional logic from need and effort toward scale.

Second, the divisible pool from which the unchanged 41 per cent is calculated continues to exclude cesses and surcharges, whose share of gross central tax revenue has been rising, meaning the effective, real-terms devolution to states has been eroding even as the formal percentage holds steady, a distinction between nominal and effective devolution that headline commentary typically elides. Third, on local body funding, the Commission recommended Rs 9.47 lakh crore for 2026-31, but structured around entry-level conditions such as the timely constitution of State Finance Commissions, with mechanisms enabling more direct Union-to-local-body transfer that bypass state government channels, a design critics argue weakens states' constitutionally anticipated supervisory role over the third tier of governance under the 73rd and 74th Amendments.

The counter-view, that these are legitimate outcomes of the Commission's own constitutionally mandated deliberative process under Article 280, and that a GDP-linked criterion rewards productive contribution while conditional local body grants improve accountability, is a reasonable defence of process and intent, but does not by itself refute the distributional and structural effect the changes produce.

CONCLUSION

The appropriate conclusion is that fiscal federalism should be assessed by the substantive, effective distribution of fiscal power, cess and surcharge growth, the loss of revenue deficit cushioning, and the actual channel of local body transfers, rather than by the headline vertical devolution percentage alone, which can remain static even as the underlying architecture shifts. Requiring an explicit effective-devolution accounting in future Finance Commission cycles, alongside continued state-level advocacy for cess and surcharge rationalisation, would let the headline figure and the substantive reality be assessed together rather than the former substituting for the latter.

RELATED DAILY ARTICLES

10 Aug Current Affairs Today, August 10, 2026

10 Aug Maharashtra Starts DBT Payouts Under the Ahilyadevi...

10 Aug Kerala (Alteration of Name) Bill, 2026: The Article 3...

10 Aug Tribunals Reforms Bill, 2026: Lok Sabha Creates the...

CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator

linkedin.com/in/epicbharat

📖 Read Full Article on Ujiyari →

https://ujiyari.com/editorials/2026/08/mint-finance-commission-fiscal-centralisation-2026/