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THE FINANCE COMMISSION AND ITS IMPACT ON PUBLIC POLICY: A LONGITUDINAL STUDY

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ABSTRACT

The Finance Commission occupies a central position in India's constitutional framework of fiscal federalism. Established under Article 280 of the Constitution, it functions as an independent constitutional body entrusted with the responsibility of recommending the distribution of financial resources between the Union and the States. Since its inception in 1951, the Finance Commission has evolved from a mechanism primarily concerned with tax devolution and grants-in-aid into an institution addressing complex challenges such as fiscal discipline, local governance, disaster management, environmental sustainability, and cooperative federalism. The recommendations of successive Finance Commissions have significantly influenced public policy by determining the availability of financial resources necessary for implementing developmental programmes and welfare initiatives across the country. This study undertakes a longitudinal examination of the Finance Commission from the First Finance Commission to the Fifteenth Finance Commission. It analyses the constitutional foundations, historical evolution, policy contributions, and changing criteria adopted for intergovernmental fiscal transfers. The paper further evaluates the impact of Finance Commission recommendations on public policy sectors including health, education, infrastructure development, local self-government, disaster management, and regional equity. Particular attention is given to the changing dynamics of fiscal federalism following economic liberalisation, the introduction of the Goods and Services Tax (GST), and the challenges arising from demographic and regional disparities. The study argues that the Finance Commission has played a transformative role in strengthening cooperative federalism and ensuring fiscal justice among States. At the same time, the institution faces significant challenges including overlapping functions with the GST Council and NITI Aayog, political controversies surrounding population-based allocation criteria, and the need to address emerging concerns such as climate finance and digital governance. The paper concludes that while the Finance Commission remains one of the most successful constitutional institutions in India, reforms are necessary to enhance its effectiveness in addressing twenty-first century fiscal challenges and ensuring inclusive and sustainable development.

Keywords: Finance Commission, Fiscal Federalism, Public Policy, Tax Devolution, Cooperative Federalism, Grants-in-Aid, Constitutional Governance.

CHAPTER I: INTRODUCTION

The Constitution of India establishes a federal structure characterised by a division of legislative, administrative, and financial powers between the Union and the States. [473] While the Constitution distributes responsibilities among different levels of government, the allocation of

[473] M.P. Jain, *Indian Constitutional Law* 725–28 (9th ed. 2023).

revenue-raising powers and expenditure obligations creates inherent fiscal imbalances. The Union Government enjoys access to broader and more productive sources of revenue, whereas the States bear substantial responsibility for delivering public services such as healthcare, education, agriculture, local infrastructure, and social welfare. This imbalance necessitates a constitutional mechanism capable of ensuring equitable financial relations between different levels of government.

The Finance Commission was conceived as that mechanism. Article 280 of the Constitution mandates the establishment of a Finance Commission every five years to recommend the distribution of financial resources between the Union and the States. [474]The institution reflects the vision of the Constitution-makers who recognised that political federalism could not survive without financial federalism. Dr. B.R. Ambedkar viewed the Finance Commission as a constitutional safeguard designed to maintain financial equilibrium within India's federal system and prevent economic disparities from undermining national unity. [475]

Since the establishment of the First Finance Commission in 1951 under the chairmanship of K.C. Neogy, fifteen Finance Commissions have been constituted. Over seven decades, the institution has undergone significant transformation. Initially focused on tax sharing and grants-in-aid, the Finance Commission now addresses broader concerns including fiscal responsibility, local governance, disaster management, environmental sustainability, demographic changes, and economic reforms.

The importance of the Finance Commission extends beyond financial allocation. Its recommendations directly influence public policy outcomes by determining the resources available to governments for implementing development programmes. Public expenditure in sectors such as healthcare, education, rural development, urban infrastructure, social security, environmental protection, and disaster relief depends substantially upon fiscal transfers recommended by the Commission. Consequently, the Finance Commission functions not merely as a financial institution but also as a significant contributor to public policy formulation and implementation.

The evolution of India's economy has further increased the significance of the Finance Commission. Economic liberalisation initiated in 1991, the implementation of Fiscal Responsibility and Budget Management frameworks, decentralisation through the Seventy-Third and Seventy-Fourth Constitutional Amendments, and the introduction of the Goods and Services Tax have transformed intergovernmental fiscal relations. These developments have expanded the responsibilities of the Finance Commission and altered the criteria employed in recommending fiscal transfers.

In recent years, the Finance Commission has been required to address unprecedented challenges. The COVID-19 pandemic exposed vulnerabilities in public health systems and fiscal management structures. Climate change has increased the frequency of natural disasters, necessitating innovative approaches to disaster financing. Demographic changes and regional disparities continue to generate debates regarding the appropriate basis for resource allocation among States. Simultaneously, growing demands for fiscal autonomy have intensified discussions concerning cooperative federalism and Centre-State relations.

The study of the Finance Commission is therefore essential for understanding the functioning of Indian federalism. The institution serves as a bridge between constitutional principles and practical governance by translating fiscal federalism into concrete financial arrangements. Through its recommendations, the Commission seeks to balance competing objectives such as equity,

[474] INDIA CONST. art. 280(1).

[475] Constituent Assembly Debates, Vol. IX, Nov. 1949.

efficiency, fiscal discipline, developmental needs, and national integration.

This research adopts a longitudinal approach to examine how successive Finance Commissions have responded to changing economic and political circumstances. By analysing developments across different periods, the study seeks to identify patterns in fiscal policy, institutional evolution, and public policy outcomes. The longitudinal perspective enables an assessment of both continuity and change in the functioning of the Finance Commission and its contribution to India's governance framework.

1.1 Research Objectives

The objectives of this study are:

1. To examine the constitutional foundations and institutional framework of the Finance Commission.
2. To trace the historical evolution of the Finance Commission from the First to the Fifteenth Commission.
3. To analyse the role of the Finance Commission in promoting fiscal federalism and cooperative federalism in India.
4. To evaluate the impact of Finance Commission recommendations on public policy and governance.
5. To identify major challenges and criticisms associated with the functioning of the Finance Commission.
6. To assess the judicial approach towards fiscal federalism and Finance Commission-related issues.
7. To propose reforms for strengthening the effectiveness of the Finance Commission in contemporary India.

1.2 Research Questions

1. What constitutional principles govern the establishment and functioning of the Finance Commission?
2. How has the role of the Finance Commission evolved since its inception in 1951?
3. What contribution has the Finance Commission made towards strengthening fiscal federalism in India?
4. How have Finance Commission recommendations influenced public policy outcomes?
5. What are the principal challenges confronting the Finance Commission in the contemporary era?
6. What reforms are necessary to enhance the effectiveness of the institution?

1.3 Research Methodology

The present study adopts a doctrinal and analytical research methodology. It is primarily based on secondary sources including constitutional provisions, Finance Commission reports, parliamentary documents, judicial decisions, scholarly books, academic journal articles, government reports, an d official publications. A longitudinal approach has been employed to analyse the evolution of the Finance Commission over different periods from 1951 to 2025. The study examines constitutional developments, policy changes, and institutional transformations through qualitative analysis. Comparative evaluation of successive Finance Commissions is undertaken to identify trends in fiscal devolution, grants-in-aid, and public policy priorities. Judicial decisions relating to federalism and fiscal governance have also been analysed to understand the constitutional interpretation of financial relations between the Union and the States.

1.4 Hypothesis

The study proceeds on the hypothesis that the Finance Commission has significantly contributed to strengthening fiscal federalism and influencing public policy outcomes in India; however, contemporary challenges arising from economic transformation, demographic changes, and institutional overlap necessitate reforms to enhance its effectiveness and relevance.

1.5 Scope and Limitations

The study focuses on the constitutional, institutional, and policy dimensions of the Finance Commission from the First Finance Commission to the Fifteenth Finance Commission. It examines the impact of fiscal transfers on public policy and governance within the Indian context.

The study is limited by its reliance on secondary sources and does not include extensive quantitative econometric analysis. Nevertheless, it seeks to provide a comprehensive legal and policy-oriented assessment of the Finance Commission's role in India's federal structure.

CHAPTER II: CONSTITUTIONAL FRAMEWORK OF THE FINANCE COMMISSION

2.1 Constitutional Philosophy of Fiscal Federalism

The Constitution of India establishes a federal structure characterized by a division of powers between the Union and the States. However, unlike classical federations where constituent units enjoy substantial fiscal autonomy, the Indian Constitution creates a relatively strong Union with extensive taxation powers. While States are entrusted with significant welfare and developmental responsibilities, their capacity to generate revenue is comparatively limited. The Constitution-makers recognized that this asymmetry could create financial instability and threaten national integration. Consequently, a constitutional mechanism was designed to facilitate the periodic redistribution of resources between different levels of government. The Finance Commission emerged as the principal institution responsible for maintaining fiscal balance within the federal framework.

The philosophy underlying the Finance Commission is rooted in three constitutional objectives:

1. **Equity** – ensuring fair distribution of resources among States.
2. **Efficiency** – encouraging prudent fiscal management and resource utilization.
3. **National Unity** – reducing regional disparities and promoting balanced development.

The institution therefore serves as an instrument through which constitutional ideals of social justice, economic development, and cooperative federalism are translated into practical fiscal arrangements.

2.2 Article 280: Establishment of the Finance Commission [476]

Article 280 of the Constitution provides for the establishment of a Finance Commission by the President of India every five years or earlier if deemed necessary. The Commission consists of: A Chairperson; and Four other members. Parliament has been empowered to prescribe qualifications for appointment through legislation. Accordingly, the Finance Commission (Miscellaneous Provisions) Act, 1951 provides the qualifications and service conditions of members. [477]

Functions under Article 280

The Finance Commission is entrusted with recommending:

Distribution of Tax Revenues - The division of net proceeds of taxes between: The Union Government and State Governments; and Various States inter se. This function forms the core of India's fiscal federal structure.

Grants-in-Aid - The principles governing grants-in-aid payable to States from the Consolidated Fund of India under Article 275.

Measures for Local Governments - Following the 73rd and 74th Constitutional Amendments, the

[476] INDIA CONST. art. 280.

[477] Finance Commission (Miscellaneous Provisions) Act, No. 33 of 1951.

Commission recommends measures for augmenting the resources of: Panchayats; and Municipalities.

Other Matters – The President may refer any matter relating to sound finance to the Commission. This flexibility has enabled successive Finance Commissions to address emerging fiscal challenges.

2.3 Article 281 [478]

Article 281 mandates that the recommendations of the Finance Commission, together with an explanatory memorandum indicating the action taken by the Government, must be laid before both Houses of Parliament. This provision promotes transparency and accountability in fiscal governance.

2.4 Related Constitutional Provisions

- **Article 268 –** Provides for duties levied by the Union but collected and appropriated by the States. [479]
- **Article 269 –**Deals with taxes levied and collected by the Union but assigned to the States. [480]
- **Article 270 –** Provides for taxes shared between the Union and States. [481]
- **Article 275 –** Authorizes grants-in-aid to States in need of financial assistance. [482]
- **Article 282 –** Permits discretionary grants by both Union and States for public purposes. [483]

Together, these provisions establish the constitutional framework within which the Finance Commission operates.

CHAPTER III: THEORETICAL FOUNDATION: FISCAL FEDERALISM

3.1 Meaning of Fiscal Federalism

Fiscal federalism refers to the financial relationship between different levels of government within a federal system. According to economist Richard Musgrave, fiscal federalism concerns: "the division of governmental functions and financial relations among levels of government." In India, fiscal federalism seeks to balance: Revenue generation powers; Expenditure responsibilities; and Developmental needs. The Finance Commission serves as the constitutional mechanism through which these objectives are achieved.

3.2 Vertical Fiscal Imbalance

Vertical imbalance refers to the mismatch between: Revenue-raising powers of the Union; and Expenditure obligations of the States. The Union collects major taxes such as: Income Tax; Corporation Tax; Customs Duties; GST components. States, however, are primarily responsible for: Health; Education; Agriculture; Rural development; Police; Local governance. [484]

This mismatch necessitates substantial fiscal transfers.

3.3 Horizontal Fiscal Imbalance

Horizontal imbalance refers to disparities among States themselves. Factors contributing to such disparities include: Economic development; Population; Industrialization; Natural resources; Administrative capacity. For example: Maharashtra, Gujarat, and Karnataka generate substantial revenues. Bihar, Jharkhand, and some North-Eastern States possess comparatively weaker fiscal capacities. The Finance Commission seeks to reduce these inequalities through equitable allocation formulas.

3.4 Cooperative Federalism and the Finance Commission

Cooperative federalism implies collaboration between the Union and States in governance and development. The Finance Commission promotes cooperative federalism by: Ensuring transparent fiscal transfers,

[478] INDIA CONST. art. 281.
[479] INDIA CONST. art. 268.
[480] INDIA CONST. art. 269.
[481] INDIA CONST. art. 270.
[482] INDIA CONST. art. 275.
[483] INDIA CONST. art. 282.
[484] M. Govinda Rao & Nirvikar Singh, *Political Economy of Federalism in India* 56–61 (2005).

Reducing financial disputes, Encouraging policy coordination and Supporting balanced regional development. Its recommendations often act as a bridge between national priorities and State-specific developmental needs.

CHAPTER IV

EVOLUTION OF THE FINANCE COMMISSION: A LONGITUDINAL ANALYSIS

The evolution of the Finance Commission can be divided into four broad phases:

Phase I (1951–1975) - Foundation of Fiscal Federalism

1. **First Finance Commission (1951) -** Chairman: **K.C. Neogy** The First Finance Commission laid the foundations of India's fiscal federal system. Major recommendations included: Sharing of income tax revenues, Distribution of Union excise duties, Grants-in-aid for financially weaker States. Its primary objective was stabilizing financial relations in the newly independent Republic. [485]
2. **Second Finance Commission (1956) -** Chairman: **K. Santhanam**. Major contributions: Increased State share in income tax proceeds, Strengthened equalization grants, Addressed financial needs of underdeveloped States. The Commission emphasized reducing regional disparities. [486]
3. **Third Finance Commission (1960) -** Chairman: **A.K. Chanda**. Key recommendations: Increased States' share in income tax, Introduced objective criteria for allocation, Considered fiscal effort and developmental needs. This marked a shift toward formula-based distribution. [487]
4. **Fourth Finance Commission (1964) -** Chairman: **P.V. Rajamannar** Major focus: Debt relief measures, Increased tax devolution, Better balancing of Union-State fiscal relations. The Commission recognized the growing expenditure burden on States. [488]
5. **Fifth Finance Commission (1968) -** Chairman: **Mahavir Tyagi**. Important developments: Enhanced grants-in-aid, Greater support for backward regions, Focus on reducing inter-State disparities. [489]

Phase II (1976–1990) - Expansion and Consolidation

1. **Sixth Finance Commission (1972) -** Chairman: **K. Brahmananda Reddy** The Commission focused on: Debt restructuring, Fiscal sustainability, Rational allocation of resources. It emphasized balancing developmental expenditure with financial stability. [490]
2. **Seventh Finance Commission (1977) -** Chairman: **J.M. Shelat.** Major recommendations: Greater devolution of income tax, Increased share of Union excise duties, Recognition of growing State responsibilities. [491]
3. **Eighth Finance Commission (1982) -** Chairman: **Y.B. Chavan -** The Commission emphasized: Equity in fiscal transfers, Assistance to low-income States, Strengthening federal cooperation. [492]
4. **Ninth Finance Commission (1987) -** Chairman: **N.K.P. Salve -** A significant development was the introduction of incentives for: Fiscal discipline, Better tax administration, Efficient expenditure management. This marked the beginning

[485] First Finance Commission Report, Government of India (1952).
[486] Second Finance Commission Report, Government of India (1957).
[487] Third Finance Commission Report, Government of India (1962).
[488] Fourth Finance Commission Report, Government of India (1966).
[489] Fifth Finance Commission Report, Government of India (1969).
[490] Sixth Finance Commission Report, Government of India (1973).
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[492] Eighth Finance Commission Report, Government of India (1984).

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of performance-oriented fiscal transfers. [493]

Phase III (1991–2010) - Economic Liberalization and Fiscal Reforms

Economic liberalization fundamentally transformed India's fiscal landscape. The Finance Commission increasingly focused on: Fiscal responsibility, Market-oriented reforms, Decentralization and Debt sustainability.

1. **Tenth Finance Commission (1992)** - Chairman: **K.C. Pant** - Historic contributions: Recommendations following economic reforms, Debt relief linked to fiscal discipline, First substantial support for local governments. The Commission recognized the implications of the 73rd and 74th Constitutional Amendments. [494]
2. **Eleventh Finance Commission (1998)** - Chairman: **A.M. Khusro** - Major innovations: Fiscal Reform Facility, Strengthening Panchayats and Municipalities and Disaster relief mechanisms. The Commission institutionalized support for local governance. [495]
3. **Twelfth Finance Commission (2004) -** Chairman: **C. Rangarajan**. The Commission strongly emphasized: Fiscal Responsibility and Budget Management (FRBM), Debt consolidation and Sustainable public finances. It encouraged States to enact their own FRBM laws. [496]
4. **Thirteenth Finance Commission (2007) -** Chairman: **Vijay Kelkar** Key achievements: Increased tax devolution to States. Performance-based grants and Greater incentives for fiscal discipline. The Commission sought to modernize fiscal governance structures. [497]

Phase IV (2011–2025) - Cooperative Federalism, GST and Contemporary Challenges

This period witnessed significant institutional transformation.

1. **Fourteenth Finance Commission (2013) -** Chairman: **Y.V. Reddy** The Fourteenth Finance Commission is widely regarded as a turning point in Indian fiscal federalism. Landmark Recommendation - State share in divisible taxes increased from: **32% to 42%.** This represented the largest increase in the history of Finance Commissions. Impact - Greater State autonomy, Reduced dependence on discretionary grants, Strengthened cooperative federalism and Increased flexibility in State-level policy formulation. The Commission shifted emphasis from centralized planning to fiscal decentralization. [498]
2. **Fifteenth Finance Commission (2017) -** Chairman: **N.K. Singh**. The Fifteenth Finance Commission operated under extraordinary circumstances. Major challenges included: GST implementation, Economic slowdown, COVID-19 pandemic, Rising public debt. Key Recommendations - 41% tax devolution to States., Performance-based incentives, Sector-specific grants, Health sector strengthening, Disaster risk management reforms. The Commission also introduced greater emphasis on: Demographic performance, Environmental sustainability and Disaster resilience. [499]

[493] Ninth Finance Commission Report, Government of India (1989).
[494] Tenth Finance Commission Report, Government of India (1995).
[495] Eleventh Finance Commission Report, Government of India (2000).
[496] Twelfth Finance Commission Report, Government of India (2005).
[497] Thirteenth Finance Commission Report, Government of India (2010).
[498] Fourteenth Finance Commission Report, Government of India (2015).
[499] Fifteenth Finance Commission Report, Government of India (2021).

Major Trends Emerging from the Longitudinal Study

A review of fifteen Finance Commissions reveals five major trends:

- **First Trend:** Expansion of Fiscal Devolution - State participation in central revenues has consistently increased.
- **Second Trend: Shift Toward Objective Criteria -** Allocation methods evolved from negotiation-based approaches to formula-based mechanisms.
- **Third Trend: Strengthening Local Governance -** Post-1992 Finance Commissions increasingly supported Panchayats and Municipalities.
- **Fourth Trend: Performance-Oriented Transfers -** Fiscal discipline and governance reforms became important determinants of allocations.
- **Fifth Trend: Broadening Policy Scope -** The Finance Commission now addresses: Climate resilience, Disaster management, Health financing, Sustainable development, Digital governance.

These developments demonstrate the transformation of the Finance Commission from a revenue-sharing body into a major institution influencing public policy and governance.

CHAPTER VI: CHALLENGES AND CRITICISMS OF THE FINANCE COMMISSION

The Finance Commission has played a crucial role in strengthening fiscal federalism in India. Nevertheless, changing economic realities, political developments, and institutional transformations have generated several challenges that affect its effectiveness. While the institution remains one of the most respected constitutional bodies, scholars, policymakers, and State Governments have increasingly raised concerns regarding its methodology, scope, and operational framework.

6.1 Vertical Fiscal Imbalance

One of the most persistent challenges confronting the Finance Commission is the existence of vertical fiscal imbalance. The Union Government enjoys access to broad and buoyant tax sources, including: Corporation Tax; Customs Duties; Income Tax; Goods and Services Tax components. In contrast, States bear substantial expenditure responsibilities relating to: Healthcare; Education; Agriculture; Public Order; Social Welfare; Infrastructure Development. Despite increasing tax devolution, many States continue to depend heavily upon Union transfers. This dependence occasionally creates tensions regarding fiscal autonomy and accountability. [500]

6.2 Horizontal Fiscal Imbalance

Economic disparities among States remain significant. Differences in: Industrialization; Infrastructure; Human Development; Tax Capacity; Natural Resources; create unequal developmental opportunities. Although Finance Commissions have attempted to address these disparities through equalization transfers, complete elimination of regional inequalities remains elusive. States with stronger economies frequently argue that redistribution mechanisms unfairly penalize efficiency and fiscal prudence.

6.3 Population-Based Allocation Controversy

The Fifteenth Finance Commission generated substantial debate by incorporating population figures from the 2011 Census. Several southern States argued that: They successfully implemented population control measures. Their developmental achievements should not result in reduced resource allocations. States with higher population growth appeared to benefit disproportionately. The controversy highlighted the tension between: Equity; Demographic realities; and Incentives for good governance. Balancing these competing

[500] M. Govinda Rao, Fiscal Federalism in India: Emerging Challenges, 52 Econ. & Pol. Wkly. 24 (2017).

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considerations remains a major challenge for future Finance Commissions.

6.4 GST and Fiscal Federalism

The implementation of the Goods and Services Tax transformed India's fiscal architecture. While GST enhanced tax harmonization and market integration, it also reduced independent taxation powers previously exercised by States. Consequently: State fiscal autonomy diminished. , Dependence upon compensation mechanisms increased, Revenue uncertainties emerged. The Finance Commission must now operate within a significantly altered fiscal environment where traditional revenue-sharing formulas require continuous adaptation.

6.5 Climate Change and Environmental Challenges

Climate change presents unprecedented fiscal challenges. India faces increasing incidents of: Floods; Cyclones; Heatwaves; Droughts; Coastal erosion. Traditional fiscal transfer mechanisms were not designed to address climate-related vulnerabilities. Future Finance Commissions must develop frameworks that integrate: Climate adaptation; Carbon mitigation; Ecological conservation; Disaster resilience.

into fiscal allocation criteria.

6.6 Overlapping Institutional Functions

The emergence of new institutions has altered India's fiscal governance landscape. Important institutions include: GST Council; NITI Aayog; Inter-State Council; Reserve Bank of India. The overlapping functions of these institutions occasionally create uncertainty regarding: Fiscal planning; Developmental priorities; Resource allocation. Many scholars advocate clearer institutional coordination mechanisms.

6.7 Advisory Nature of Recommendations

A significant criticism concerns the non-binding character of Finance Commission recommendations. Although recommendations generally receive substantial acceptance, the Union Government retains discretion regarding implementation. Critics argue that: Selective implementation may weaken fiscal certainty, States may face unpredictability, Constitutional intent could be diluted. Some scholars have proposed greater institutional safeguards to ensure implementation.

6.8 Inadequate Attention to Emerging Policy Areas

Modern governance increasingly requires expenditure on: Artificial Intelligence; Digital Infrastructure; Cybersecurity; Green Energy; Urban Resilience. Critics argue that the traditional framework of Finance Commissions remains focused on conventional fiscal concerns and must evolve further to address emerging developmental priorities.

CHAPTER VII: JUDICIAL PERSPECTIVE ON FISCAL FEDERALISM

Although relatively few judicial decisions directly concern the Finance Commission, several landmark decisions have shaped the constitutional understanding of fiscal federalism.

7.1 State of West Bengal v. Union of India (1963) [501]

This case remains one of the most important decisions concerning Indian federalism.

Facts - The State of West Bengal challenged Parliament's authority to acquire State-owned property. **Judgment** - The Supreme Court upheld the constitutional supremacy of the Union within India's federal framework. **Relevance** - The judgment clarified that Indian federalism differs from classical federations and permits substantial Union authority. -The decision continues to influence debates

[501] State of West Bengal v. Union of India, AIR 1963 SC 1241.

concerning fiscal transfers and Centre-State financial relations.

7.2 S.R. Bommai v. Union of India (1994) [502]

The Court declared federalism to be part of the Constitution's basic structure. **Impact -** The judgment reinforced: State autonomy; Decentralized governance; Cooperative federalism. These principles indirectly strengthen the constitutional philosophy underlying the Finance Commission.

7.3 Jindal Stainless Ltd. v. State of Haryana (2016) [503]

The Court emphasized the importance of maintaining economic unity within India. The judgment reinforced constitutional principles supporting equitable fiscal arrangements and economic integration.

7.4 GST-Related Constitutional Litigation

The introduction of GST generated significant constitutional litigation concerning: Revenue sharing; Federal autonomy; Taxation powers. These disputes highlight the increasing complexity of fiscal federalism and the growing importance of institutions such as the Finance Commission.

Judicial Trends

Judicial decisions reveal three recurring principles:

1. Federalism is a basic constitutional value.
2. Fiscal arrangements must promote national integration.
3. Financial autonomy and cooperative federalism must coexist.

These principles continue to guide constitutional interpretation relating to intergovernmental financial relations.

CHAPTER VIII: FINDINGS OF THE STUDY

The longitudinal examination of the Finance Commission from 1951 to 2025 reveals the following findings:

Finding 1 - The Finance Commission has successfully institutionalized fiscal federalism in India and provided a stable mechanism for resource distribution.

Finding 2 - Successive Finance Commissions have progressively increased the financial autonomy of States through enhanced tax devolution.

Finding 3 - The institution has contributed significantly to reducing regional disparities through equalization-oriented transfers.

Finding 4 - The Finance Commission has transformed local governance by strengthening Panchayats and Municipalities after the 73rd and 74th Constitutional Amendments.

Finding 5 - Recent Finance Commissions have expanded their scope beyond traditional fiscal concerns to include: Disaster Management; Environmental Sustainability; Public Health; Governance Reforms.

Finding 6 - The Fourteenth Finance Commission represents a watershed moment in Indian fiscal federalism due to the substantial increase in States' share of central taxes.

Finding 7 - The Fifteenth Finance Commission demonstrated institutional adaptability by responding to challenges posed by GST implementation and the COVID-19 pandemic.

Finding 8 - Despite significant achievements, concerns remain regarding population-based allocation criteria, institutional overlap, and emerging fiscal challenges.

CHAPTER IX: RECOMMENDATIONS

To strengthen the Finance Commission and enhance its relevance in the twenty-first century, several reforms are necessary.

9.1 Strengthening Fiscal Federalism

Future Finance Commissions should continue expanding fiscal autonomy while maintaining national fiscal stability. A balanced approach should be adopted to ensure: State

[502] S.R. Bommai v. Union of India, (1994) 3 SCC 1.

[503] Jindal Stainless Ltd. v. State of Haryana, (2017) 12 SCC 1.

empowerment; National cohesion; Fiscal sustainability.

9.2 Establishing a Permanent Finance Commission Secretariat

Currently, each Finance Commission functions as a temporary body. A permanent secretariat would: Preserve institutional memory. Improve data collection. Enhance policy continuity. Facilitate long-term research.

9.3 Improving Data-Driven Decision-Making

Advanced analytical tools should be utilized for: Revenue forecasting. Development assessment. Climate risk evaluation. Fiscal sustainability analysis. Evidence-based recommendations would improve allocation efficiency.

9.4 Integrating Climate Finance

Future Finance Commissions should establish dedicated climate-resilience funds. Allocation criteria should include: Environmental vulnerability, Forest conservation, Carbon sequestration, Disaster preparedness.

9.4 Strengthening Local Governments

Greater emphasis should be placed upon: Financial autonomy of local bodies. Capacity building. Urban governance reforms. Digital public administration.

9.6 Enhancing Transparency

The methodology used for resource allocation should be more transparent and publicly accessible. Broader stakeholder consultation may enhance legitimacy and acceptance.

9.7 Better Coordination with Emerging Institutions

Clear coordination frameworks should be established among: Finance Commission; GST Council; NITI Aayog; Inter-State Council. This would reduce duplication and improve policy coherence.

CHAPTER X: CONCLUSION

The Finance Commission occupies a unique position within India's constitutional architecture. Established under Article 280, it was conceived as an impartial institution capable of maintaining financial equilibrium between the Union and the States. Over the last seven decades, the Commission has evolved considerably, reflecting changing economic conditions, political realities, and developmental priorities.

The longitudinal analysis undertaken in this study demonstrates that the Finance Commission has been instrumental in strengthening fiscal federalism, reducing regional disparities, and promoting cooperative federalism. Beginning as a mechanism for tax devolution and grants-in-aid, it has gradually emerged as a significant institution influencing public policy across diverse sectors including healthcare, education, rural development, urban governance, disaster management, and environmental sustainability. The historical evolution of the Finance Commission reveals a consistent movement toward greater fiscal decentralization. Successive Commissions have expanded State autonomy while simultaneously encouraging fiscal discipline and accountability. The Fourteenth Finance Commission's decision to substantially increase tax devolution represented a landmark development in Centre-State financial relations, while the Fifteenth Finance Commission demonstrated remarkable adaptability in responding to GST-related challenges and the COVID-19 pandemic. [504]

Nevertheless, the institution faces significant contemporary challenges. Population-based allocation controversies, climate-related fiscal risks, increasing demands for State autonomy, and institutional overlaps necessitate continuous adaptation. The Finance Commission must therefore evolve from a traditional revenue-sharing body into a comprehensive institution capable of

[504] Raja J. Chelliah, *Fiscal Federalism in India* 201–205 (Oxford Univ. Press 1997).

addressing emerging fiscal and governance challenges.

Despite these challenges, the Finance Commission remains one of the most successful constitutional innovations in India. It embodies the constitutional values of equity, justice, efficiency, and cooperative federalism. Its continued effectiveness will be critical for achieving inclusive development, fiscal stability, and balanced growth in the decades ahead.

In conclusion, the Finance Commission is not merely a financial institution but a constitutional instrument for nation-building. By ensuring equitable distribution of resources and promoting balanced development, it continues to play a pivotal role in realizing the constitutional vision of a united, democratic, and welfare-oriented India.

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