

Editorial of the Day – 05.02.2026

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1. Has the 16th Finance Commission sidelined the States and prioritised the Centre's needs? (TH)

General Studies 2- Polity

TOPIC- Appointment to various Constitutional posts, powers, functions, and responsibilities of various Constitutional Bodies.

SUB TOPIC- Issues and challenges pertaining to the federal structure (Devolution of powers and finances up to local levels).

Introduction

The Sixteenth Finance Commission (2024–29) has been constituted by the President of India to define the fiscal architecture of the nation for the next five years. It is tasked with recommending the sharing of central taxes, determining grants-in-aid, and suggesting measures to enhance the financial stability of States. This commission is particularly significant as it operates in the context of emerging global and domestic challenges such as climate change, shifting population dynamics, and the need for long-term fiscal sustainability.

Constitutional Framework & Nature

Constitutional Mandate- Established under Article 280 of the Indian Constitution.

Authority- It is a Quasi-Judicial and Constitutional body.

Appointing Authority- Constituted by the President of India.

Frequency- Appointed every five years (or earlier if considered necessary by the President).

Nature of Recommendations- Advisory in nature (not binding). However, due to their constitutional sanctity, they are generally accepted by the Union Government.

Primary Goal- To ensure the equitable distribution of financial resources between the Union and the States, acting as a key pillar of Fiscal Federalism.

Composition and Appointment

The Commission is a multi-member body appointed by the President, consisting of-

Chairperson- Head of the Commission.

Four Members- Selected based on expertise in specific fields-

1. Public Finance
2. Economics
3. Law
4. Public Administration

Tenure- Normally five years, as specified in the presidential order.

Core Functions & Mandate

The Commission acts as the balancing wheel of the Indian fiscal system through four distinct functions-

Vertical Devolution- Recommending the distribution of the net proceeds of taxes between the Centre and the States.

Horizontal Devolution- Determining the principles for distributing the share of taxes among the respective States.

Grants-in-Aid- Governing the principles for grants-in-aid to States out of the Consolidated Fund of India (**Article 275**).

Local Government Support- Suggesting measures to augment the Consolidated Fund of a State to supplement the resources of Panchayats and Municipalities based on State Finance Commission recommendations.

Devolution Criteria (The Formula)

The Commission employs specific criteria to ensure fairness in **Horizontal Devolution-**

Income Distance

1. Purpose- To address regional inequalities.
2. Logic- States with lower per capita income compared to the state with the highest income receive a higher share.

Population

1. Purpose- To reflect the expenditure needs of the state.
2. Logic- Higher population implies higher demand for public services.

Area

1. Purpose- Accounts for administrative costs.
2. Logic- Larger states have higher costs of delivering services across vast territories.

Forest and Ecology-

1. Purpose- Compensates States for ecological conservation.
2. Logic- Recognizes the opportunity cost of maintaining forest cover (which restricts development) for the national good.

Demographic Performance-

1. Purpose- Rewards population control measures.
2. Logic- Incentivizes states that have successfully lowered fertility rates.

Fiscal Discipline-

1. Purpose- Incentivizes responsible financial management.
2. Logic- Rewards states that manage their deficits and revenue generation efficiently

Grants-in-Aid Mechanisms

Beyond tax sharing, the Commission recommends specific grants to cover gaps-

Revenue Deficit Grants- Targeted at states that still face a deficit in their revenue account even after-tax devolution.

Local Body Grants- Directed towards strengthening the third tier of government (Panchayats and Municipalities).

Sector-Specific Grants- Funds tied to critical sectors to ensure minimum standards of service-

1. Health
2. Education
3. Disaster Management
4. Infrastructure

Emerging Trends & Focus Areas

The 16th Finance Commission is evolving to address modern realities-

Performance-Based Incentives- A shift from entitlement-based transfers to outcome-based rewards.

Climate Change & Environment- Explicit focus on sustainable development and climate resilience in funding criteria.

Demographic Transition- Balancing the needs of states with growing populations against those with aging populations.

Defence & Security- Increasing consideration for non-lapsable funds for defence and internal security modernization.

Fiscal Sustainability- Emphasis on debt consolidation and adhering to fiscal deficit targets.

Significance

Regional Balance- It promotes balanced regional development by transferring resources from richer to poorer regions.

Macroeconomic Stability– Ensures that the division of resources does not compromise the fiscal health of the Centre or States.

Conflict Resolution– Acts as a stabilizing force in Centre-State relations by providing an objective formula for resource sharing.

Way Forward- Strengthening Fiscal Federalism

To remain effective, the 16th Finance Commission must adopt the following strategies–

Enhance Predictability– Ensure stability in tax devolution to allow States to plan long-term projects. Reduce reliance on ad-hoc transfers.

Update Devolution Criteria– Regularly revise criteria (like using the latest Census data appropriately) to reflect changing socio-economic realities while balancing equity with efficiency.

Build State Capacity– Support States in improving their own Tax Effort and Public Financial Management (PFM). Encourage the adoption of Outcome-Based Budgeting.

Empower Local Governments– Ensure direct and timely transfers to Panchayats and Municipalities. Link these grants to visible service delivery outcomes.

Address Emerging Challenges– Mainstream concerns like urbanization, aging populations, and climate change into the core fiscal transfer formula.

Consultative Approach– Promote wider and more transparent consultation with States before finalizing recommendations to uphold the spirit of Cooperative Federalism.

Conclusion

The Finance Commission remains the cornerstone of India's fiscal architecture, tasked with the delicate balancing act of aligning national priorities with State autonomy. As India progresses towards a \$5 trillion economy, the 16th Finance Commission's ability to adapt its framework to emerging challenges—specifically climate change and demographic shifts—will be crucial for sustaining inclusive growth and maintaining federal harmony.

Source– <https://www.thehindu.com/data/has-the-16th-finance-commission-sidelined-the-states-and-prioritised-the-centres-needs/article70592338.ece>

2. For India-Pakistan, peace is not weakness, dialogue is not defeat

General Studies 2– Polity

TOPICS– India and its neighbourhood- relations.

SUB TOPIC– Bilateral, regional and global groupings and agreements involving India and/or affecting India's interests; Effect of policies and politics of developed and developing countries on India's interests.

Introduction

The trajectory of India-Pakistan relations has recently resurfaced in diplomatic discourse, centering on a critical debate– Can calibrated dialogue coexist with firm security measures to break the cycle of perpetual hostility? While relations remain largely frozen due to the "trust deficit" and cross-border terrorism, there is a growing realization that complete disengagement in a nuclearized region carries high risks of miscalculation. The current discourse advocates for a shift from high-stakes summit diplomacy to an incremental, issue-based engagement strategy.

Historical Trajectory– A Legacy of Mistrust

The relationship has been defined by a cycle of hope followed by betrayal, creating deep-seated strategic mistrust.

Post-Independence Rivalry– Since the traumatic Partition of 1947, relations have been punctuated by four major wars (1947, 1965, 1971, 1999) and the enduring Kashmir dispute.

Pattern of Disruption– Historical peace initiatives have consistently been derailed by terror events–

1. The Lahore Declaration (1999) was followed immediately by the Kargil Conflict.
2. The Agra Summit (2001) and subsequent composite dialogues were undermined by the 2001 Parliament attack and the 26/11 Mumbai attacks.

The Core Obstacle– India maintains a rigid stance that terrorism is the central issue, and dialogue is futile without credible, verifiable action against Pakistan-based terror groups.

Security Concerns & India's Strategic Position

India's policy has evolved from "diplomatic protest" to "active deterrence," driven by a Doctrine of Accountability.

Security Assurances Precede Talks- Terror attacks on strategic installations like Pathankot (2016) and Pulwama (2019) solidified the view that security guarantees are a prerequisite for engagement.

Legitimacy Concerns- India fears that unconditional dialogue without accountability risks legitimizing hostile actions by the Pakistani deep state.

Shift to Deterrence- Operations like the Surgical Strikes (2016) and Balakot Airstrikes (2019) signalled a paradigm shift- India is willing to use punitive force short of full-scale war.

Limits of Hard Power- While deterrence is essential for security, military posturing alone cannot resolve long-term instability or prevent accidental escalation in a volatile environment

The Risks of "No Dialogue" in a Nuclearized Region

While silence is often seen as a diplomatic tool, total disengagement creates its own set of dangerous vulnerabilities.

Communication Vacuum- The absence of formal diplomatic channels increases the risk of misinterpreting moves, potentially leading to unintended military escalation.

Hyper-Nationalism & Rhetoric- In the absence of official dialogue, social media-driven rhetoric and domestic political pressures can hijack the narrative, escalating tensions rapidly.

Regional Volatility- South Asia lacks robust crisis-management mechanisms. Without a hotline or backchannel, even limited border incidents can spiral out of control.

Strategic Stasis- Silence is not neutrality; it is stagnation. It allows positions to harden and hostilities to fester rather than resolve.

The Case for Incremental & Layered Engagement

The emerging consensus suggests moving away from "Summit-Centric" diplomacy (which is high-profile and fragile) to "Layered Engagement" (which is low-profile and resilient).

People-to-People Contacts- Encouraging cultural exchanges, sports, academic collaboration, and medical visas helps humanize the "other" and counter state-sponsored stereotypes.

Low-Risk Engagement

1. Religious Tourism- Facilitating pilgrimages (e.g., Kartarpur Corridor).
2. Student/Artistic Exchanges- These pose minimal security risks but build immense social capital.

Expanding the Peace Constituency- Such engagement strengthens the hands of moderate voices within Pakistan who favour stability over the military-mullah complex's hostility.

Framework for Conditional & Calibrated Dialogue

The way forward is not "unconditional friendship" but a "conditional working relationship."

Engagement ≠ Endorsement- Talking to Pakistan does not imply approval of its policies; it is a strategic investment in conflict prevention.

Clear Benchmarks- India can set measurable conditions for progress, such as-

1. Verifiable action against proscribed terror groups (e.g., LeT, JeM).
2. Curbing anti-India hate rhetoric.

Reciprocity- The approach should be transactional. Limited Pakistani compliance should be met with proportional Indian responses (e.g., starting Track-II talks or limited sporting ties).

Flexible Diplomacy- Moving from a binary "All or Nothing" approach allows for flexibility without compromising on core principles of territorial integrity and security.

Role of Regional & Issue-Based Multilateralism

Given the bilateral deadlock, alternative platforms offer a "neutral ground" for engagement.

SAARC Limitations- Bilateral hostility has effectively paralyzed the South Asian Association for Regional Cooperation (SAARC), rendering it ineffective.

Humanitarian & Technical Cooperation- Engagement can restart in non-political, shared vulnerability areas-

1. Climate Change & Disaster Relief- Both nations face similar climate threats.
2. Pandemic Response- Health cooperation.
3. Indus Waters Treaty- Utilizing existing mechanisms for water-sharing discussions.

Logic- Cooperation in these functional areas builds trust without touching the "third rail" of political disputes.

Conclusion

India's diplomatic challenge lies in balancing uncompromising security concerns with pragmatic engagement. Permanent Disengagement risks conflict escalation through miscalculation. Unconditional Dialogue risks moral hazard by rewarding bad behaviour.

The Middle Path- A calibrated approach—firm on terrorism, flexible on people-to-people contact, and incremental in confidence-building—offers the most realistic path forward. Dialogue, when structured carefully, is not a concession of defeat but a strategic necessity for regional stability.

Source- <https://indianexpress.com/article/opinion/columns/for-india-pakistan-peace-is-not-weakness-dialogue-is-not-defeat-10514220/>