



One-Day Conference

on

16th Finance Commission Report

25 February, 2026

Questions Raised

Organised by

Finance Department, Govt. of Telangana

In collaboration with

Centre for Economic and Social Studies (CESS), Hyderabad



QUESTIONS RAISED

Event: One-day Conference on the Deliberations of the 16th Finance Commission Report

Organisers: Centre for Economic and Social Studies (CESS), and Finance Department, Government of Telangana

Venue: Taj Deccan, Hyderabad

Date: 25th February 2026

Inaugural Session : Questions Raised

1. Institutional Design and Reform

- Is the Finance Commission 'fit for purpose' given the significant changes in the global economic context and the shift from centralized planning to a market economy?
- Should the Concurrent List be drastically reduced or eliminated to restore autonomy to states in sectors like education?
- Should large states be re-bundled into smaller states to improve the quality of governance and urban infrastructure?
- How can the Finance Commission address the growth of cesses and surcharges, which currently allow the Union to pre-empt resources without sharing them with the states?

2. Fiscal Consolidation and Management

- How can states effectively implement and maintain the fiscal deficit (FRBM) limit while managing their revenue requirements?
- What are the best mechanisms to include off-budget borrowings in the official public debt of a state and ensure they are phased out?
- How can the universal subsidies be rationalized to prevent the crowding out of essential capital expenditure?
- Why is there a lack of institutional research focused on identifying the specific development constraints of individual states rather than just national-level problems? What are the constraints? How to improve the state-level research?

3. Federal Relations and Macroeconomics

- How can the economic centre of gravity (concentrated in the South and West) be balanced against the political centre of gravity (concentrated in the North and East)?
- How can the Union build consensus for second-generation reforms—such as land, labour, and taxation—which require active state cooperation and cannot be dictated from the Centre?
- How does state-level fiscal management (representing 60% of total public expenditure) impact national macroeconomic stability, inflation, and private investment?

- Why is there a significant lack of devolution below the state level to panchayats and local bodies, and how can this be addressed?

4. Performance and Equity Criteria

- In which areas the 16th Finance Commission succeeded in balancing equity with efficiency, and which specific areas require further improvement?
- How can delimitation be addressed without causing a complete transformation of political power that puts a major strain on the federal system?
- Can states effectively leverage property and agricultural taxes to fund urban infrastructure and local development?

Technical Session – I : Questions Raised

1. Institutional Framework and Design

- Should the Finance Commission be modelled on the GST Council, transforming it into a standing body where states have an equal seat at the table?
- Should there be a formal coordination or recognition between the Finance Commission and the GST Council, despite the latter now deciding the taxation rates that the former must devolve?

2. Methodology and Measurement of Devolution

- Is moving towards GSVA from GSDP a refinement for the purposes of devolution criteria? In particular to remove the distortions caused by varying taxes and subsidies?
- What are the comprehensive measures which can be used to move 'Beyond GDP' for devolution purpose?
- Should the demographic parameters for devolution move beyond population and area and account for internal migration? And Why?

3. Vertical Imbalance and Resource Sharing

- Should there be a constitutional cap on cesses and surcharges?
- How can these be re-calculated or re-aggregated to ensure states do not receive a bad deal?

4. State Roles and Development Strategy

- How should the Finance Commission co-evolve with national ambitions like Mission Viksit Bharat.
- Where exactly the states fit into this national program of Viksit Bharat?
- How to compensate states for the opportunity cost of producing mobile, skilled labour that pays taxes to other states or the Union rather than the home state?
- Should the devolution criteria include performance-based incentives for air quality and if the forest criteria should be expanded to include other vital ecosystems like wetlands and coastal areas?

Technical Session – II : Questions Raised

1. Constitutional Mandate and Structural Deficits

- Is the 16th Finance Commission's (SFC) decision to deny revenue deficit grants (RDG) a departure from the constitutional mandate and the principles laid down in Articles 275(1) and 280?
- How should the Commission perform a mandated state-specific analytical exercise to assess individual expenditure needs versus revenue sources, rather than relying on an aggregate-level assessment?
- What is 'structural deficit' (deficit in natural resources, hilly areas and/or being closer to international borders) for North eastern and Himalayan states vis-à-vis other states?

2. Expenditure, Subsidies, and Fiscal Performance

- How to define subsidies uniformly across states to ensure comparable data for analysis? What are the parameters to identify an expenditure as subsidy?
- What are the acceptable limits of revenue deficits—such as those funding education—versus those that should be cut off to enforce discipline?
- How to assess the inability to spend or a fundamental lack of administrative capacity of a state?
- What is the revenue potential of the states and what is the revenue potential of the Union?

3. Social and Environmental Omissions

- Why are the gender and children's dimensions not considered in the recommendations of the Finance Commission?
- Is the dilution of forest criteria and the absence of air quality grants a signal of a withdrawal from national and global commitments to climate change mitigation?

4. Local Body Equity and Standards

- What are the basic service standards for states?
- How does the change in the grants-in-aid to local bodies impact eradication of poverty in rural and urban local bodies?

- In the context of earlier CSS and current performance grants, what is the logic of incentive grants for local bodies, where the state's contribution is higher than incentive grants which hardly motivates to contribute?

Technical Session – III : Questions Raised

1. Macro-Fiscal Frameworks and Theoretical Gaps

- Why is the fiscal policy continuing to rely on classical 'loanable funds theory' (the 3.5% GDP target) instead of exploring frameworks based on endogenous money theories and post-Keynesian models?
- What is the impact of the next Pay Commission recommendations on State and Union finances?

2. Institutional Design and Transparency

- What is the trade-off between objective fiscal norms and political considerations in implementing welfare schemes?
- How to address innovative financial engineering—such as states creating corporations to securitise future excise revenues—which currently bypasses the oversight of the CAG and Article 293(3)?
- How to ensure access to data, where public sector banks refused to share state debt data with the CAG, citing client confidentiality?

3. Sectoral and Expenditure Efficiency

- Should the public finance research move from state budgets to include public sector balance sheets? What are the pre-requisites and way forward to such research?
- How to measure stock of public sector undertakings along with the flow?
- Can a revenue-to-fiscal deficit ratio be mandated for power and water utilities to enforce discipline?
- Is there a mechanism to enforce mandatory techno-economic cost-benefit analysis for high-value capital expenditure projects to prevent profligate spending?
- How can states identify and rationalise the thousands of individual welfare schemes (e.g., 1,800 schemes in Karnataka) that currently crowd out meaningful investment?
- Should there be a shift from production efficiency (GDP) to expenditure efficiency (outlay-outcome frameworks) in devolution criteria?

4. Political Economy and Welfare

- What is the realistic and palatable way to convince politicians to implement long-term fiscal ideals when they face the immediate pressure of annual elections?
- Should a distinction be made between freebies provided as industry subsidies versus those aimed at vulnerable groups?
- Can additional borrowing space be explicitly linked to measurable structural reforms?

Fireside Chat : Questions Raised

1. Institutional Design and Governance

- Whether the Finance Commission should be a purely technical body requiring fiscal expertise or a political institution led by an eminent politician who understands the frontline problems of the states?
- With the National Development Council (NDC) being largely defunct, what new institutional models could facilitate business-like interactions between the Prime Minister and Chief Ministers away from media pressure?
- Do the administrative costs of creating smaller states outweigh economic benefits, and if constituent states actually perform better than their parent state?
- Should the Pay Commission be unified with pension liability assessments to force a transparent trade-off between current salaries and future fiscal burdens?

2. Structural Reforms and State Autonomy

- How should a national consensus for second-generation reforms (land, labour, agriculture) be built, that cannot be dictated from the North Block and require active state cooperation?
- Why have the states not taken the initiative to unilaterally reduce unnecessary business compliances despite having the legal power to do so without central approval?
- Is privatization of power distribution a universal panacea or if state managed systems (PPP mode) , like those in Gujarat and Haryana, can be equally effective?

3. History and Political Economy

- What are the factors leading to deepening the cleavage between the Union-State's relations?
- Why the vibrant federal debates have largely disappeared outside of a few non-NDA states?
- Why competitive federalism in reforms has been replaced by competitive populism, where states imitate the unsustainable welfare practices of their neighbours?
- Is the fiscal irresponsibility merely the 'flip side of political incompetence,' where leaders buy votes because they are unable to improve long-term livelihoods through good governance?

- How a centralised, apolitical initiative—similar to the implementation of GST or the FRBM Act—can be established to stop the current trend of ‘Revadi culture’ (unregulated freebies)?





Centre for Economic and Social Studies (CESS), Hyderabad

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