Q7(c)

Discuss the policy initiatives of the Fourteenth Finance Commission aimed towards promoting and strengthening agricultural development in India

UPSC Civil Services Mains 2022 · PSIR GS 1 · 15 marks · Statutory Institutions/Commissions

Statutory Institutions/Commissions: Election Commission, CAG, Finance Commission, UPSC, NCSC, NCST, NCBC, National Human Rights Commission, National Commission for Women and National Commission for Minorities, NITI Aayog.

Core demand of the question

- Discuss the policy initiatives of the Fourteenth Finance Commission aimed towards promoting and strengthening agricultural development in India. (15 marks)

Revision summary

The 14th FC's farm-relevant policy was fiscal, not a crop mission.

Devolution rose to 42 per cent so States could fund irrigation and agriculture with discretion.

Panchayat grants support rural public goods linked to the 73rd Amendment.

Forest-cover weight and disaster funds protect ecological and drought-related farm conditions.

Tied CSS reduction was meant to let agro-climatic diversity shape spending.

Outcomes depend on how States use the space.

Introduction

The **Fourteenth Finance Commission** (2015-20), chaired by **Y. V. Reddy**, did not run farm schemes. It strengthened agriculture mainly by enlarging untied fiscal space for States, funding rural local bodies, and easing the grip of tied Centrally Sponsored Schemes on state farm policy.

Body

The fiscal core

- Tax devolution to States rose from 32 per cent to 42 per cent of the divisible pool. Agriculture, irrigation, and rural roads are largely State and concurrent subjects in practice, so untied money is the Commission's chief farm instrument.
- The Commission argued that States know agro-climatic diversity better than a uniform Union scheme, which is a federal reading of **Sarkaria**'s cooperation.
- It recommended a sharp reduction in the number of Centrally Sponsored Schemes and a higher state share of discretion, so that crop, irrigation, and extension mixes could differ by region.

Local bodies and the village farm economy

• Large grants to gram panchayats and municipalities, with a basic grant plus a performance grant, were meant to build rural public goods that agriculture needs: water, sanitation, connectivity, and markets at the panchayat scale.

• **This links to the** 73rd Amendment **and Gram Swaraj:** local identification of resources, not only a ministry line item.

• Fourteenth Finance Commission grants were largely untied at the local level compared with many older scheme funds, which mattered for farm-related local works.

Risk, forest, and the farm environment

• Horizontal devolution gave weight to forest cover, which compensates States that keep ecological services relevant to watersheds and rain-fed farming.

• Disaster-relief arrangements under the Commission's award support drought and flood response, which are agricultural shocks.

• The Commission did not invent MSP or crop insurance. Those remained Union and State scheme choices funded from the larger devolved pool.

How far this is "agricultural policy"

• Critics said 42 per cent devolution without matching farm conditionality could be spent on salaries, not on irrigation.

• **Supporters said conditionality was the old problem:** agriculture failed partly because States could not set priorities.

• GST, designed in the same decade, later squeezed some state commodity taxes; that is adjacent fiscal history, not a 14th FC farm scheme.

• Compared with a Union agriculture ministry mission, the 14th FC's initiative is constitutional fiscal federalism aimed at enabling farm development, not at planting a crop.

Assessment

• The policy initiative is enabling, not directive. It can strengthen agriculture where States and panchayats choose to spend on water, extension, and rural infrastructure.

• It cannot by itself correct market concentration or agrarian inequality that **Harrington** would call estates of power.

• Success is therefore state-variable, which is consistent with the Commission's own theory of subsidiarity.

Flow diagram

14th FC Reddy -> 42 percent devolution

14th FC Reddy -> Panchayat grants

14th FC Reddy -> Fewer tied schemes

42 percent devolution -> State farm irrigation spend

Conclusion

The Fourteenth Finance Commission promoted agricultural development by raising untied state devolution to 42 per cent, funding panchayats, rewarding forest cover, and asking for fewer tied schemes. That is a federal enabling policy. It is not a substitute for state farm strategy or for land and market reform.

Facts & figures

Y. V. Reddy Commission

Fourteenth Finance Commission; award period 2015-20.

42 per cent devolution

States' share of the divisible tax pool, up from 32 per cent in the 13th FC.

Local body grants

Substantial basic and performance grants to panchayats and municipalities.

Forest cover criterion

Horizontal formula compensated States for maintaining forest, a watershed service for agriculture.