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RETHINKING FEDERALISM: ADDRESSING ASYMMETRIES IN CENTRE-STATE RELATIONS IN INDIA

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I. ABSTRACT

The Federal nature of India as envisaged in the Constitution of India, represents an interactive and harmonious liaison between the Centre and the States along the legislative, administrative and financial spheres. The workings of Indian federalism, however, have been characterized by intra-State domination, hiccups and unbalanced growth. The paper has taken a critical look at the constitutional provisions (Articles 245 to 263), institutional mechanism, and changing politics that characterize Centre State relationship. It points out structural problems like vertical fiscal imbalance, little autonomy of States, political centralization and deterioration of consultative forums like the Inter-State Council and Finances Commission. This paper finds that the evidences suggest systemic encumbrance on federal operations through an examination of the occurrence of the following policy episodes, which include; the announcement of the GST, passing of the farm laws, and failing to compensate GST. More so, it proposes inter-State developmental inequalities, emergency measures, and politicization of the powers of the governor to be major obstacles of cooperative federalism. Based on constitutional directive, expert reports of the committee and monetary statistics, the paper offers solutions with reformist leaning such as fortification of institutional federalism, adjustment of fiscal transfers and formalized consultations between the Centre and the State. It is concluded that, in order to reap the fulfilment of a balanced, inclusive and a functioning federal India, it is important to commit again to the principles of decentralisation, democratic federalism and mutual respect between the States and the Union.

II. KEYWORDS

Indian Federalism, Centre-State Relations, Fiscal Federalism, Cooperative Federalism, Constitutional Provisions (Articles 245–263).

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III. INTRODUCTION

The Indian federation is specially designed to strike a balance between functionality and regionalism. Although it is not properly federal in the classical sense, such as the United States, India follows a quasi-federal structure having a powerful Centre (Austin, G. (1966). *The Indian Constitution: Cornerstone of a Nation*. Oxford University Press). The constitutional framework shows historical exigencies of a post-colonial society with a fragmented society through which a central power is needed in order to achieve national integrity and quick development.

Nevertheless, the trend of Centre-State dialogue has changed along with coalitions, politics, regionalism, financial ties and judicial constructions. The Constitution as per Article 1 did say that India, also known as Bharat, would be a Union of States, which implies that the Centre would be dominant but at the same time it acknowledges that it would be a federal system with State-entities in place. The 7th Schedule of the Constitution classifies the powers by many categories such as Union, State, and concurrent lists powers however this classification is not compulsory. These provincial relations between the Centre and the States have been marked by a relationship of tensions and cooperation over the decades subject to the institutional arrangements like the Inter-State Council, Finance Commission as well as judicial orders by the Supreme and High courts.

Indian Constitution makes a federal system that characterizes relations between the Centre and the States, in three main aspects, comprising the areas of legislative, administrative and financial relations, have been addressed in Articles 245 to 263. These constitutional regulations explain the allocation of roles and functions and financial powers of the Union and the States, which seeks to develop the sense of national unity and granting regional autonomy in a heterogeneous and populous country.

A. RESEARCH PROBLEM

Despite the constitutional design of cooperative federalism in India, Centre-State relations have increasingly reflected trends of centralisation, fiscal imbalance, political dominance, weakened inter-governmental institutions, and inconsistent consultation

mechanisms. These structural and political asymmetries – visible in areas such as GST implementation, use of Article 356, role of Governors, and fiscal devolution – have adversely impacted State autonomy and the functioning of a balanced federal system. The research problem is to critically examine these asymmetries and identify reforms needed to strengthen India's federal structure.

B. RESEARCH OBJECTIVES

- To analyse the constitutional provisions governing legislative, administrative, and financial relations between the Centre and the States (Articles 245-263).
- To examine political factors – political parties, Governors, Article 356, and centralisation – that shape Centre-State power dynamics.
- To study fiscal federalism in India with a focus on GST Council, Finance Commission recommendations, vertical/horizontal imbalances, and fiscal autonomy of States.
- To evaluate the role of the judiciary in safeguarding federal principles through landmark judgments such as *S.R. Bommai* and *Kesavananda Bharati*.
- To propose institutional, political, and fiscal reforms needed to strengthen cooperative federalism and reduce Centre-State asymmetries.

C. RESEARCH QUESTIONS

- How do the constitutional provisions under Articles 245-263 define and distribute powers between the Union and the States?
- In what ways do political dynamics – such as single-party dominance, misuse of Article 356, and the role of Governors – influence Centre-State relations?
- How have fiscal mechanisms like the Finance Commission, GST Council, and cesses/surcharges contributed to India's vertical fiscal imbalance?

- What role has the Supreme Court played in maintaining federal balance, and how have key judgments shaped Centre-State relations?
- What structural reforms are necessary to strengthen cooperative federalism and ensure equitable, effective Centre-State collaboration?

D. RESEARCH METHODOLOGY

The study follows a qualitative, doctrinal, and analytical research design, focusing on constitutional interpretation, institutional analysis, judicial review, and political economy perspectives.

a) Data Sources

1. Primary Sources

- Constitution of India (Articles 245–263, 280, 356, etc.)
- Supreme Court judgments: *S.R. Bommai*, *Kesavananda Bharati*, *NCT of Delhi*, etc.
- Finance Commission Reports (13th, 14th, 15th)
- GST Act (2017) and GST Council minutes
- Official Government reports (NITI Aayog, Union Budget documents)

2. Secondary Sources

- Books and academic commentaries on federalism
- Research papers (EPW, NIPFP, peer-reviewed journals)
- Newspaper articles, policy briefs, and working papers

b) Data Collection Method

1. Document analysis of constitutional provisions, judicial decisions, parliamentary debates, and institutional reports.
2. Comparative analysis of Centre-State fiscal data (pre-GST and post-GST).
3. Interpretive analysis of political and administrative developments affecting federalism.

IV. LEGISLATIVE RELATIONS

The constitution provides the mutual relations between the Centre and the States in Articles 245-255. The Seventh Schedule allocates the subject-matter jurisdiction in three lists namely Union List, State List and Concurrent List. The Union List, which has 97 subjects including defence, foreign affairs and atomic energy among others gives the Parliament complete legislative powers. The State List has 66 topics such as police, public health, and local governance that exclusively lie within the State legislature jurisdiction. There are 47 areas of the Concurrent List indicated under education and criminal law, marriage in which the Centre and the States have law making powers. But when Central and State law on a concurring matter is in conflict, then central law has precedence and this underlines supremacy of the Union. Moreover, another area where the central dominance persists is in the national interest since Article 249 enables the Parliament to enact laws with respect to State List issues upon a resolution by the Rajya Sabha being backed by a two-thirds majority. Also, the Centre has residuary legislative powers to enact law over subject not covered in any of the three lists, under Article 248. This is completely opposed to the American federal system wherein the residuary powers have remained with the States².

V. ADMINISTRATIVE RELATIONS

Under Article 256 to 263, the administrative relations establish the obligations and the coordination mechanisms between the States and the Centre. Article 256 States that the State Governments should abide by the law enacted by Parliament, whereas the Union is permitted to direct States in particular area through Article 257. This constitutional dispensation grants that administrative issues are biased, in a unitary nature, especially in the times of emergency. Under Article 353, when the national emergency is proclaimed, the Union acquires all-embracing powers to guide the way in which the executives of individual States can operate and execute their duties.

Moreover, the system of administration of the All-India Services, like the Indian Administrative Service (IAS) and Indian Police Service (IPS), depicts a model of the

² Basu, D. D. (2013). *Introduction to the Constitution of India* (21st ed.). LexisNexis.

hybrid form of federalism where the officers recruited into the services at a central level will be serving the State Governments. Thus, dependency and liaison in administrative matters are created. Article 263 envisaged about setting up an Inter-State council to foster cooperation and coordination among States and the Centre. Though envisaged as an institution in the Constitution, the Inter-State Council was constituted in 1990 under the recommendations of the Sarkaria Commission. Unfortunately, its misuse has been a debating issue although it could be critical medium to enhance communications and resolution of differences³.

VI. FINANCIAL RELATIONS

The Articles 268 to 293 specify financial relations between the Union and the States. These papers also institutionalize a fiscal regime whereby the Centre captures and manages most of the revenue, with the States being given undue burden of the incurring expenditures. Taxation is restrictive to the States and is mainly limited to levying tax on alcohol, property, and some local taxes as well, but the major taxes are beyond their jurisdiction and are paid to the Centre, like the Income tax, corporate tax, and taxation on import goods. To overcome this imbalance, Article 280 provides that a Finance Commission has to be set up every five years.

This Commission is charged with proposing the allocation of the net proceeds of taxes between the Centre and States as also grants-in-aid to such States that require same. The Fifteenth Finance Commission prescribed vertical devolution of 41 percent of taxes in the divisible pool to States as compared to previous 42 percent devolution after reorganization of the State of Jammu and Kashmir. Despite such a setup, a high vertical fiscal imbalance still prevails. States, which bear around 40-50 percent of the total State expenditure, get under 40 percent of the revenue collection which further adds pressure and leaves them dependent on central transfer⁴.

³ Second Administrative Reforms Commission. (2007). *Strengthening Financial Management Systems: Fourteenth Report*. Government of India, Department of Administrative Reforms and Public Grievances.

⁴ Rao, M. G., & Singh, N. (2005). *Political economy of federalism in India*. Oxford University Press.

VII. POLITICAL DIMENSIONS OF STATE- CENTRE RELATIONS

Political dynamics play a critical role in shaping Centre-State relations in India, often influencing how constitutional federal principles are applied in practice. The nature of the party system, electoral trends, and the strategic use or misuse of constitutional provisions such as Article 356 (President's Rule) have historically affected the balance of power between the Union and the States. These undercurrents frequently determine the actual functioning of federalism beyond its legal framework.

A. Role of Political Parties and Federal Balance

In the decades following independence, the Indian National Congress (INC) dominated the political landscape, which led to what political scientist Rajni Kothari called single-party hegemonic federalism. This domination facilitated relatively harmonious relations between the Centre and States because the Centre was being run by the same party, which represented the Centre, and the relations with States were rather healthy; at the same time, the domination by the Centre in the field of interests of States caused great intrusion of the Centre into the field of States, depriving the latter autonomy.

The fall of the Augustinian power of Congress after 1989, the emergence of regional parties, including Dravida Munnetra Kazhagam (DMK), Telugu Desam Party (TDP), and Biju Janata Dal (BJD) led to the regime of multi-party federalism composed of coalition politics. These State parties exercised a large bargaining power in the national coalitions, which brought a more consultative and cooperative Centre-State relation during such eras as the United Progressive Alliance (UPA) and the first National Democratic Alliance (NDA-I) Governments.

Conversely, the emergence of dominant-party system under the Bharatiya Janata Party (BJP) in the post 2014 period has also evoked power centralization into the new centralized form. Multiple States have claimed top-to-bottom decision-making systems that usually undercut State interests, especially on hot-potato issues such as

the Citizenship Amendment Act (CAA), the recently-conceded farm laws, and the repeal of Article 370, which removed the special status of Jammu & Kashmir⁵.

B. Use of Article 356 and President's Rule

Article 356 of the Constitution hands over the Constitution breakdown powers of the Centre to assume the President rule in a State at a time when the Centre deems appropriate to manage the constitutional breakdown in a State. This is one of the most debatable aspects of the federal design of India, historically. The use of Article 356 became heavy with more than 100 uses between 1950 and 1998 mainly based on politically driven reasons and not constitutional emergencies that prompted the involvement of the Central Government in the process of State politics.

This is based on Supreme court landmark judgment in *S.R. Bommai v. Union of India* (1994) also placed the serious legal limitations on Article 356 veto exercise. The Court held that the floor test should be conducted on the majority in the State legislative assembly and could not be dislodged by Governors or the Centre unless there is solid evidence and hence restricted the abuse of President Rule as well as strengthened the federal design.

C. Role of Governors

To be specific, Article 155 entails the President to appoint Governors who are to serve as neutral custodians of the Constitution in the States. Nevertheless, their activity has become soiled with the names of political bias, as the Governors were the tools of the Centre, as opposed to the impartial judges. Sarkaria Commission (1988) and the Punchhi Commission (2010) have also suggested revisions to make the appointment and functioning of the Governors much more open and impartial, the aspects of consultation with State Governments and fixed durations were also to be made. These recommendations have not been taken with full measure and been incomplete.

D. Political Federalism in Context of National Schemes

Another aspect of political federalism is the centrally sponsored programs as Ayushman Bharat, PM-KISAN, and Swachh Bharat Abhiyan. Although they are

⁵ Singh, M. P. (2020). *Federalism in India: A historical and analytical overview*. Routledge India.

meant to support national goals and developmental ambitions, these schemes have been condemned by States because they compromise fiscal autonomy and allow the Centre to absorb political kudos. The block grants which go with such programs in the form of conditional funding and big central branding have brought up concerns of the essence of cooperative federalism.

Moreover, the dissolution of the Planning Commission in 2015 and its subsequent substitution of the NITI Aayog were announced as a transition to the cooperative federalism. But the critics believe that NITI Aayog has no financial devolutionations and mainly plays a role of policy think-tank and not one that creates effective collaboration between the Centre and the States⁶.

Table 1: Trends in the Invocation of Article 356 in India (1950–2023) ⁷

Decade	No. of Times President's Rule Imposed	Remarks
1950–60	6	Initial phase
1960–70	18	Increasing use
1970–80	23	Peak usage during Emergency period
1980–90	19	Politicised dismissals
1990–2000	11	Post-Bommai moderation
2000–2010	7	Judicial scrutiny

⁶ Mehta, P. B. (2017). NITI Aayog and cooperative federalism: Building partnerships or centralising power? *Economic and Political Weekly*, 52(12), 19–22. <https://www.epw.in/journal/2017/12/commentary/niti-aayog-and-cooperative-federalism.html>

⁷ Ministry of Home Affairs. (2023). Annual report 2022-23. Government of India. <https://mha.gov.in/annual-reports>

2010– 2023	5	Reduced frequency due to legal safeguards
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VIII. FISCAL FEDERALISM IN INDIA : ROLE OF FINANCE COMMISSION, GST COUNCIL AND NITI AAYOG

India's fiscal federalism is characterized by a highly centralized revenue collection system where the Union Government collects the bulk of tax revenues, while the States bear a significant share of expenditure responsibilities. This structural vertical imbalance in fiscal capacity and responsibility is constitutionally addressed through mechanisms such as the Finance Commission, the Goods and Services Tax (GST) Council, and policy-oriented institutions like the NITI Aayog, which collectively seek to promote a more balanced financial federalism.

A. Division of Financial Powers

By the Constitutional structure, the Centre has the exclusive power to levy tax to some of the greatest sources of revenue such as income tax (other than agricultural income), corporate tax, custom duties, Excise duties, and Goods and Services Tax (GST) which is shared between the Centre and States. States on the other hand have the power of taxing agricultural income and land and property transactions, sale of alcohol, cars, and stamp duties. GST has been introduced through the Constitution (101st Amendment) Act, 2016, which subsumed an extensive range of indirect taxes levied separately both by the Centre and by the States and altered the revenue-sharing and financial balances of the federal system of Indian governance.

B. Role of Finance Commission

The Finance Commission, established under Article 280 of the Constitution, is a constitutional body constituted every five years. Its primary mandate includes recommending the division of the divisible pool of taxes between the Centre and States (vertical devolution), allocating shares among States (horizontal devolution), prescribing grants-in-aid to States, and suggesting measures to augment the fiscal

capacity of States. The table below summarizes the key recommendations of recent Finance Commissions:

Table 2: Evolution of Vertical Devolution in Finance Commission Recommendations⁸

Commission	Period	Vertical Devolution (%)	Key Features
13th FC	2010–2015	32%	Focus on fiscal consolidation, performance grants
14th FC	2015–2020	42%	Major decentralisation, State autonomy stressed
15th FC	2020–2026	41%	Reduced due to J&K reorganization, performance-linked grants

Despite these recommendations, the Centre retains substantial fiscal power through cesses and surcharges, which are not shared with States. In the fiscal year 2021–22, cesses and surcharges accounted for nearly 18.4% of the Centre's gross tax revenue, thereby weakening actual transfers to States and exacerbating fiscal imbalance⁹.

C. GST and Role of GST Council

The introduction of GST in 2017 was a landmark reform aimed at creating a unified indirect tax system under the motto "One Nation, One Tax." The GST Council, established under Article 279A, governs the GST framework and is chaired by the Union Finance Minister with State Finance Ministers as members. Decisions in the Council require a three-fourths majority, where the Centre holds one-third of the voting power, and States collectively possess two-thirds. While GST has improved tax compliance and efficiency, several States have expressed concerns about delayed compensation for revenue losses incurred post-GST implementation, limited fiscal

⁸ *Finance Commission of India. (2020). Report of the Fifteenth Finance Commission (2020–2025). Ministry of Finance, Government of India. <https://fincomindia.nic.in>*

⁹ *Comptroller and Auditor General of India. (2022). Report of the Comptroller and Auditor General of India on the Union Government (Financial Audit) for the year ended March 31, 2022. Government of India. <https://cag.gov.in>*

autonomy in setting and modifying tax rates independently, and disproportionate Centre dominance in decision-making within the Council.

D. Niti Aayog and Cooperative Federalism

Created in 2015 as a successor to the Planning Commission, the National Institution for Transforming India (NITI Aayog) was designed as a participatory think tank to promote cooperative federalism through State-led and bottom-up planning processes. Its governing council is chaired by the Prime Minister and includes Chief Ministers of all States and Union Territories. Despite these objectives, NITI Aayog lacks statutory authority and financial allocation powers, limiting its effectiveness as a federal equalizer. States have criticized it for functioning more as a policy advisory body rather than a mechanism that fosters fiscal cooperation. Nonetheless, initiatives such as the Aspirational Districts Programme and the Sustainable Development Goals (SDG) India Index have been welcomed as tools to align State development efforts with national priorities.

IX. JUDICIAL INTERVENTIONS AND CASE LAWS IN CENTRE – STATE RELATIONS

The Supreme Court of India has played a pivotal role in shaping the contours of Centre-State relations by interpreting constitutional provisions and arbitrating disputes between the Union and the States. Over time, the judiciary has evolved as a guardian of the federal balance, particularly since the 1990s, when it began asserting the basic structure doctrine and ensuring that federalism remains a core feature of the Constitution. Although Indian federalism structurally favors centralisation, judicial pronouncements have sought to maintain equilibrium between Centre and States.

A. S.R. Bommai v. Union of India (1994)

The landmark *S.R. Bommai*¹⁰ judgment is foundational in the arena of judicial federalism. It arose after several State Governments were dismissed under Article 356, the provision allowing the imposition of President's Rule. The Supreme Court ruled that the use of Article 356 is subject to judicial review and mandated that the majority

¹⁰ AIR 1994 SC 1918 or (1994) 3 SCC 1

in the legislative assembly must be tested on the floor of the House rather than being arbitrarily determined by the Governor or the President. Importantly, the Court recognised federalism as part of the Constitution's basic structure, thereby protecting it from whimsical alterations. The Court famously observed that "Our Constitution is federal in structure though unitary in spirit" (AIR 1994 SC 1918). This verdict curtailed the rampant political misuse of Article 356 during the 1970s and 1980s¹¹.

B. State of West Bengal v. Union of India (1963)

This case addressed the Union Government's power to acquire land in West Bengal without State consent. The Supreme Court upheld the Centre's legislative supremacy on matters within the Union List, reaffirming that Indian federalism is not based on a contract among States as in the American model but leans towards a unitary tilt. Thus, Parliament's overriding competence in national interest was emphasised, a decision that solidified the constitutional principle of central dominance while sparking debates on State autonomy.

C. Kesavananda Bharati v. State of Kerala (1973)

Though this case primarily concerned constitutional amendments, it established the Basic Structure Doctrine, which constrains Parliament's power to alter essential constitutional features. The Supreme Court explicitly ruled that federalism is a core element of the Constitution's basic structure and cannot be abrogated or diluted even through constitutional amendments (AIR 1973 SC 1461). This doctrine has been instrumental in preventing laws that undermine federal principles without judicial oversight.

D. Rajya Sabha's Role and Articles 249 Interpretations

In *Union of India v. H.S. Dhillon* (1972), the Court clarified the extent of Parliament's residuary powers under Article 248, underscoring Parliament's primacy in legislating on subjects outside the State List. Additionally, Article 249 empowers the Rajya Sabha to permit Parliament to legislate on State List matters if it passes a resolution by a two-

¹¹ Arora, B. (1995). Federalism in India: A study of the role of Centre-State relations. Deep & Deep Publications.

thirds majority in the national interest. The Court stressed that such powers must be exercised sparingly and with due caution.

E. Recent Judicial Perspectives

Recent Supreme Court rulings have reaffirmed the importance of federal balance. In *Government of NCT of Delhi v. Union of India* (2018), the Court held that the elected Delhi Government controls administrative services except police, public order, and land, rejecting the idea of the Lieutenant Governor being a parallel authority. The judgment emphasized that a “meaningful federal structure” requires devolution of power to States and Union Territories with legislatures. In *Rojer Mathew v. South Indian Bank Ltd.* (2020), the Court expressed concern over the Centre’s increasing control over tribunals, indirectly impacting States’ administrative autonomy.

Table 4: Landmark Judicial Verdicts Shaping Indian Federalism¹²

Case Name	Year	Key Issue	Verdict Summary
S.R. Bommai v. Union of India	1994	Misuse of Article 356	Judicial review allowed; floor test mandatory
State of West Bengal v. Union of India	1963	Centre’s power to acquire land	Parliament supreme on Union List subjects
Kesavananda Bharati v. State of Kerala	1973	Amendment limits	Federalism part of Basic Structure Doctrine
NCT of Delhi v. Union of India	2018	Control over Delhi’s bureaucracy	Elected govt has control, except over reserved subjects
Karnataka v. Tamil Nadu (Cauvery case)	2018	Water-sharing dispute	Equitable, modified tribunal award upheld

¹² Supreme Court of India. (Year). Case Name, Citation. Retrieved from SCC Online database.

F. Judiciary as Federal Balancer

While Indian federalism constitutionally exhibits a tilt toward centralization, the judiciary has emerged as a crucial federal balancer, especially since economic liberalization. Its interventions have prevented arbitrary dismissals of elected State Governments, reinforced the authority of State institutions, and upheld decentralized governance in crucial sectors such as inter-State water disputes, fiscal management, and administrative powers. Nonetheless, challenges persist in ensuring the impartiality of Governors, who remain centrally appointed, and in protecting the principles of fiscal federalism amid recent reforms like the Goods and Services Tax (GST) and central legislation impacting States.

X. TRENDS IN COOPERATIVE VS. COMPETITIVE FEDERALISM IN INDIA

India's federal structure has continuously evolved in response to changing political regimes, economic reforms, and shifting Centre-State dynamics. Traditionally, Indian federalism was designed as cooperative but functioned in highly centralized manner, especially during the era of the Planning Commission. However, since economic liberalization in 1991 and more noticeably after 2014, there has been a perceptible shift toward competitive federalism. This newer approach emphasizes performance-based assessments, fiscal rankings, and development to foster State-level competition and improved governance outcomes.

A. Cooperative Federalism: Principles and Practices

Cooperative federalism centers on partnership and collaboration between the Centre and the States in policymaking, legislation, and development planning. Several constitutional and institutional mechanisms support this model, including the Inter-State Council (Article 263), which advises on inter-Governmental coordination, though it has been infrequently convened, with its last meeting held in 2017. Additionally, the NITI Aayog Governing Council, which brings together the Prime Minister and Chief Ministers, frames shared development goals and sectoral strategies. The 14th and 15th Finance Commissions notably enhanced State autonomy

by increasing States' share in the divisible pool of taxes, thus strengthening cooperative fiscal federalism¹³. Concrete examples of cooperative federalism include the joint implementation of the Swachh Bharat Abhiyan, the consultative drafting of the National Education Policy (2020) with States, and the initially collaborative response to the COVID-19 pandemic, although later stages saw tensions such as disputes over vaccine procurement. As articulated in the NITI Aayog's Strategy for New India @75 (2018), "Cooperative federalism is not a matter of convenience but a constitutional obligation."

B. Competitive Federalism: Emergence and Framework

Competitive federalism encourages States to compete for investments, improve governance standards, and deliver public services efficiently. Its prominence has grown since 2014, catalyzed by policy changes such as the disbanding of the Planning Commission, the launch of flagship initiatives like Make in India and Startup India, and the introduction of Ease of Doing Business (EoDB). This paradigm shift also introduced performance-linked grants and outcome-based funding mechanisms. Prime Minister Narendra Modi captured this shift succinctly at a 2015 NITI Aayog meeting, stating, "The Centre is no longer a giver of plans but a facilitator of development." In competitive federalism, States actively vie for central funds, investments, and improved national and global rankings.

C. Ranking-Based Instruments of Competitive Federalism

Among competitive federalism's instruments, the Ease of Doing Business (EoDB) Index stands out. Launched by the Department for Promotion of Industry and Internal Trade (DPIIT) in partnership with the World Bank, it ranks States based on their regulatory reforms and ease of business operations. Another key initiative is the Aspirational Districts Programme (ADP), launched in 2018 by NITI Aayog to uplift 112 underdeveloped districts based on 49 performance indicators grouped under five thematic areas: Health & Nutrition, Education, Agriculture & Water Resources, Financial Inclusion & Skill Development, and Basic Infrastructure.

¹³ Finance Commission of India. (2020). *Report of the Fifteenth Finance Commission (2020–2025)*. Ministry of Finance, Government of India. <https://fincomindia.nic.in>

D. Advantages and Critics of Competitive Federalism

Competitive federalism offers several advantages, including spurring governance innovation at the State level, attracting foreign and domestic investment via targeted reforms, shifting policy focus towards outcomes rather than inputs, and enhancing accountability through comparative rankings. However, critics point out its drawbacks, such as exacerbating resource asymmetries between richer and poorer States and creating a “race to the bottom,” where States might offer excessive tax concessions or dilute environmental norms to attract business. Additionally, there is concern that unilateral design of ranking parameters by the Centre without adequate consultation undermines federal balance. States with limited administrative capacities may also be marginalized despite genuine efforts. As noted by Chakraborty and Rao (NIPFP, 2021)¹⁴, “Competitive federalism without adequate fiscal empowerment is a mirage.”

E. Cooperative and competitive federalism: a synergy?

Although cooperative and competitive federalism are often seen as opposites, they can in fact complement each other. Cooperative federalism fosters trust, coordination, and shared goals among Centre and States, while competitive federalism drives efficiency, innovation, and accountability through performance incentives. The table below highlights key differences between the two:

Table 5: Key Differences Between Cooperative and Competitive Federalism¹⁵

Feature	Cooperative Federalism	Competitive Federalism
Nature	Collaborative	Performance-driven
Role of Centre	Facilitator & Partner	Evaluator & Fund Allocator

¹⁴ Chakraborty, L., & Rao, M. G. (2021). Competitive federalism without adequate fiscal empowerment is a mirage. *National Institute of Public Finance and Policy*. <https://www.nipfp.org.in/publications/working-papers/>

¹⁵ Mukherjee, S., & Chakraborty, L. (2016). Inter-Governmental fiscal transfers in India: Emerging trends and realities. *National Institute of Public Finance and Policy*. <https://www.nipfp.org.in/publications/working-papers/>

Examples	NITI Aayog, GST Council	EoDB Rankings, ADP, PM-JAY
Strength	Shared planning & consensus	Dynamic reforms & efficiency
Weakness	May delay decisions	May marginalize weaker States

F. Towards “fiscal federalism 2.0”

For India’s federalism to be sustainable and effective going forward, a balanced approach that integrates cooperative and competitive mechanisms is essential. Respect for State autonomy, particularly in social sectors, is critical. Inter-Governmental institutions must be reformed to ensure fair and meaningful dialogue, while fiscal devolution should be made predictable, equitable, and incentive-compatible to empower States meaningfully within the federal framework.

XI. KEY CHALLENGES AND POLICY RECOMMENDATIONS

Despite constitutional protections and the evolution of institutional frameworks, federalism in India continues to face persistent structural, fiscal, administrative, and political challenges. These difficulties affect democratic decentralization, equitable development, and the integrity of the union. Addressing them requires innovative policies and stronger institutions to unlock the full potential of both cooperative and competitive federalism.

A. Political Centralisation and Weakening State Autonomy

A major challenge in recent years has been the increasing political centralization, raising serious concerns about the erosion of State autonomy. The Centre has expanded its dominance across legislative, fiscal, and administrative domains, often marginalizing States’ voices in centrally driven reforms such as the farm laws, Citizenship Amendment Act (CAA), and demonetization. Governors, constitutionally neutral appointees, have been accused of acting as political agents rather than impartial arbiters. A case in point is the 2020 farm laws, passed without extensive consultation with States despite agriculture being a State List subject. States like Punjab and Kerala passed counter-legislation, but these were withheld by Governors, exemplifying Centre-State friction. As P. Chidambaram remarked in the Rajya Sabha

(2021), “States are being converted into mere administrative arms of the Centre.” To address these concerns, it is recommended to enact Model Rules of Business for Governors to safeguard their neutrality, strengthen the Inter-State and Zonal Councils as structured forums for consultation, and introduce constitutional or legal mandates for mandatory consultations on subjects in the Concurrent and State Lists.

B. Fiscal Dependence and Vertical Imbalance

States in India face severe vertical fiscal imbalance, where their share of expenditure responsibilities is approximately 59%, but they receive only about 41% of tax revenues (RBI, 2023). The Centre’s growing reliance on non-divisible revenues collected through cesses and surcharges (amounting to ₹4.4 lakh crore in FY2022–23) bypasses traditional Finance Commission channels and weakens the fiscal autonomy of States. For instance, States’ share in gross central taxes has declined from 36.6% in 2018–19 to 31.2% in 2022–23 due to rising cesses¹⁶. Delays in GST compensation further exacerbated States’ fiscal stress, forcing them to resort to short-term borrowings. To alleviate these problems, it is recommended to constitutionally or legislatively limit the use of non-shareable cesses/surcharges, empower the Finance Commission to oversee all extra-budgetary transfers and centrally sponsored schemes, and establish a permanent Fiscal Council to monitor the health of fiscal federalism.

C. GST Design and Revenue Fragility

The introduction of GST unified the tax structure but simultaneously diluted States’ fiscal sovereignty. States no longer have unilateral authority to change tax rates or design exemptions, resulting in dependence on GST compensation, which expired in 2022. Disputes over rate-setting, revenue-sharing, and compliance burdens continue to strain Centre-State financial relations.

D. Institutional Inefficacy

Key institutions created to uphold federalism such as the Inter-State Council, Zonal Councils, and Finance Commission have not been fully empowered or effectively

¹⁶ *Comptroller and Auditor General of India. (2023). Report of the Comptroller and Auditor General of India on Union Government (Financial Audit) for the year ended March 31, 2023. Government of India. <https://cag.gov.in>*

operationalized. For example, the Inter-State Council has convened only 12 times since its establishment in 1990, despite recommendations for annual meetings¹⁷. Major reform suggestions by the Punchhi Commission (2010)¹⁸ and Second Administrative Reforms Commission (2007)¹⁹ remain largely unimplemented. Policy recommendations should include granting constitutional status to the Inter-State Council with dedicated secretariat, converting NITI Aayog into a Statutory Federal Planning Authority with allocation powers, and implementing fixed tenure and qualification criteria for Governors as suggested by the Punchhi Commission.

E. Unequal Development and Horizontal Imbalance

Resource-rich but socially backward States such as Jharkhand, Odisha, and Chhattisgarh continue to face fiscal dependence because of horizontal imbalances. While richer States generate more tax revenue, equalisation efforts mean they often receive proportionately less fiscal support. Conversely, poorer States struggle with weak tax bases and limited administrative capacity.

F. Federalism and Emergency Provisions

Although misuse of Article 356 has declined since the *S.R. Bommai* case, concerns remain about the Centre's discretionary powers. The increased use of central investigative agencies such as the CBI and ED against State officials and the sweeping powers under national emergency provisions (Articles 352–360) highlight risks to federalism. It is recommended that Parliament enact stricter norms for declaring emergencies and deploying central forces and strengthen legislative oversight over executive decisions that affect States.

XII. SUGGESTIONS AND RECOMMENDATIONS

- Strengthen Inter-Governmental Institutions by holding regular Inter-State Council meetings and empowering Zonal Councils for better coordination.

¹⁷ Sarkaria Commission. (1988). Report of the Commission on Centre-State Relations. *Government of India, Ministry of Home Affairs*.

¹⁸ Commission on Centre-State Relations. (2010). Report of the Commission on Centre-State Relations (Vols. I–VII). *Government of India, Ministry of Home Affairs*.

¹⁹ Second Administrative Reforms Commission. (2007). Strengthening financial management systems: 14th Report. *Government of India, Department of Administrative Reforms and Public Grievances*.

- Reduce Fiscal Imbalance through limiting cesses/surcharges, ensuring predictable GST compensation, and improving transparency in fiscal transfers.
- Ensure Neutral and Accountable Governors by adopting transparent appointment processes and setting time limits for assent to State Bills.
- Enhance Cooperative Federalism through mandatory consultation with States before passing laws affecting State or Concurrent List subjects.
- Reform Centrally Sponsored Schemes (CSS) by reducing their number, improving fund-allocation formulas, and allowing more flexibility to States.
- Improve Judicial Mechanisms by fast-tracking Centre-State disputes and strengthening the independence of tribunals.
- Promote Balanced Competitive Federalism by designing rankings and performance indicators in consultation with States to avoid unfair advantages.

XIII. CONCLUSION

Centre-State relations in India represent a dynamic and evolving federal contract, intricately woven through constitutional provisions, political realities, fiscal structures, and judicial safeguards. While the Indian Constitution establishes a framework of cooperative federalism, the trajectory of federal relations has witnessed periods of centralisation, contestation, and collaboration. The Constitution envisaged a strong Centre to preserve national unity, especially in the backdrop of post-independence fragmentation. However, over time, regional aspirations, political diversification, and economic reforms have demanded greater decentralisation and State autonomy. The shift from the Planning Commission to NITI Aayog, and from policy-based allocations to performance-linked rankings, reflects the growing emphasis on both cooperative and competitive federalism. Judicial interventions such as *S.R. Bommai*, *Kesavananda Bharati*, and *NCT of Delhi* have played a pivotal role in upholding the federal balance. Simultaneously, institutional mechanisms like the Finance Commission and GST Council have attempted to re-calibrate fiscal relations,

albeit with significant implementation gaps and concerns over fairness. In the 21st century, India's federalism must not only ensure territorial integrity but also promote developmental justice, regional balance, and democratic pluralism.

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