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Recent Trends in Indian Federalism

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Abstract:

Indian federalism is not a fixed constitutional arrangement, but an evolving political compact shaped by institutions, party competition, fiscal capacity and regional diversity. Recent developments have brought renewed attention to the relationship between the Union and the States: the continuing role of the Goods and Services Tax (GST) Council, the Sixteenth Finance Commission's recommendations for 2026–31, disputes concerning Governors and legislative Bills, debates over delimitation, and the growing importance of local governments. This article examines these developments through constitutional analysis and a comparative perspective. It argues that contemporary Indian federalism displays a dual movement. National coordination has expanded in taxation, welfare design, digital administration and economic policy, while States remain essential sites of democratic representation, policy innovation and public service delivery. The central issue is therefore not whether India is becoming simply more centralized or decentralized, but whether intergovernmental relations provide States with meaningful voice, predictable resources and sufficient discretion. Drawing on major works by Granville Austin, Louise Tillin, Rekha Saxena, Y. V. Reddy and others, the article contends that cooperative federalism requires more than institutional meetings: it needs transparent bargaining, fiscal fairness, constitutional restraint and respect for regional difference. It concludes with reforms to strengthen consultation, accountability, and the third tier of government.

Keywords: *Indian Federalism; Centre–State Relations; Fiscal Federalism; GST Council; Sixteenth Finance Commission; Cooperative Federalism; Competitive Federalism; Governor; Decentralization; Multi-Level Governance.*

Introduction

Federalism divides public authority between a national government and constituent units, with each level possessing constitutionally recognized responsibilities. Article 1 describes India as a "Union of States", a phrase that

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captures the indestructibility of the Union while acknowledging the constituent units. The Indian model is commonly characterised as federal in structure but with a comparatively strong Centre. This arrangement was shaped by the historical need to preserve national unity while accommodating linguistic, cultural, economic, and political diversity.

The federal balance has changed over time. In the early decades after Independence, one-party dominance and centralized economic planning strengthened the Union's position. Coalition politics and the growth of regional parties later increased State bargaining power. Economic liberalization encouraged States to compete for investment, while national programmes and regulatory institutions created new forms of shared administration. Contemporary debates show that the federal question now extends beyond legislative lists to include taxation, welfare, environmental policy, digital systems, public debt and representation.

This article adopts a qualitative and analytical method. It examines constitutional provisions, major academic books and recent policy material. Its purpose is not to present federalism as a conflict between two governments, but to assess how authority, resources, and accountability are negotiated across levels of government.

Constitutional Design and the Changing Federal Balance

The Seventh Schedule distributes legislative subjects among the Union List, State List and Concurrent List. Articles 245–254 establish the legislative framework, while Articles 268–293 deal with financial relations. Article 280 provides for the Finance Commission; Article 263 enables an Inter-State Council, and Article 279A establishes the GST Council. Article 131 gives the Supreme Court original jurisdiction in specified disputes between the Union and States. These provisions make federalism both a division of powers and a continuing process of institutional negotiation.

The Indian Constitution contains centralizing features. Residuary legislative powers belong to Parliament; Parliament can legislate State subjects in constitutionally specified circumstances; and the Union has emergency powers. Parliament may alter State boundaries under Article 3 after seeking the views of the affected State legislature. These provisions reflect the framers' concern for unity, but they also make conventions and political restraint important safeguards for State autonomy. Austin's Working for a Democratic Constitution explains how constitutional practice is shaped by political institutions and democratic experience, not simply by the text.

From Centralized Planning to Cooperative Federalism

The replacement of the Planning Commission by NITI Aayog in 2015 was presented as a move towards cooperative and competitive federalism. NITI Aayog provides a platform for policy coordination and the exchange of ideas, but it does not perform the same resource-allocation role as the former Planning Commission. This raises a practical question: does policy consultation give States sufficient influence when major fiscal and programme decisions remain concentrated at the Union level?

Rekha Saxena's edited volume New Dimensions in Federal Discourse in India is important because it broadens the discussion beyond constitutional law to administrative, environmental, resource and multi-level governance. Its analysis shows that federal relations are shaped by political party systems, economic change and the responsibilities of subnational governments.

Cooperation and Competition

Cooperative federalism emphasises joint decision-making, consultation and shared responsibility. Competitive federalism encourages States to improve public services, attract investment and innovate. The two approaches can complement each other, but they can also conflict.

Competition may reward States with stronger tax bases and administrative capacity, while weaker States may struggle to match them. Without equalisation transfers and capacity-building, competition can widen regional disparities. Thus, competition should operate within a cooperative framework that recognises unequal starting conditions.

Fiscal Federalism and the Sixteenth Finance Commission

Fiscal federalism concerns the assignment of revenue powers, expenditure responsibilities and intergovernmental transfers. India has a structural vertical imbalance: the Union has access to major revenue sources, while States undertake many high-cost responsibilities, including health, education, agriculture, policing and local infrastructure. Finance Commissions seek to correct this imbalance through tax devolution and grants.

Rangarajan and Srivastava's Federalism and Fiscal Transfers in India (2nd ed., 2024) and Reddy, Reddy and Chakraborty's Indian Fiscal Federalism (2nd ed., published 2025; print 2026) provide recent, detailed accounts of these institutions.

The Sixteenth Finance Commission's recommendations for 2026–31 retain the States' vertical share in the divisible pool at 41 per cent. The distribution formula among States has changed: it includes income distance, population, demographic performance, area, forest, and a contribution-to-GDP criterion.

The inclusion of contribution to GDP brings a new dimension to the debate between equity and efficiency. States with lower income levels require resources to provide comparable public services; economically productive States also argue that their contribution should be recognised. A credible formula must balance both principles.

GST and the Question of State Fiscal Autonomy

GST, introduced in July 2017, reorganised indirect taxation and created a common national framework. The GST Council is a distinctive federal institution because the Union and States participate in decisions on rates, exemptions and administrative rules. It demonstrates that shared rule-making is possible in a large federation. At the same time, States surrendered independent control over several indirect taxes, making them more dependent on the GST system and the predictability of revenue sharing.

The central analytical question is whether representation in the Council translates into effective influence. Formal participation does not automatically mean equal bargaining power. States differ in economic structure and revenue needs, and the Union has a distinct voting weight under the constitutional design. The Council's consensus-based culture is therefore important.

Reddy, Reddy and Chakraborty argue that GST has fundamentally altered the relative roles of the Union and States in indirect taxation, while leaving persistent questions about fiscal autonomy and transfers.

Transfers and Conditional Schemes

States receive resources through tax devolution, Finance Commission grants and centrally sponsored schemes. Such schemes can support national minimum standards in nutrition, education, health and rural development. However, detailed conditions, matching contributions and uniform programme rules may reduce State flexibility.

States with weaker fiscal capacity can find it difficult to provide matching funds even when local needs are high. The result may be a paradox: a scheme designed to reduce inequality can reproduce inequality if its financing rules are insensitive to different State capacities.

Prakash Chandra Jha's 2026 study of intergovernmental transfers argues that growing reliance on non-shareable cesses and surcharges and executive-led transfers can weaken the role of formula-based devolution. This concern should be treated as a serious fiscal-federal question: if a rising share of revenue is kept outside the divisible pool, the effective resources available for unconditional State priorities may be reduced.

Predictability and transparency are therefore as important as the headline devolution percentage.

Local Government Finance

Federalism is incomplete if it is understood only as a Union–State

relationship. The 73rd and 74th Amendments recognised Panchayats and urban local bodies, but their effective autonomy depends on the devolution of functions, funds and functionaries by State governments.

The Sixteenth Finance Commission's recommendations for local body grants make this third tier especially relevant in the 2026–31 period. Yet grant conditions, accounting capacity and the timely constitution of State Finance Commissions will influence whether additional resources translate into stronger local democracy.

Constitutional Offices and Centre–State Tensions

The Governor occupies a sensitive position in the State constitutional structure. Articles 163 and 200 address the Governor's role and action on Bills passed by State legislatures. Disputes arise when assent is delayed, Bills are reserved for the President, or gubernatorial action is seen as obstructing an elected government. Such disputes affect more than administrative procedure: they touch the principle of responsible government and the ability of a State legislature to give effect to its mandate.

The Tamil Nadu Governor litigation and the Supreme Court's subsequent advisory opinion in the 2025 Presidential Reference demonstrate the complexity of judicial intervention in this area. Courts can interpret constitutional duties and review legally improper conduct, but they cannot substitute for conventions of impartiality and timely decision-making.

The deeper issue is institutional trust. When constitutional offices are perceived as partisan, routine political disagreements can become constitutional crises.

Regional Diversity, Asymmetry and Representation

Indian federalism has always accommodated diversity through linguistic States, special provisions and differentiated institutions. The Fifth and Sixth Schedules and several Article 371 provisions recognise distinctive social and historical conditions.

Asymmetric federalism can protect identity and local self-government, but it must be balanced with constitutional equality, democratic accountability and national rights guarantees.

Harihar Bhattacharyya's Indian Federalism: Structure, Process and Agency (2026) offers a contemporary account of territorial accommodation, political parties, fiscal federalism and the changing relationship between centralisation and State autonomy.

Language and Regional Identity

Language is not merely a medium of administration; it is closely connected with identity, access and political recognition. The linguistic reorganisation of States helped accommodate regional aspirations within the Union.

Contemporary disagreements over language in education, recruitment and

public administration show that uniform policy can be interpreted as cultural centralisation. A plural federal approach should promote communication across India while protecting linguistic choice and regional participation in policy design.

Delimitation and the Balance between Population and Federal Equity

Delimitation raises a difficult question: how should parliamentary representation balance the principle of equal representation of citizens with the need to maintain a fair relationship among States?

Population-based representation has a strong democratic logic. However, States that achieved lower population growth may fear a reduction in their relative influence. The issue is therefore not a simple contest between North and South; it is a constitutional challenge involving demographic change, political equality and federal consent.

A legitimate process should be transparent, evidence-based and preceded by broad consultation. It should avoid penalising States for successful investments in education, health and family welfare. Possible safeguards require public debate and constitutional deliberation rather than unilateral decisions.

Federalism is strengthened when major changes are seen as collectively negotiated.

Comparative Analysis: India and Other Federations

Comparison helps identify institutional alternatives, although no model can be transplanted without regard to India's parliamentary system, population and diversity. The United States gives each State equal representation in the Senate. Germany's Bundesrat allows State governments to participate directly in federal legislation. Canada combines provincial powers with equalisation transfers. India's Rajya Sabha represents States broadly in proportion to population and is not a chamber composed of State-government delegates.

Comparative Table

Dimension	**India**	**United States / Germany / Canada**	**Lesson for India**
Upper chamber	Rajya Sabha; seats broadly linked to population	US Senate: equal State seats; German Bundesrat: State governments	Consider how State governments' voice can be strengthened
Fiscal balance	Finance Commission transfers; GST Council	Different equalisation and shared-tax arrangements	Protect predictable transfers and fiscal capacity

Intergovernmental forums	GST Council, NITI Aayog, Inter-State Council	Formal federal–state bargaining structures	Meet regularly and publish follow-up decisions
Constitutional structure	Strong Union; flexible State boundaries	More entrenched constituent-unit roles in some federations	Use restraint, consultation and constitutional conventions

The comparison indicates that India does not lack federal institutions; rather, the effectiveness of those institutions depends on their regular use and the political willingness to negotiate. The GST Council offers a useful model of shared rule-making, while the Inter-State Council could play a stronger role in addressing wider disputes. Comparative experience suggests that a federal system requires both constitutional safeguards and habits of consultation.

Emerging Areas of Federal Governance

Environmental and Resource Federalism

Climate change, river management, air pollution, forests and disaster response cross State boundaries. The Union can establish national standards and coordinate international commitments, while States hold much of the practical responsibility for land, water, agriculture and local public health.

Rekha Saxena's edited work highlights environmental and resource federalism as an increasingly important field. The challenge is to avoid both fragmented State action and rigid central rules that ignore local conditions. Shared standards should be accompanied by funding, scientific support and State participation.

Welfare Federalism and State Innovation

States design and implement programmes in health, nutrition, education, employment and social protection. Such initiatives allow experimentation and adaptation to local needs.

However, politically attractive schemes can create long-term fiscal pressures if they are not transparently costed or evaluated. Cooperative federalism should permit policy innovation while encouraging evidence-based evaluation, clear eligibility rules and responsible budgeting.

National frameworks can guarantee minimum standards without preventing States from improving them.

Digital Governance and Data Federalism

Digital public infrastructure can improve welfare delivery, tax administration and public-service access. But shared platforms raise questions about data protection, interoperability, accountability and the distribution of implementation costs.

States should be involved in designing systems that they must operate. National

digital standards should not displace State responsibility or local oversight. The same principle applies to data: technical integration should be matched by clear legal safeguards and transparent governance.

Critical Discussion: Centralization or a New Federal Bargain?

The evidence does not support a simple conclusion that Indian federalism is moving in only one direction. Centralizing pressures are visible in revenue concentration, conditional grants and national policy frameworks. Yet States continue to exercise substantial authority through public services, welfare innovation, regional political mandates and collective negotiation.

Federalism is therefore better understood as a contested process in which the balance changes across policy areas.

Three distinctions clarify the debate.

First, formal authority is different from practical capacity: a State may possess constitutional responsibility but lack adequate funds or trained personnel.

Second, consultation is different from influence: a State may attend a meeting without being able to shape the final decision.

Third, central coordination is not inherently anti-federal: national action may be necessary for public health, macroeconomic stability, and cross-border challenges. It becomes problematic when it is disproportionate, opaque, or dismissive of State participation.

The most serious institutional risk is the normalization of confrontation. Litigation can clarify constitutional meaning, but it cannot create political trust. Durable federalism depends on restraint by Governors, transparent Union decision-making, responsible State finances, regular intergovernmental dialogue and acceptance of constitutional outcomes.

A federation is not weakened by disagreement; it is weakened when institutions cannot process disagreement fairly.

Recommendations

1. Revitalise intergovernmental forums: The Inter-State Council should meet regularly, with published agendas, expert working groups and public follow-up on decisions. NITI Aayog should complement rather than replace constitutionally grounded mechanisms.
2. Protect fiscal predictability: Finance Commission transfers should be transparent and timely. The treatment of cesses, surcharges and grants should be explained clearly so that States can plan expenditure over the medium term.
3. Make centrally sponsored schemes flexible: National goals should be retained while allowing States to adapt implementation, with matching

contributions calibrated to fiscal capacity and administrative readiness.

4. Strengthen constitutional conventions: Governors should act impartially and communicate decisions on Bills within a reasonable period. Discretion should not become a means of obstructing elected legislatures.
5. Empower local governments: State Finance Commissions should be constituted on time, their recommendations considered seriously, and local bodies provided with funds, staff and clearly assigned functions.
6. Build consensus on delimitation: Any future change should follow transparent criteria, inter-State consultation and safeguards that recognise demographic performance and equal citizenship.
7. Institutionalise environmental and digital cooperation: National standards should be developed with State participation and accompanied by adequate finance, technical support and data safeguards.

Conclusion

Recent trends show that Indian federalism is evolving through fiscal reforms, constitutional disputes, regional politics, welfare innovation and new forms of multi-level governance. GST has created a valuable institution for shared tax decisions, but has also changed the fiscal autonomy of States. The Sixteenth Finance Commission's 2026–31 recommendations renew the debate on equity, efficiency and the distribution of resources. Disputes over Governors and legislative assent reveal the importance of constitutional conventions, while delimitation and language debates underline the continuing significance of regional voice and political recognition.

The comparative analysis demonstrates that strong federalism depends not only on the formal distribution of powers but also on institutional practice. India's strong Union can coexist with meaningful State autonomy when central authority is exercised with restraint and States are treated as partners in national development.

The way forward is neither unchecked decentralisation nor administrative uniformity. It is a negotiated federal compact based on fiscal fairness, democratic accountability, regular consultation and respect for diversity. The success of Indian federalism should ultimately be judged by its capacity to resolve conflicts through constitutional dialogue while enabling every level of government to serve its citizens effectively.

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