
Cooperative Federalism: The Changing Role of Centre-State Relations in India

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ABSTRACT

In a cooperative federalism set up, the Centre and States share a horizontal relationship, where governments at both the levels are guided by the broader national concerns and cooperate in the larger public interest. Over past decade, there have been multiple occasions – for example, introduction of goods and services tax and more recently, in the fight against Covid-19 – when the Centre and states have worked under the principles of cooperative federalism. These experiences have shaped federalist arrangement power-sharing between different tiers of governments in India. These experiences provide useful insights into Centre-state power balance in India. This paper analyses these events, processes, and their outcomes, particularly over the last ten years (2014-2024) to provide an explanation for evolving Centre-state relationship in India. It argues that cooperative federalism is effective for better cooperation and coordination between the governments and their agencies at the Centre and states. It also suggests that cooperative federalism must be pursued as the driving principle for the Centre-state balance and governance in India. However, simultaneously, the focus should be on building capacities of the state governments and their agencies so that they are better able to meet their responsibilities.

1. Introduction

Prime Minister Narendra Modi, since he took charge, has championed cooperative federalism so that the states are better equipped to participate in the formulation and implementation of national policies and thus, ensure better governance. Through cooperative federalism the Centre and States are able to share a

horizontal relationship, where they are guided by the broader national concerns and cooperate in the larger public interest. It is envisioned as a tool for enabling the states to actively participate in formulation and implementation of policies of national interest.

While Centre-state cooperation has been a key feature of India's federal structure and governance, Prime Minister Modi has put a greater emphasis on cooperation, interdependence and stabilisation between the two tiers of governance. Soon after taking charge at the Centre, he established the NITI Aayog (National Institution for Transforming India) to catalyse economic development and achieve essential goals of cooperative federalism through participation of the states. Over past ten years, there have been multiple occasions – for example, introduction of goods and services tax and more recently, in the fight against Covid-19 – when the Centre and states have worked under the principles of cooperative federalism. These experiences have shaped federalist arrangement power-sharing between different tiers of governments in India.

2. Research Objective

Federalism is an important feature of India's democratic politics. The two examples taken up in this paper provide useful insights into Centre-state power balance in India. The paper analyses these events, processes and their outcomes, particularly over the last decade (2014-2024) to provide an explanation for evolving Centre-state relationship in India. Key research questions are:

- Is there a shift in Centre-state power balance since the emergence of single party majority at the Centre? If so, what is the direction of shift?
- Has pronouncement of cooperative federalism as a key principle of governance enabled better coordination and cooperation among the Central and state governments?
- How has this affected state capacity and effectiveness in governance and delivery of essential services?

3. Emerging Trends in India's Federal Structure

Over the last decade, there have been enormous institutional, fiscal and political changes in the working of centre-state relations. For example, the formation of one-party majority government at the centre, better coordination among the Centre and states, the coming up of strong political leaders at both centre

and states. The paper is based on documentary analysis of key policy documents, media reports and academic literature, and seeks to identify few emerging trends.

First, we have seen the growth of regional politics in India since 1960s, and since 1989 we have been having coalition government at the centre. In spite of this long period of coalition governments and rise of regional political parties, the Bhartiya Janata Party could come to power as a majority government at the centre. Not only this, it has successfully come to power in various states and this has led to the consolidation of power in the hands of BJP. This is an important turning point in India's federal system. This has subsequently challenged the trajectory of regionalisation, even while the vote share of regional parties has not changed.

Second important trend is that it has exposed the existing institutional structures for the mediation between the centre and states. The states have maintained their ability to resist and challenge the centralizing impulses of the centre. Delegation of fiscal powers and responsibilities mentioned in the Constitution puts forth an upper hand bias with the Centre enjoying overwhelming and overriding economic and political powers. This would mean that, the states are able to collect only forty percent of the revenue whereas they bear 60 per cent of government expenditure. In addition, for any kind of borrowings that the states want to do, they always need the approval of the centre. An important characteristic of this centralized approach is that it undermines the states' own capabilities of innovation and practices, particularly in the delivery of welfare policies and programmes. The fiscal decentralization and the deepening of federalism have been an important part of the Modi model of government since its inception. After coming to power as Prime Minister in 2014, Modi has time and again stressed that the state governments should play the pivotal role as 'drivers of transforming India', thus appealing to states to imbibe and enhance the spirit of cooperative federalism in practice.

Third, administrative centralisation has increased in the past few decades. This has resulted in a friction and trust gap between the centre and states, and in turn, has affected the federal arrangements in India adversely. However, the rationale put forward by the government to justify this administrative centralization is that it would make government both at centre and states more efficient and accountable. Prime Minister Modi believes in direct interactions with the states in various issues at intervals. The centre believes that it is not only to motivate the states but also to improve the delivery mechanisms of the states.

Fourth, India went through a transition in the fiscal federalism with introduction of the Goods and Services Tax (GST) and constitution of GST council to manage the new tax regime and tax sharing between the Centre and states. GST council and its processes are now proving to be critical institutional apparatus to further and shape the Centre-state relation in India.

Finally, the Government of India constituted NITI Aayog, in place of the erstwhile Planning Commission of India, to realise the goals and benefits of cooperative federalism, and thus, enable good governance in the country. As the website of NITI Aayog claims, the premise is that “strong states make a strong nation, NITI Aayog acts as the quintessential platform for the Government of India by bringing States together as ‘Team India’ to work towards the national development agenda.” Since its formation, the Aayog has taken several steps to foster and promote cooperative federalism through structured support, interventions and engagement with the states and union territories on a sustained basis. Examples include periodic meetings between the Prime Minister, cabinet ministers and the state chief ministers, subgroups of chief ministers to deliberate on important matters of national concern, experience sharing on best practices, capacity development and framing model legislations.

The two important features of this emergent cooperative federalism are (1) a joint and shared focus on the national development agenda by the Centre and states and (2) the advocacy of issues and concerns of the Indian states and Union Territories with the Central Ministries. These two features if achieved in true sense will go a long way in ensuring cooperative federalism in India. NITI Aayog has designed various programs and models for developing infrastructure and reigniting public-private partnership, for example the Development Support Services to the states and union territories, and the Sustainable Action for Transforming Human Capital programme.

4. The Practice of Cooperative Federalism

In this section, the paper investigates two specific cases to understand the practice of cooperative federalism in India. First, the goods and services tax that was introduced early in the assessment period. Second, response to the COVID pandemic.

Introduction of Goods and Services Tax (GST)

The launch of GST will go down in the economic, fiscal and constitutional history of India as a momentous milestone. Not only was it the culmination of decades of animated discussions and debate among political parties and fiscal experts, but also marked many a first – unique dual GST design, novel

GST legislative body (the GST Council), and an unprecedented guarantee to states of five years of year-on-year GST revenue growth. The key objectives and benefits of GST cannot be over-emphasized – buoyancy in revenue, negate tax cascading, prevent revenue leakage through input tax credit manipulation and most importantly, exponentially enhance ease of business with a single destination-based consumption tax to replace and subsume multiple laws of the states and the Centre.

According to the Indian Constitution, the state governments are enshrined with the responsibilities to provide for the basic welfare goods and services to the people. Therefore, independent Finance Commissions are appointed for a five year tenure to decide the distribution of tax revenues between the Central and state governments. Successive Finance Commissions have also recognised that state governments require more resources to fulfil their obligations towards the people than what they have been allocated, and therefore there has been a steady increase in the share of tax revenues that is given to the States across the commissions.

However, the centre while grudgingly accepted the 14th Finance Commissions award, which was announced in April 2015, also moved to undermine it quickly. The Centre used an obvious loophole available in Indian Constitution which provides that while tax revenues are to be shared between the Centre and states, cesses and surcharges are exempt from revenue sharing. The Central government used this loophole and has been increasing the share of revenue collected through such cesses and surcharges, and thus reducing the share of states in the total divisible pool for revenue.

The States could not even reach 42 percent share that was earlier mandated for them in the years of 2016-17 which was considered as the peak year for revenue generation, after this year the central government has been suppressing this front and is trying to mobilize resources from cesses and surcharges for the centre because that is directly owned by the central government.

In the meanwhile, during the same period when the centre introduced the Goods and Services Tax, this was a policy which could benefit the centre more with revenue generation, it diminished the states' ability to generate their own revenue except few areas like sales tax on alcohol, excise duties on fuel and duties on sale of electricity, as these were not part of GST. This in a way made the states more dependent on the centre for their need for welfare and developmental expenditure within the state is concerned. The state governments need nearly half of their revenue requirements from the Central government.

The states did not have any other option but to accept and comply with it as there was a strong majoritarian government in the centre. Thus, the cooperative relation and trust between the centre and states was eroded to some extent. Many considered that the GST would not be sustainable and that it would have tremendous impact on the working of federalism in India. This fiscal pressure created within the states seemed to question the whole idea of cooperative federalism that India has aspired for, and also undermined the very basis of Indian federalism.

Supporters of the GST regime claim that, since its introduction in 2017, the new fiscal regime has altered the contours of fiscal federalism in India, and steady rise in GST revenue collection is an indicator of success for the pathbreaking fiscal reform. While the criticism that it restricts the powers of the state holds true in some context, it also puts equal burden on the Central government. Critics claim that GST regime has not been able to improve revenue position of the states; contrary to the expectation of a cooperative federalism, GST has moved India towards a coercive federalism.

Response to COVID Pandemic

The COVID (Corona Virus) pandemic caught the entire humanity, including India, by surprise. All countries, big or small, rich or poor, the developed and the underdeveloped, medically advanced or not so were severely affected by this pandemic. Many developed nations of the world like the United States of America, United Kingdom, France, etc. could not control spread of the pandemic. India experienced two major waves but was able to keep the spread in control compared to many advanced countries. Management of the pandemic provides a deep insight into the functioning on Indian federalism and points to the fact that the flexible nature of federalism in India had in a way helped in ensuring effective control of the pandemic. As the first wave of the pandemic started in 2020, many states in India went ahead and announced lockdown, sealed their borders as this seemed to be the only viable way. This decision was taken by individual states even before the Centre had given any directions. The Centre on the other hand after reviewing the situation, singlehandedly without consultation with the states, took an unprecedented decision to announce a nation-wide complete lockdown with only a few hours' notice. It created serious panic among the people and led to the breakdown of supply chains. Most importantly, it caused utter chaos for the migrant workers in various states as they were left with no employment, money, food and shelter. Due to the lockdown, they could not go back to their native places. This could be partly attributed to lack of futuristic

planning and absence of mechanisms for effective and immediate coordination between the Centre and the states. However, the wave was somehow managed even with not as effectively and efficiently as it could be.

In the meanwhile, through The Epidemic Diseases Act (EDA), 1897 and the National Disaster Management Act (NDMA), 2005 a joint response was achieved. They provided the broad legal framework to control and take effective measures to control the pandemic. However, there were serious doubts that these two acts may not be an effective method because the pandemic situation was totally new where it requires to have mechanisms to keep people within their houses, provide them basic amenities, and also to make provisions for the poorest of the poor. This gave rise to debates and questions about who would lead in taking actions and who would share responsibilities for controlling the pandemic, Centre or States, and which would be more effective. The best workable solution was part of the Indian Constitution. Health being a state subject they should take the responsibility and accountability for provision of a modified and efficient health service delivery. Since COVID is a contagious and infectious disease it becomes a matter of the concurrent list and thus can be dealt by both centre and state. This led to the centre and states coming together and putting up a workable cooperative federalism through effective strategies, resources and above all, leadership.

Though India could not fight as effectively with a bigger second wave in 2021, we could see the Centre and states keeping their differences at bay and working together to ensure a complete lockdown. The problems faced during the first wave could be handled better during the second wave but we had new problems of oxygen shortage, lack of medical facilities etc. The enormity of the pandemic was greater but, in a first of its kind measure, we saw the Centre having regular online consultations with the states. It became the responsibility of the Centre and the states to work within the framework of cooperative federalism. With lot of modalities and arrangements put in place, the situation was brought under control. As the situation improved, the restrictions imposed were gradually removed by both the Centre and states in phases. It was clear that post COVID, a rigid and uniform mechanism by the Centre may not be effective, for example, the central directives may work in Delhi because of its proximity of distance but may not work in Kerala or North Eastern states which are far away. Each state has many other variables which work towards better governance and these would play critical roles in dealing with a pandemic situation. As an example, Kerala allowed restaurants to open, however, the centre pressurised it to withdraw this decision. Such cases happened

in many states which probably was not taken well by both states and the residing population. This clearly suggests that state specific decisions, based on their respective local contexts, may be more effective in ensuring good governance, and therefore, varied state-specific actions and responses must be enabled and encouraged.

For a vast country like India with regional, political, social, cultural diversities the only way to control the COVID or any other such pandemic in present and future would depend on an effective Centre-state relation. As a federal state, India was effective in dealing with the situation better in comparison to many other developed federal states including the United States of America. Such a productive outcome was possible as both Centre and state could resolve their differences and deal with policy making, execution and implementation together in these difficult times. The centre, however, needs to play a larger and flexible role to provide the states a sense of political, fiscal and social support in tackling with pandemic like situation. India can learn from best practices in federal countries like Canada, Australia, New Zealand, which have been able to evolve effective mechanisms to deal with the COVID situation. States should enjoy greater autonomy to be able to revive their economy by creating employment and thus generate income for the people along with control over the pandemic. To put it forth, it's the testing time of the concept of 'cooperative federalism' which was emphasized by the Modi government from its very inception in 2014.

5. Conclusion

Drawing on the analysis of two specific developments, it is clear that cooperative federalism could be an effective mechanism for better coordination between the governments and their agencies at the Centre and states. The effectiveness of COVID response, in particular, suggests that cooperative federalism must be pursued as the driving principle for the Centre-state balance, coordination and federal governance in India. But, in case of the GST implementation, we notice greater centralizing tendencies that pose threats to the federal arrangements and affects the states' fiscal space.

Considering the two experiences, the paper suggests that the focus should be on building capacities of the state governments and their agencies so that they are better able to meet their responsibilities. Granular and comparative analysis of specific incidences are necessary to better understand the progress of cooperative federalism in India and plan for targeted interventions to foster it. Future studies must focus on more detailed case studies on specific federal interventions and centrally sponsored schemes.

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