



## FEDERALISM - GS II MAINS

**Q.** Disputes between the Centre and States regarding economic policies have a long history in India. In this line, discuss the cost of conflicts in federalism of India. (10 marks, 150 words)

**News:** *The price of persistent federal frictions*

### What's in the news?

- Disputes between the Centre and States regarding economic policies have a long history in India.
- However, in recent years the frequency and intensity of such disputes have increased and assumed the character of 'persistent frictions' in the federal system.

### Federalism:

- Federalism is a system of government in which the power is divided between a central authority (Central governments) and various constituent units (State governments) of the country.
- The Constitution makers adopted a unique model of a federal structure for independent India which is often called 'centralised federalism'.
- This is because unlike classical federalism like the United States (US) or Canada, the Constitution is mandatory for a structurally more powerful Union government in many key areas.
- The decision of the founding fathers to create a stronger Centre is attributed to their fear of growing secessionist tendencies in a country which had suffered from the legacy of partition during independence.

### Features of Centralised Federalism in India:

- The Union government enjoys superior powers vis-à-vis the states in crucial matters such as the discretion to reconstruct the boundaries of the states.
- The Union list contains more subjects than the State list and its law prevails over states even on the subjects in the Concurrent list.
- Also, the Parliament can legislate on any state subject under extraordinary circumstances, importantly, the Centre enjoys massive control over economic resources.
- Also, the Centre has the power to appoint governors in the states and can dissolve state governments by proclaiming the president's rule if the Centre deems fit.

### Cost of conflicts in federalism of India:

#### 1. Centre starts crowding out the States in terms of investments:

- An interesting case is that of infrastructure development in recent years.



- The Centre launched the PM Gati Shakti, a digital platform, to incorporate schemes of various Ministries and State governments to achieve integrated planning and coordinated implementation of infrastructure connectivity projects.
- All States and UTs had to prepare and operationalise a State master plan in line with the national master plan for seamless implementation.
- However, the flexibility of States in formulating their master plan is curtailed by the centralisation of planning and implementation of the national master plan.

## **2. Fiscal competition between the Centre and States:**

- In a federal system, fiscal competition manifests between different regions/States.
- However, in a scenario of frictions with the Centre, State governments will engage in competition with other States and with the Centre. Welfare provisioning is one such area.
- The Centre with enhanced fiscal space has more spending power, while States' revenues, especially non-tax revenues, remain flat as possibilities of raising non-taxes are confined to a smaller sphere due to the direct provisioning of many utilities and services by the Centre.

## **3. Inefficiencies associated with 'parallel policies':**

- Federal abrasions lead to either the Centre or the States duplicating the other's policies.
- The case of pension reforms is one such example of parallel policies developed by the States.
- The National Pension System (NPS) changed the architecture of the pension system in India from a defined benefit scheme to a defined contribution scheme.
- The scheme, mandatory for all central government employees, enlarged its scope and coverage with most of the States joining at different points of time.
- Though States joined the NPS initially, some States have started to roll back to the old pension scheme as the fiscal cost of reverting would be visible only after 2034 when most of the newly joined employees retire.
- The emergence of such parallel schemes is mainly due to the trust deficit prevailing in the federal system, the fiscal costs of which have long run consequences on the economy.