

FEDERALISM IN INDIA – POLITY

NEWS: Over the past 11 years, **NITI Aayog** has driven **cooperative and fiscal federalism**, enabling the Centre and states to collaborate for socioeconomic transformation and shared goals.

WHAT'S IN THE NEWS?

Understanding Federalism in India

1. Definition:

- Federalism refers to the constitutional division of powers between different levels of government — the Union and the States.

2. Quasi-Federal Nature:

- India's Constitution adopts a quasi-federal model — a **strong Centre with coordinated autonomy for States**.
- It blends elements of both **federal** and **unitary** systems, making Indian federalism dynamic and adaptive.

3. Evolution:

- Indian federalism has evolved from a **centralised planning model** (under the Planning Commission) to a **consultative, cooperative, and competitive model** (under NITI Aayog).

About NITI Aayog

1. Background:

- Established on **January 1, 2015**, via a Union Cabinet resolution.
- Replaced the **Planning Commission (1950–2014)** which had powers of financial allocation.

2. Leadership:

- **Prime Minister** is the Chairperson.
- Includes Vice Chairperson, full-time and part-time members, and ex-officio members from the Union Cabinet.

3. Nature:

- Functions as a **policy think tank** — provides strategic inputs, unlike the Planning Commission which had coercive powers.
- Does **not allocate funds** or implement schemes directly.

4. Guiding Principles:

- Based on **Cooperative Federalism**.
- Promotes **bottom-up planning**, regional equity, and state participation in national development.

Types of Federalism in India

A. Cooperative Federalism

1. Concept:

- Centre and States work **in partnership** to develop and implement national policies.

2. Mechanisms:

- **Article 263**: Provides for the **Inter-State Council** to ensure coordination.
- **Concurrent List**: Allows joint legislation on subjects like education, environment, etc.

3. Platforms:

- **Governing Council of NITI Aayog, Zonal Councils, and Thematic Groups** facilitate dialogue and joint planning.

B. Competitive Federalism

1. Concept:

- Encourages states to **compete** in performance, governance, and reforms to attract investments and recognition.

2. Role of NITI Aayog:

- Publishes **performance indices** like:
 - State Health Index
 - India Innovation Index
 - SDG India Index
 - School Education Quality Index

3. Impacts:

- Encourages **decentralisation, best practices, and innovation at the state level**.

C. Fiscal Federalism

1. Meaning:

- Concerns the **division of financial powers** and resources between Centre and States.

2. Constitutional Provisions:

- **Article 280**: Establishes the Finance Commission for tax devolution.
- **Articles 268–293**: Cover tax assignments, grants, borrowing, etc.

3. Recent Changes:

- **14th Finance Commission** increased state share in tax devolution from 32% to 42%.

Key Developments Strengthening Federalism

1. Increased Tax Devolution:

- State share of central taxes rose from ₹3.37 lakh crore (2014–15) to ₹12.23 lakh crore (2024–25).

2. GST Council:

- Promotes **consensus-based fiscal federalism**.
- Revenue sharing: States ~71%, Centre ~29%.
- ₹6.52 lakh crore GST compensation released (2017–2025).

3. Higher Central Transfers:

- Centre-to-State transfers (tax + grants + loans) rose from 5.2% to 6.5% of GDP (2004–24).
- Tamil Nadu and West Bengal saw marked increases in central transfers as % of state revenue.

4. Capital Expenditure Incentives:

- ₹1.5 lakh crore interest-free loans to states under Union Budget 2025–26 to promote state-level capital projects.

NITI Aayog's Federalism-Oriented Initiatives

A. Cooperative Federalism Initiatives

1. **Governing Council:**

- Headed by PM; includes all CMs and LGs.
- Provides a common platform for Centre-State development planning.

2. **Chief Secretaries' Conference:**

- Ensures administrative-level collaboration on policies and reforms.

3. **Aspirational Districts & Blocks Programme:**

- Covers 112 backward districts and 500+ blocks.
- Uses 49 indicators across 5 themes to track improvements.
- Driven by **monthly rankings** and **data-backed governance**.

B. Competitive Federalism Initiatives

1. **Performance-Based Indices:**

- Promote healthy competition among states.
- Encourage states to strive for better public services and development outcomes.

2. **Examples:**

- **India Innovation Index:** Focuses on R&D, start-ups.
- **Export Preparedness Index:** Assesses infrastructure, policy, and performance.

C. Fiscal Federalism Facilitation

1. **Role of NITI Aayog:**

- Advises on the rationalisation of **Centrally Sponsored Schemes (CSS)**.
- Encourages better use of **untied grants**.
- Provides feedback on **state budgeting** and financial reforms.

2. **DMEO (Development Monitoring and Evaluation Office):**

- Monitors scheme outcomes, strengthening accountability and financial efficiency.

Role of CS and CSS Schemes in Empowering States

Scheme Type	Funding	Execution	Examples
Central Sector (CS)	100% Centre	Central ministries	PMKVY, DBT, Atal Innovation Mission
Centrally Sponsored Schemes (CSS)	Shared (e.g., 60:40 or 90:10)	States	PMAY-G, Jal Jeevan Mission, NHM

A. Financial Access:

- CSSs fund **core development sectors** (e.g., rural roads, sanitation, health).
- Useful for states with **low revenue capacity**, especially EAG states.

B. Capacity Building:

- Funds for training, digital dashboards, monitoring tools.
- States design implementation while Centre provides broad frameworks.

Challenges to Deepening Federalism

1. Vertical Fiscal Imbalance:

- States earn 38% of revenue but bear 62% of expenditure.
- Cesses and surcharges reduced effective tax devolution (2024–25: 30% vs. recommended 41%).

2. Centre's Encroachment in State List:

- CSS often designed unilaterally, limiting state flexibility (e.g., NHM conditions).

3. Weak State Finance Commissions:

- Irregular SFCs delay local body funding (e.g., Bihar's delay in constituting 6th SFC).

4. Underutilisation of Intergovernmental Platforms:

- ISC and Zonal Councils lack regular functioning.
- GST Council seen as biased due to Centre's dominant voting influence.

5. Unequal Capacity for Competition:

- Richer states outperform in indices, while poorer states lag despite reforms.

6. Institutional Gaps Post-Planning Commission:

- NITI Aayog lacks statutory status and coercive powers.

7. GST Compensation Issues:

- States faced delays and uncertainty after 2022 when the compensation guarantee ended.

Way Forward

1. Institutionalise ISC and Zonal Councils:

- Set up regular meetings and independent secretariats to foster coordination.

2. Reform CSS:

- Adopt **block grants** for high-performing states.
- Allow more flexible, state-specific implementation.

3. Include Cesses in Divisible Pool:

- Promote **fair tax devolution** by sharing all revenue instruments.

4. Strengthen SFCs:

- Ensure timely constitution and implementation of recommendations.
- Deepen **local-level fiscal federalism**.

5. Support Lagging States:

- Provide **capacity-building and reform assistance** to help compete fairly.

6. Institutionalise NITI Aayog:

- Grant it **statutory status** for stronger federal planning authority.
- Empower DMEO for independent evaluations.

7. Restore Fiscal Dialogue on GST:

- Ensure structured review and reform of GST compensation and Council mechanisms.

Conclusion

- India's federal structure is being reshaped through NITI Aayog's **cooperative, competitive, and fiscal initiatives**.
- While significant progress has been made in empowering states, addressing the **fiscal imbalance, intergovernmental frictions, and capacity disparities** is crucial for a robust and inclusive federal future.