
CENTRE–STATE RELATIONS IN INDIA: CHANGING DYNAMICS AFTER 2014

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Abstract

Since 2014, India's federal bargain has been reshaped through institutional redesign (Planning Commission → NITI Aayog), a new indirect tax regime (GST and the GST Council), altered fiscal transfers (14th and 15th Finance Commissions), expansion of centrally-levied cesses/surcharges, the centralising use of national legislation during COVID-19, and assertive gubernatorial/agency roles in opposition-ruled states. Simultaneously, mechanisms branded as “cooperative/competitive federalism” have expanded (NITI Governing Council, Zonal Councils), while the Inter-State Council has remained largely dormant. Supreme Court judgments since 2018—especially on Delhi's statehood-like powers and the constitutional status of the GST Council—have significantly recalibrated intergovernmental authority. This paper synthesises these developments, argues that Indian federalism since 2014 is best characterised as “centralised cooperation under judicial supervision,” and proposes policy correctives: predictable fiscal rules (especially on cesses), routinisation of intergovernmental forums, clearer gubernatorial timelines, and a data-first approach to GST federal bargaining.

Keywords: Indian federalism; cooperative federalism; fiscal devolution; GST Council; governors; NITI Aayog; Finance Commission; Article 370.

1. Introduction

India's Constitution creates a union with federal features and strong unitary “pause buttons” for emergencies. Post-2014 politics—a dominant party at the Union, fragmented state party systems, and high-salience national narratives—has pressured that design. Key inflection points include: replacement of the Planning Commission with NITI Aayog to foreground “cooperative/competitive federalism”; implementation of the Goods and Services Tax (GST) via the 101st Constitutional Amendment and the GST Council; the 14th/15th Finance Commissions' re-crafting of transfers; and the 2019 reorganisation of Jammu & Kashmir. The Supreme Court has acted as an umpire, notably in the Delhi services cases (2018, 2023) and in 2022 clarifying the non-binding nature of GST Council “recommendations.”

Research question: How have centre–state relations in India changed since 2014 across institutional, fiscal, political, and judicial dimensions?

Approach: Conceptual synthesis grounded in primary documents (constitutional amendments, Finance Commission reports, Supreme Court judgments), official releases, and reputable policy analyses.

2. Constitutional and Institutional Background

The Union–State allocation (Seventh Schedule) is mediated by: (i) Finance Commissions (vertical and horizontal transfers), (ii) intergovernmental forums (Inter-State Council; Zonal Councils), and (iii) constitutional safety valves (Articles 200, 356; Disaster Management Act, 2005). Post-2014, two notable shifts: (a) replacement of the Planning Commission with NITI Aayog (01 January 2015), reframing centre–state engagement around “Team India”; and (b) formalisation of the GST Council as a joint fiscal body (Article 279A).

NITI Aayog’s official mandate emphasises cooperative and competitive federalism through rankings, indices, and a Governing Council of Chief Ministers/LGs.

3. Fiscal Federalism Since 2014

3.1 Devolution and Grants

The Fourteenth Finance Commission (FFC) raised states’ share in the divisible pool from 32% to 42% (2015–20), a structural jump in untied transfers. The Fifteenth Finance Commission (FFXV) set it at 41% for 2020–26 (accounting for the creation of UTs of J&K and Ladakh). FFXV also expanded tied/conditional grants to local bodies, including a dedicated health window. Specifically, FFXV recommended ₹4.36 lakh crore (2021–26) to local bodies—rural, urban, and health grants—with performance conditions (e.g., property-tax reforms, water & sanitation).

3.2 Cesses and Surcharges: A Quiet Re-centralisation

While devolution shares rose, the divisible pool itself shrank relatively due to rising collections via cesses and surcharges (which are not shared with states under Article 270). PRS estimates suggest the Centre’s cess/surcharge share rose sharply in 2020–21 (~24% of gross tax revenue), pushing states’ effective share of GTR down to ~29% in 2020–21 despite the 41% devolution rate. Recent data show partial moderation after fuel duty cuts, but levels remain higher than a decade ago.

3.3 GST Federalism

The 101st Constitutional Amendment created Article 246A (concurrent GST power) and Article 279A (GST Council). The Council’s decisions are taken by weighted voting of Union and States; after litigation, the Supreme Court in *Mohit Minerals* (2022) clarified that Council “recommendations” are not binding on Parliament/State Legislatures—strengthening fiscal federalism’s autonomy principle. Compensation for GST revenue shortfalls ended in June 2022, but the compensation cess was extended until March 31, 2026 to repay Union borrowings made in 2020–22 to bridge state shortfalls.

Ongoing debates in 2025 concern whether the cess can or should lapse earlier as loans are fully repaid, and if a successor levy is needed to stabilise state revenues—highlighting continued bargaining within the Council.

4. Political Federalism and Intergovernmental Process

4.1 Forums of Cooperation: NITI vs. ISC, Zonal Councils

NITI's Governing Council has become the marquee forum for Union–state dialogue; by contrast, the Inter-State Council (ISC) has met infrequently (a major meeting after ten years in July 2016; very limited activity thereafter), prompting calls for its revival. In the same period, Zonal Councils have met more regularly (55 meetings, 2014–2023; 63 by mid-2025), suggesting a shift to sub-national regionalism for routine coordination.

4.2 Governors, Legislative Assent, and Judicialisation

Contention over gubernatorial roles has intensified: several opposition-ruled states have alleged delays in bill assent and politically selective interventions. In 2025, the Supreme Court declared prolonged delay in assent illegal in the *State of Tamil Nadu v. Governor of Tamil Nadu*, and has since taken up a presidential reference on timelines, signalling that indefinite delays violate the scheme of Article 200.

4.3 Central Investigative Agencies and Consent Federalism

Multiple states (often opposition-ruled) withdrew general consent for CBI investigations under the DSPE Act, citing federal concerns; official and press tallies put the number at 9–10 during 2023–24, with some subsequent reversals/limited relaxations case-by-case. Meanwhile, ED investigations rose sharply post-2014, concentrating on opposition politicians—becoming a flashpoint in centre–state political federalism.

5. Judicial Federalism: Key Constitutional Rulings

1. NCT of Delhi cases (2018; 2023): The Supreme Court held the Lt. Governor is bound by the aid and advice of Delhi's Council of Ministers in matters within the Assembly's legislative domain (excluding public order, police, land). A 2023 Constitution Bench affirmed Delhi's control over "services" (with later statutory responses by Parliament), underscoring a dynamic judicial–legislative federal dialogue.
2. GST Council—*Mohit Minerals* (2022): Council's recommendations are persuasive, not binding, re-centring states' constitutional autonomy within GST while preserving the Council as a deliberative forum.
3. Article 370 (2019–2023): In Dec 2023, a five-judge Bench upheld the abrogation of Article 370 and directed the Election Commission to conduct Jammu & Kashmir Assembly elections by September 30, 2024, with statehood to be restored "as soon as possible"—a landmark on asymmetric federalism and Union reorganisation powers.

6. Policy Episodes Shaping Centre–State Dynamics

6.1 COVID-19 and the Disaster Management Act (DMA), 2005

The Union invoked the DMA to impose nationwide lockdowns and standardised protocols, constraining divergent state responses. Scholarship shows that the DMA architecture

entrenched centralised command even as states implemented and adapted measures on the ground.

6.2 Farm Laws (2020) and Repeal (2021)

Agricultural marketing—a state subject with substantial concurrent overlap—became a federal flashpoint when Parliament enacted three farm laws in 2020, later repealed in November 2021 after sustained protests, leaving unresolved design questions about centre–state coordination in agri-markets.

6.3 Centrally Sponsored Schemes (CSS) Rationalisation

Following the 14th FC, the Union rationalised 66 CSS into 28 umbrella schemes and adjusted sharing ratios—an attempt to balance flexibility with national priorities via “Core/Core of Core/Optional” categorisation. This recast state co-financing obligations and widened performance-linkages.

7. Synthesis: From “Cooperative Federalism” to Centralised Cooperation under Judicial Supervision

Three cross-cutting patterns emerge:

1. Institutional centralisation with consultative veneers. NITI Aayog’s “Team India” and Zonal Councils have given visibility to cooperation, but the rarely-convened Inter-State Council and the use of central agencies and gubernatorial offices have kept political federal frictions high.
2. Fiscal ambivalence. The 14th/15th FCs increased formal devolution and LSG grants, yet net state autonomy is tempered by rising cesses/surcharges and conditional/tied grants—and by the GST compensation expiry politics now re-appearing in 2025.
3. Judicial guardrails. The Supreme Court has constrained executive overreach (Delhi, Governors’ assent timelines) and clarified GST Council federalism, while also upholding sweeping Union action on asymmetric federalism (Article 370) — together producing a constitutional balance that is simultaneously centralising (security/territorial questions) and pluralising (tax/IGR questions).

8. Policy Recommendations

1. Revive and routinise the Inter-State Council (ISC). Codify an annual calendar (e.g., 3 meetings/year as envisaged) with public minutes, and link ISC working groups to NITI Aayog indices to merge deliberation with delivery.
2. Make fiscal rules more predictable.
 - Cap cess/surcharge shares in GTR or require a sunset-plus-review clause, with transparent utilisation disclosures.
 - Consider a statutory Fiscal Federalism Report each budget cycle tracking effective state share after cesses/surcharges.
3. GST federal bargain 2.0.
 - Post-2026 (or earlier), negotiate a calibrated replacement for compensation (e.g., narrow “sin” levy with formula-based distribution) while respecting Mohit Minerals.

- Create a standing secretariat to publish ex-ante impact notes for Council proposals.
- 4. Codify gubernatorial timelines. Parliament (or states via model legislation) should specify reasonable timelines for assent/return/reservation to reduce litigation and improve legislative certainty, reflecting the 2025 jurisprudence.
- 5. Clarify “consent federalism” for central agencies. Establish a cooperative protocol (time-bound consult, reasons recorded) when general consent is withdrawn, maintaining anti-corruption efficacy without eroding state autonomy.
- 6. Crisis federalism playbook. DMA-based nationwide measures should embed state opt-ins, differentiated thresholds, and post-hoc legislative oversight to avoid blanket centralisation in future emergencies.

9. Conclusion

Post-2014 centre–state relations in India mix greater formal collaboration (NITI forums, GST Council, larger devolution shares) with informal centralisation (cesses/surcharges, agency politics, gubernatorial activism). The Supreme Court has emerged as an arbiter of last resort, sometimes decentralising (Delhi, governors’ delay), sometimes endorsing centralisation (Article 370). The next phase of Indian federalism will turn on (i) how India retires or replaces the compensation cess, (ii) whether intergovernmental forums like the ISC are reinvigorated, and (iii) whether political federalism de-escalates from litigation to routinised bargaining.

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