

“RECALIBRATING FEDERAL BALANCE: A CONTEMPORARY APPRAISAL OF CENTRE–STATE RELATIONS IN INDIA”

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ABSTRACT

Despite being based on the constitutional separation of powers between the Union and the States, India's federal structure exhibits a clear centralizing bias. The framers' concerns about separatist tendencies in a newly independent and diverse country, historical circumstances, and national integration initiatives all contributed to this viewpoint. Notwithstanding these beginnings, Indian federalism has developed into a vibrant and contentious area that is influenced by judicial decisions, budgetary agreements, and political events. By examining the constitutional design, specifically the Seventh Schedule, Articles 245 to 263, and emergency measures, as well as political and practical developments, this essay critically explores the structure of Center–State interactions in India. It assesses how well federal institutions are operating and looks into the roles of important organizations including the Finance Commission, the GST Council, and the Inter–State Council. Fiscal federalism and the escalating concerns about income distribution inequities, GST Council decision-making, and compensation disputes—particularly in the post-COVID era—are given particular focus. Historic rulings like *S.R. Bommai v. Union of India* and *State of West Bengal v. Union of India*, as well as more contemporary rulings like *Union of India v. Mohit Minerals*, address the judiciary's function as a custodian of the constitution. These decisions show how the judiciary is becoming more interventionist and less respectful in its approach to upholding constitutional balance and state autonomy. The Article also explores current conflicts, demonstrating the weakness of cooperative federalism, from the function of governors in states with opposition rule to unilateral legislative measures on topics on the State List and the repeal of essay 370. In the end, the article makes the case for a revised version of Indian federalism based on sincere intergovernmental communication, openness in fiscal management, and judicial uniformity in upholding federal values.

Keywords: Indian Constitution, Federalism, Centre–State Relations, Judicial Pronouncements, Fiscal Federalism, Cooperative Governance, Political Federalism

INTRODUCTION

In contrast to traditional models such as the United States, the Indian Constitution envisions a separate federal organization. India's federation has frequently been referred to as “quasi-federal” because of its strong central

tilt²⁵⁰, even while it adheres to federal ideals such as the division of powers, dual polity, and the supremacy of the Constitution. Colonial legacies and post-independence nation-building imperatives are the causes of this centralized nature. The current study

²⁵⁰ Austin, Granville, *The Indian Constitution: Cornerstone of a Nation* (1966).

investigates how financial, administrative, and legislative arrangements operationalize, disturb, and rebalance the federal equilibrium.

HISTORICAL AND CONSTITUTIONAL UNDERPINNINGS

Colonial administrative structures, including the Government of India Acts of 1919 and 1935, are the origins of Indian federalism. Separate lists for legislative competencies were among the federal elements introduced by the later Act²⁵¹ and the 1950 Constitution essentially adopted this paradigm. However, the Constituent Assembly adopted a strong center as a result of the pain of Partition and the difficulties of integration²⁵².

In keeping with a practical approach to administration, Dr. B.R. Ambedkar explained that India was to be federal during regular times and unitary during emergencies. Tensions between supporters of a strong Union and proponents of state autonomy were brought to light by the discussions surrounding this agreement.

LEGISLATIVE COMPETENCE AND ASYMMETRY

The Seventh Schedule of the Constitution divides legislative authority into Union, State, and Concurrent Lists²⁵³. Articles 245–255 outline this division, with the residuary power assigned exclusively to Parliament under Article 248. Although this allows flexibility in addressing emerging national needs, it has often led to encroachment upon state domains

Article 254 provides Union law primacy in the event of conflict on Concurrent List subjects. Moreover, during emergencies or under Articles 249 and 250²⁵⁴, Parliament can legislate on State List subjects, further skewing the balance. Such provisions, though justified by national interest, create enduring asymmetries.

ADMINISTRATIVE RELATIONS AND INSTITUTIONAL COORDINATION

Administrative provisions (Articles 256–263) aim to ensure policy coherence and uniformity. While states enjoy functional autonomy, the Union can issue binding directions to ensure constitutional compliance. Articles 257 and 263 empower the Centre to guide state action in infrastructure and inter-state matters²⁵⁵.

The Inter-State Council, envisaged under Article 263, remains underutilised. Similarly, the dual control of All-India Services, though administratively beneficial, has raised concerns of politicisation and overreach. The Governor's role as a state head and the All India Services on the other hand—exemplifies institutional ambiguity that occasionally undermines democratic mandates at the state level²⁵⁶.

FINANCIAL FEDERALISM AND FISCAL TENSIONS

The term "fiscal federalism" describes the financial relationships between governmental entities in a federal system, specifically the allocation of funds, duties, and decision-making authority between the federal government and the states. It is a fundamental component of cooperative federalism, with the goals of responsive governance, efficient public service delivery, and equitable development. In India, organizations such as the Finance Commission, the Goods and Services Tax (GST) Council, and the NITI Aayog uphold fiscal federalism, which is ingrained in the country's constitution.

Financial relations are governed by Articles 268–293²⁵⁷, with periodic suggestions from the Finance Commission serving as a supplement. Because of their limited ability to levy taxes, states rely significantly on central transfers. A major step toward cooperative fiscal federalism was taken with the adoption of the GST under the 101st Amendment, which established the GST Council as a federal entity.²⁵⁸

²⁵¹ Government of India Act 1935, Ss 143–203.

²⁵² Constituent Assembly Debates, Vol. IX, 1255 (Dec. 9, 1948) (statement of B.R. Ambedkar).

²⁵³ India Const., Schedule VII.

²⁵⁴ India Const. Arts. 249–250.

²⁵⁵ India Const. Art. 263.

²⁵⁶ D.D. Basu, *Introduction to the Constitution of India* 77–79 (22d ed. 2015).

²⁵⁷ India Const. Arts. 268–293.

²⁵⁸ The Constitution (One Hundred and First Amendment) Act, 2016.

However, conditional grants, the Center's hegemony in tax collection, and delays in GST compensation have put a burden on state resources²⁵⁹. Both vertical and horizontal budgetary imbalances were acknowledged by the 15th Finance Commission, which also suggested ways to achieve fair devolution. However, fiscal federalism runs the risk of turning into a tool of central control in the absence of legally binding protections.

NEED FOR A CALIBRATED APPROACH

Under India's federal system, states are tasked with providing basic public services like infrastructure development, agriculture, health care, and education. There is a vertical fiscal imbalance as a result of states' limited ability to increase revenue in comparison to the federal government. The more profitable and buoyant taxes belong to the Center, even though the Constitution splits taxation authority between the Center and the states. This calls for a strong system for transferring funds from the federal government to the states through nationally sponsored programs, grants-in-aid, and tax devolution.

The primary authority in charge of suggesting how the federal government and the states should divide the net tax revenues is the Finance Commission, which is established every five years in accordance with Article 280 of the Constitution. In order to remedy both vertical and horizontal budgetary imbalances, it plays a critical role. Because states are given more spending authority than revenue-raising authority, a vertical imbalance results. The differences between states in terms of economic growth, tax capacity, and the cost of delivering public services are the root cause of horizontal imbalance. By employing objective criteria such as population, income distance, region, and demographic performance, the Finance Commission aims to close these disparities.

The need for states to get larger budgetary allocations has grown over time. This is a political and constitutional necessity in addition to a financial one. States are better equipped to create policies and carry out programs that are appropriate for their local environments when they have more resources. It improves democratic decentralization, encourages innovation, and encourages healthy rivalry among states. Because states are more directly liable to their constituents, more fiscal autonomy also guarantees greater accountability and efficiency in public spending.

However, a distorted version of federalism has frequently been the result of the central government's hegemony in financial affairs. A significant amount of central transfers take the form of nationally sponsored programs and tied grants, which limit states' ability to choose their own development goals. These programs frequently have strict rules and cost-sharing arrangements, which compel states to take on financial obligations they cannot handle or pull funds away from their own programs. Furthermore, states' financial strain is exacerbated and confidence in federal processes is damaged by delays in cash release, such those encountered in the GST compensation payments.

The goal of the NITI Aayog's replacement of the Planning Commission was to introduce a more collaborative and participatory method of planning and development. However, the Planning Commission's financial allocation authority is not available to NITI Aayog. In terms of giving governments direct financial help, particularly for long-term development projects, this has left a gap. States continue to demand further fiscal devolution in order to successfully address their particular difficulties, even though NITI Aayog plays a significant consultative and monitoring role.

Due mostly to the reorganization of Jammu and Kashmir, the 15th Finance Commission suggested that 41 percent of the divisible pool of

²⁵⁹ Fifteenth Finance Commission Report, at 45 (2020).

revenues be devolved to the states, a modest decrease from the 14th Finance Commission's recommendation of 42 percent. Although this action was applauded, worries remain over the states' overall declining fiscal space, particularly in light of rising central cess and levies that are not included in the divisible pool. This tendency weakens the spirit of fiscal federalism and decreases the amount of resources that can be shared.

For India's fiscal federalism to be strengthened, budgetary allocations to states must be increased in both quantity and quality. This means developing centrally funded initiatives, increasing the proportion of untied funds, and simplifying the fund distribution process.

Improving the amount and caliber of budgetary allotments to states is necessary to fortify fiscal federalism in India. This entails raising the percentage of untied funds, streamlining the fund distribution procedure, and enhancing the flexibility and consultativeness of centrally sponsored initiatives. In order to encourage progressive achievements and reflect shifting socioeconomic realities, the criteria for resource devolution must also be examined on a regular basis. Additionally, because they are on the front lines of governance, the third level of government, Panchayats and Urban Local Bodies, needs consistent and sufficient financial support.

JUDICIAL PRONOUNCEMENTS

The Supreme Court ruled in an early case that the Parliament could purchase state land for national use even if the State did not agree. The ruling reaffirmed the primacy of Parliament and the idea that India is an unbreakable union of unbreakable states rather than a conventional federation of independent entities. This interpretation confirmed the Constitution's unitary tilt and put the Center in a strong position²⁶⁰.

Kesavananda case²⁶¹ was a watershed moment in the history of Indian constitutional law, this case gave rise to the Basic Structure Doctrine, which declared that certain features of the Constitution, including federalism, cannot be amended even by a constitutional amendment. By including federalism within the basic structure, the judiciary placed a constitutional limit on centralization and emphasized the inviolability of the federal framework.

S.R. Bommai case²⁶² has changed the India's perception on federalism. It addressed the abuse of Article 356 that led to the arbitrary dismissal of multiple state administrations. The Supreme Court ruled that judicial review is applicable to the application of the President's Rule. The decision underlined the significance of democratic ideals and state autonomy while stating that federalism is a fundamental component of the Constitution. When the judiciary started actively defending the federal balance, it was a watershed moment.

In Rajendra N. Shah case²⁶³ provided for the constitutional status for cooperative societies, which fall under the State List. The Supreme Court held that certain provisions of the 97th Constitutional Amendment encroached upon the legislative domain of the States and were therefore unconstitutional to that extent. The decision reaffirmed the sanctity of the federal division of powers and the importance of state autonomy.

The constitutional validity of cooperative societies, which are listed on the State List, was investigated in this relatively recent ruling. According to the Supreme Court, the 97th Constitutional Amendment was invalid in part because it infringed on the States' legislative authority. The ruling upheld the value of state sovereignty and the integrity of the federal separation of powers.

²⁶¹ Kesavananda Bharati v. State of Kerala, (1973) 4 S.C.C. 225.

²⁶² S.R. Bommai v. Union of India, (1994) 3 S.C.R. 1

²⁶³ Rajendra N. Shah v. Union of India, (2021) 9 S.C.C. 1 (India).

²⁶⁰ State of West Bengal v. Union of India, (1963) 2 S.C.R. 279.

In Mohit Minerals case²⁶⁴ Fiscal federalism was significantly impacted. The Supreme Court decided that the GST Council's recommendations merely have persuasive power and are not legally binding on the federal government or the states. The decision placed a strong emphasis on cooperative federalism, in which states and the Union cooperate while maintaining legislative autonomy. It recognized the negotiated nature of fiscal federalism under the GST framework.

TRENDS AND THEMES IN THE JUDICIAL METHOD

Several themes in the judiciary's changing perspective on federalism can be seen in the aforementioned cases:

A. FROM CENTRALIZATION TO BALANCE

Prior rulings tended to favor the Center, but the court has defended state rights and autonomy more and more after Kesavananda and particularly after Bommai. Federalism as Basic Structure: The judiciary has established a normative buffer against over-centralization by classifying federalism as a component of the Constitution's basic structure.

Judicial Review as a Federal Safeguard:

The courts have continuously maintained their authority to examine abuses of central authority, especially when emergency provisions are in place. Cooperative Federalism: The judiciary has consistently urged that the various tiers of government work together rather than clash. Protection of Legislative Competence: The courts have been watchful in cases such as Rajendra Shah to prevent the Union from encroaching on State territory through legislation.

B. OBSTACLES AND REMARKS

Although the judiciary has played a progressive role, it has not always been reliable. Critics cite cases such as the Delhi governance case (Government of NCT of Delhi v. Union of India), in which protracted court battles resulted from unclear administrative power over Union

Territories. Furthermore, the judiciary has occasionally been charged with judicial overreach or excessive deference to the central authority in politically delicate cases.

Fiscal federalism is another point of dispute, particularly in the wake of the GST. Concerns about central domination in GST Council decisions and delayed payments have been voiced by states. Even though the Mohit Minerals ruling from the Supreme Court provides some relief, the Center continues to have a significant influence on the operating structure.

FEDERAL DISRUPTION AND EMERGENCY PROVISIONS

Articles 352, 356, and 360 allow the Center to supersede government plans during emergencies. The imposition of President's Rule under Article 356 has traditionally been misused for political ends, despite the Supreme Court's decision in S.R. Bommai case²⁶⁵. The Union has extensive control over state activities in times of financial and national crisis. Although they are intended for extraordinary situations, their discretionary nature might undermine federalism. Because there are no clear procedures or objective norms, arbitrariness can still occur despite the judiciary's efforts to curb this type of abuse. Financial and national crises give the Union broad authority over state affairs. Their discretionary nature can weaken federalism, even though they are meant for exceptional circumstances. The judiciary has made an effort to limit this kind of abuse, but arbitrariness is still possible because there are no objective standards or transparent procedures.

THE BASIC STRUCTURE DOCTRINE AND FEDERALISM

The federal balance has been preserved in large part by the court. Federalism was upheld in Kesavananda Bharati v. State of Kerala (1973) as an essential component of the Constitution that cannot be diluted. Subsequent

²⁶⁴ Union of India v. Mohit Minerals, (2022) 5 S.C.C. 321.

²⁶⁵ Supra note 13.

rulings, such as *State of West Bengal v. Union of India* (1963), upheld the Union's dominance in questions of national legislation.

Recent decisions, such as *Union of India v. Mohit Minerals*²⁶⁶ and *NCT of Delhi v. Union of India*²⁶⁷, have broadened the conversation around democratic accountability, budgetary autonomy, and cooperative governance. Enforcement is still an issue, though.

CURRENT DIFFICULTIES

POLITICIZATION OF THE GOVERNOR'S OFFICE:

Federal norms are undermined by partisan nominations and selective meddling in state matters.

FISCAL DEPENDENCY:

The state's inability to generate enough cash keeps it financially dependent on the federal government.

UNDERMINING OF INSTITUTIONS:

State Planning Boards are marginalized and the Inter-State Council meets infrequently, which makes it difficult to collaborate on policymaking.

LEGISLATIVE ENCROACHMENT:

Federal conflict arises when states are ignored on important issues (such as farm laws or educational reforms).

COMPARATIVE FEDERALISM

LESSONS FOR INDIA

It is instructive to examine how India's judiciary handles federalism in comparison to other federations. The Supreme Court of the United States has long served as a check on federal excess. The U.S. Supreme Court invalidated a federal legislation in cases such as *United States v. Lopez*²⁶⁸ because it went outside Congress's jurisdiction under the Commerce Clause. This indicates a more robust

judicial dedication to upholding the limits of state sovereignty.

On the other hand, Australia offers a cooperative federalism model that is fairly similar to India's developing paradigm. Intergovernmental discussion has been reinforced as the main means of resolving conflicts between the Commonwealth and the States in a number of budgetary and legislative disputes that have been mediated by the Australian High Court.

The Indian judiciary has adopted a moderate stance, occasionally upholding the fundamental principles of federalism as in *S.R. Bommai* and *Mohit Minerals* and other times yielding to national imperatives (as in *West Bengal v. Union of India*). India is unique because of its asymmetrical federalism, which gives various States and Union Territories differing levels of autonomy, frequently determined by political and historical factors.

THE JUDICIARY'S PART IN EMERGENCY PROVISIONS

Misuse of emergency laws, particularly Article 356, has historically been a major obstacle to Indian federalism. State autonomy was seriously compromised by the political abuse of President's Rule in the 1970s and 1980s. As demonstrated by R.C. Cooper and A.K. Gopalan, the judiciary was hesitant to become involved for a long period. But this course was altered by the historic *S.R. Bommai v. Union of India* case.

The Supreme Court established judicial review of Article 356 as a crucial check on administrative authority. It established precise standards for the legitimate application of the President's Rule, such as the requirement for floor tests and thorough justifications in proclamations. Since then, Article 356 has been used less frequently, and increased accountability and transparency have been made possible by the judiciary's intervention.

As seen in *Arunachal Pradesh* (2016) and *Uttarakhand* (2016), the courts have even recently become involved in cases involving the

²⁶⁶ Supra note 15.

²⁶⁷ *State (NCT of Delhi) v. Union of India*, (2018) 8 S.C.C. 501 (India).

²⁶⁸ *United States v. Lopez*, 514 U.S. 549 (1995).

removal or installation of governments. These examples support the notion that the judiciary upholds the integrity of federal democracy by acting as a conscience-keeper for the constitution.

CONTEMPORARY FEDERAL ISSUES AND THE JUDICIARY

Several contemporary issues have once again tested the judiciary's approach to federalism

Agricultural Laws and Legislative Competence (2020–2021): Because agriculture is on the State List, the now-repealed agricultural laws caused federal issues. There is still ambiguity in legislative federalism because the Supreme Court did not reach a firm decision on the competence problem, even though it halted their implementation.

The 2019 Jammu & Kashmir Reorganization and Article 370: Questions concerning federal asymmetry and state consent were highlighted by the repeal of Article 370 and the division of Jammu & Kashmir into Union Territories. The decision of the sub judice case could have long-term effects on the balance between the Center and the State.

Environmental and Land Regulation: Conflicts between federal laws and state interests are frequently present in the growing judicial scrutiny of land acquisition, forest rights, and environmental regulation (such as Coastal Regulation Zones).

Judicial rulings in each of these domains will influence how the constitution interprets federalism in the twenty-first century.

THE ROLE OF THE JUDICIARY IN PROMOTING COOPERATIVE FEDERALISM

The court is increasingly acting as a facilitator in cooperative federalism, despite its historical function as an arbiter in federal disputes. Courts can foster federal harmony rather than conflict by fostering communication, upholding the States' legislative authority, and guaranteeing constitutional conformity.

For example, in the contentious SYL canal case of *State of Punjab v. Union of India* (2004), the Court promoted political dialogue while simultaneously upholding agreements between the Center and the State. Similar to this, the judiciary has suggested cooperative solutions rather than imposing severe injunctions in GST-related instances.

This type of approach is crucial in a large, diversified nation like India where effective federal administration may not always be the outcome of tight enforcement. When it comes to promoting cooperation, the judiciary's soft authority may be more effective than hard adjudication.

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CONTEMPORARY ISSUES IN CENTRE-STATE RELATIONS

Growing conflicts between the Center and the States are reflected in a number of new challenges that have put strain on the Indian federal structure in recent years. Fiscal federalism is one such area of contention, especially with reference to the GST compensation system. States were promised compensation for five years to make up for revenue losses once the GST was introduced in 2017. States like Kerala, Punjab, and West Bengal, however, strongly objected to the Center's use of force majeure and delayed compensation payments during the COVID-19 pandemic. The dispute brought to light the fundamental asymmetry in the GST Council, where the Center has significant influence and frequently undermines the idea of equality across federal divisions.

The functions of governors in states that are not BJP-ruled are another contentious issue, where charges of partisanship have grown.

Governors in states including Tamil Nadu, Kerala, West Bengal, and Punjab have obstructed executive operations or postponed signing legislation enacted by state legislatures. The dispute between the Lieutenant Governor and the AAP-led Delhi government has often made it to the courts, exposing enduring uncertainties under Article 239AA, which regulates Delhi's unique status. Tensions still exist despite the Supreme Court's historic 2023 ruling, which upheld the elected government's supremacy in administrative matters—apart from public order, land, and police.

Concerns have also been raised by the centralization of policymaking in areas that have historically been the province of the States, such as agriculture, health, and education. States, especially those with unique linguistic and cultural identities, have criticized the National Education Policy (NEP) 2020's implementation without thorough consultation. In a similar vein, the now-repealed agriculture regulations, which were approved without sufficient State consultation, provoked national demonstrations and discussions regarding the boundaries of Parliament's legislative authority over State List topics.

Last but not least, constitutional concerns have been raised over the Center's unilateral authority over State restructuring in light of the repeal of Article 370 and the creation of two Union Territories out of Jammu and Kashmir without legislative approval. The conclusion of the judicial examination could reinterpret the Center's authority to change State institutions.

All of these problems point to a growing trend of centralization, which has prompted calls for a more cooperative and consultative approach to relations between the Center and the State. Maintaining the federal spirit of the Constitution depends on the judiciary's ability to decide these cases.

THE PATH AHEAD

ACHIEVING PURPOSEFUL COOPERATIVE FEDERALISM

1. Redesign Inter-State Platforms: The Inter-State Council ought to be established and given legal power to settle conflicts and promote agreement.
2. Codify the Governor's Role: The Punchhi Commission's²⁶⁹ recommendations regarding governor appointments and behavior ought to be followed.
3. Strengthen Fiscal Equity: Fiscal empowerment can be ensured through increased untied grants, timely GST compensation, and improved borrowing limitations for states.
4. Institutionalize Consultation: To ensure inclusive policy processes, state consultations should be required for legislation impacting state issues.

CONCLUSION

Despite its inherent resilience, Indian federalism is nonetheless vulnerable to budgetary centralization and political manipulation. A dynamic equilibrium that could adapt to exigencies, diversity, and developmental demands was envisioned in the constitutional design. Federalism must transcend legislative formalities and promote an atmosphere of mutual respect, communication, and cooperation between the central government and the states in order to realize this aim. Only then will India be able to achieve the cooperative model that its founders wanted to create.

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