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The Price of Persistent Federal Frictions

Syllabus: GS2/ Polity and Governance

In Context

- In recent years, the frequency and intensity of disputes between the Union government and the States have increased.

Federalism in India

- **Meaning:**
 - Federalism refers to a vertical division of power in a political system. It is a system in which power is divided between a central authority and other constituents.
 - For e.g. in India, political power is divided between the Central government, state governments and the institutions of local governance.
- **Features of a federal system:**
 - **Multiple levels of government:** Federalism, by its very definition, requires multiple levels of government functioning within their defined territory.
 - **Division of Power:** The power is divided by the division of subjects between the entities so that the chances of conflict are reduced to a minimum.
 - **Written Constitution:** It ensures there is clarity in the respective division of power. Again, a rigid constitution ensures that this division of power is not easily disturbed.
 - **Independent Judiciary:** It acts as a dispute resolution mechanism between the different levels of government.
- **Interdependence of state and Central Government:**
 - India consciously adopted a version of federalism that made the Union government and State governments interdependent on each other (latter more vis-a-vis the former).
 - Thereby violating the primal characteristic of a federal constitution i.e., autonomous spheres of authority for Union and State governments.
- **‘Holding together’ Federalism:**
 - India’s centralised federal structure was not marked by the process of ‘coming together’ but was an outcome of ‘holding together’ and ‘putting together’.
- **Indestructible & Flexibility:**

- B. R. Ambedkar called India's federation a Union as it was indestructible which is why the Constitution does not contain words related to federalism.
- He also said that India's Constitution holds requisite flexibility to be federal and unitary on a need basis.

Types of Federalism

- **Cooperative Federalism:**
 - It refers to the horizontal relationship between the entities in a federal structure.
 - Cooperative federalism refers to the cooperation between the two entities in pursuit of unified socio-economic development of the country.
- **Competitive Federalism:**
 - It refers to promoting healthy competition between the states to keep them motivated in pursuit of economic development.
 - The laggard states are expected to put in extra efforts to catch-up with the front-runners, while the front-runners are expected to work hard to retain their ranking in the indices.
- **Fiscal Federalism:**
 - It deals with the division of financial powers as well as the functions between multiple levels of the federal government.
 - It has within its ambit the **imposition of taxes** as well as the **division of different taxes** between the Centre and the constituent units.
 - Similarly, in the case of joint **collection of taxes**, an objective criterion is determined for the **fair division of funds** between the entities.
 - Usually, there is a constitutional authority (like **Finance Commission** in India) for the purpose **to ensure fairness** in the division.

About the increasing federal frictions

- **Dependence over public expenditure:**
 - Continuing economic reforms since 1991 has **led to the relaxation** of many controls on investments, giving some room to States.
 - But the autonomy **regarding public expenditure policies is not absolute** as State governments depend on the Centre for their revenue receipts.
 - This equation between the Centre and the States has given way to friction between them in recent days, leaving little room to negotiate.
- **Others:** Apart from issues around resource sharing, there are other areas that have emerged as sites of conflict. **These include:**
 - The homogenisation of social sector policies,
 - Functioning of regulatory institutions and
 - The powers of central agencies.
- **Increasing influence of centre:**
 - Ideally bulk of the policies in these spheres should be at the discretion of States, with an apex central body overseeing the process of resource allocation.
 - However, the apex bodies have often attempted to increase their influence and push States in directions that are amenable to the Centre.

Economic consequences of the federal frictions

- **Dilemma of investments:**
 - The spread of the Centre's span of activities leads to a situation where the **Centre starts crowding out the States** in terms of **investments**.
 - Consider a case 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.
 - This leads to **underinvestment by States**.
- **Concentrated spending:**
 - The centre's spending has become more concentrated within the three largest States of **Uttar Pradesh, Maharashtra and Gujarat**, accounting for **nearly half of the expenditure** by 16 States between 2021-22 and 2023-24.
 - **Data for 25 States** shows that a total of ₹7.49 lakh crore was budgeted for by these States but they spent only ₹5.71 lakh crore which is 76.2% of the total.
 - Investment by these States is important in terms of their impact on regional economies as they induce more local level linkages while national infrastructure projects forge more linkages with the global economy.
- **Little competition:**
 - In a scenario of friction 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.
- **Inefficiencies associated with 'parallel policies':**
 - Federal abrasions lead to either the Centre or the States duplicating the other's policies.
 - The emergence of 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.

Way ahead

- For securing the implementation of many of its laws and policies, the Centre depends on the States, particularly in the concurrent spheres.
- The States also entrust their executive functions, with the consent of the Centre, to the government or agencies of the Centre (Article 258A).

- Such interdependence is inevitable, especially in a large, diverse, developing society and needs to be preserved.

Daily Mains Question

[Q] What is the significance of Cooperative Federalism in India? Examine the Economic consequences of the increasing federal frictions.