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The Architecture of Indian Federalism: Central Authority, State Resistance and Democratic Accountability

M. Jeyabrabha

[1]Assistant Professor, Department of Political Science, Periyar Arts College, Cuddalore,, Affiliated with Annamalai University

*** Corresponding Author:**
M. Jeyabrabha
drjeyapolsc@gmail.com

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ABSTRACT

In this study attempt has been made to examines the distinctive model of Indian federalism, highlighting its deviation from classical federal structures such as those in the United States. It explores how the Indian Constitution constructs a "quasi-federal" system that prioritizes central authority over state autonomy, driven by historical, political, and administrative considerations. The study analyzes constitutional provisions—including Articles 3, 356, and 280—and their role in shaping legislative, administrative, and financial relations between the Union and the states. It discusses the dual dimensions of federalism: constitutional federalism rooted in legal provisions, and political federalism shaped by electoral dynamics and intergovernmental institutions such as the Inter-State Council and the GST Council. Special focus is given to fiscal centralization, the misuse of emergency provisions, and rising regional assertions. The article argues that while cooperative mechanisms exist, true federal balance depends on political maturity, respect for regional identities, and institutional accountability. The study offers a nuanced understanding of federal dynamics within India's complex democratic framework.

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INTRODUCTION

The federal design of the Indian Constitution does not fit within the classical understanding of federalism as practised in countries such as the United States. India's model departs from a strict division of powers among co-equal units and constructs a quasi-federal structure where the Union holds decisive control over legislative, administrative, and financial domains. This model is not accidental. It arises from historical conditions, political concerns at the time of independence, and a deliberate constitutional choice to prioritise national unity and administrative coherence over rigid provincial autonomy. The term "quasi-federal" was first used by the Supreme Court in State of West Bengal v. Union of India (1963) to describe India as a system where federal and unitary features co-exist, but where the balance tilts in favour of the Union. The Constitution distributes powers through the Seventh Schedule, which contains three lists—Union, State, and Concurrent (Singh, 2018). The Union List contains subjects such as defence, foreign affairs, atomic energy, and currency—areas where exclusive legislative competence rests with Parliament (Elangovan, 2014). The State List is confined to areas like police, public order, and agriculture. Even in areas assigned to the States, the Union retains overriding authority through constitutional mechanisms (Sahoo & Pattanaik, 2015).

The Strong Centre model is structurally embedded in several provisions. Article 249 allows Parliament to legislate on matters in the State List if the Rajya Sabha declares that it is necessary in the national interest. Article 356 authorises the President to impose President's Rule in states where constitutional machinery has failed, effectively transferring state executive and legislative powers to the Union. This provision has been frequently invoked, often on contentious grounds, raising concerns over its political misuse. The S.R. Bommai v. Union of India (1994) judgment imposed judicial restrictions on the arbitrary use of Article 356, but the underlying power remains with the Centre (Rajwade, 2017).

The appointment of Governors under Article 155, and their discretionary powers under Article 163, further consolidate Union influence. Governors are centrally appointed but placed at the head of state administrations. Their role in reserving bills for presidential assent, withholding consent to legislative proposals, and recommending emergency measures has often placed them at odds with elected state governments. In cases such as the political crisis in Arunachal Pradesh (2016), questions arose regarding the neutrality of the Governor and the legitimacy of their actions under Article 356 (Elangovan, 2014).

Financial arrangements also reflect central dominance. Article 268 to 293 deal with the distribution of revenue between the Union and states. While the states have been assigned taxation powers, most productive sources—such as customs, income tax, and excise—are controlled by the Centre. The Finance Commission, constituted under Article 280, determines the distribution of taxes and grants-in-aid. Although intended as a neutral mechanism, its recommendations often become points of contestation, especially in contexts where political alignments differ between the Centre and states (Rajwade, 2017).

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The distinction between constitutional federalism and political federalism further clarifies the nature of India's Union structure. Constitutional federalism refers to the formal allocation of powers in the Constitution. In this model, the legal framework is tilted towards centralisation. Emergency provisions, residuary powers under Article 248, and the ability to reorganise states under Article 3 without requiring the consent of the concerned state, all reinforce the hierarchical character of federalism in India (Singh, 2018).

In contrast, political federalism operates through democratic processes and electoral mandates. When different political parties control the Centre and the states, political bargaining, intergovernmental consultation, and institutional negotiations influence decision-making (Sahoo & Pattanaik, 2015). The rise of coalition politics in the 1990s introduced new forms of federal assertion. Regional parties began to influence national policies, shape coalition terms, and resist unilateral decisions. Institutions like the Inter-State Council, established under Article 263, and the Goods and Services Tax (GST) Council, created through the 101st Amendment, are examples of mechanisms where both Union and states share decision-making authority. These bodies, though consultative in character, allow political federalism to assert itself within a centralised constitutional structure (Rajwade, 2017).

However, when the same political party controls both the Union and most states, the space for negotiated federalism tends to contract. The absence of strong regional opposition often results in central decisions being enforced without contestation. In recent years, disputes over matters such as agricultural laws, language policy, and distribution of disaster relief have raised concerns over the erosion of cooperative federalism, especially when dissenting state voices are marginalised through administrative or financial pressures (Elangovan, 2014).

India's federal structure cannot be understood in purely legal terms. It functions within a dynamic relationship between constitutional arrangements and political realities. The Constitution gives the Centre a dominant role, but federalism survives through political negotiation, institutional resilience, and democratic accountability (Singh, 2018). The federal principle in India operates less as a rigid division of sovereignty and more as a mechanism for balancing unity and diversity within a large and heterogeneous polity.

Distribution of Powers

The Indian federal system relies on a carefully designed distribution of legislative powers between the Union and the states. The allocation of subjects into Union, State, and Concurrent Lists, as laid out in the Seventh Schedule of the Constitution, forms the structural basis for legislative authority. This scheme does not produce symmetry between levels of government. Instead, it privileges central control, reflecting the historical context in which the Constitution was drafted.

The Union List, enumerated in List I of the Seventh Schedule, contains subjects over which Parliament exercises exclusive jurisdiction (Rajwade, 2017). These include areas of national importance such as defence, foreign affairs, atomic energy, banking, and currency. The breadth and strategic nature of the Union List position the Centre as the principal law-making

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authority on matters deemed essential for national sovereignty and economic stability (Sahoo & Pattanaik, 2015).

List II, sometimes called the State List, is about things that are important to the area or region. It covers things like public order, the police, public health, agriculture, and local governance. States have full power over these areas unless the Constitution says otherwise. But such exclusivity is not permanent. Articles 249 and 250 allow Parliament to make laws on State List matters only when the Rajya Sabha approves a resolution saying it is in the national interest or when there is a proclaimed emergency. These rules make it easier for states to work together and make it harder for the federal government to protect state power (Elangovan, 2014). The Concurrent List, often known as List III, has topics that both the Parliament and state legislatures may make laws over. Some examples include marriage and divorce, education, adoption, forestry, and criminal law. Article 254 says that if both the Union and a state make laws on the same topic and there is a disagreement, the Union legislation wins unless the state law has been approved by the president. This structure permits collaborative governance while prioritising Union primacy in instances of interpretative disagreement (Singh, 2018). Article 248 gives the federal government more authority by giving it the residuary powers. In India, the Union has residuary powers, which is different from previous federal systems like the United States, where the states have these powers. Parliament may establish legislation about things that aren't on any of the three lists. The rationale for this design is predicated on the need to adapt to future changes, especially in domains like as technology and economic regulation, which may not have been anticipated during the Constitution's formulation. In Union of India v. H.S. Dhillon (1972), the Supreme Court confirmed this concept by saying that Parliament might make laws for things that weren't specifically included in the Union List.

When two jurisdictions or claims are in disagreement, there has to be a way to settle the dispute. The Constitution gives us both institutional and procedural ways to deal with these kinds of problems. Article 131 gives the Supreme Court the power to settle disputes between the Union and the states. This article gives the Court original jurisdiction, which means it may hear matters that deal with issues of legal competence and constitutional interpretation. For instance, in the case of State of Rajasthan v. Union of India (1977), the Court made a decision on how far parliament might go in firing state governments, which made it clear how far the federal government could go (Sahoo & Pattanaik, 2015).

The Inter-State Council, which was set up under Article 263, is meant to do more than only settle conflicts. It is also meant to encourage cooperation and settle problems between governments via conversation and deliberation. Although underutilised, its presence signifies an acknowledgement that not all issues need judicial resolution; some may be resolved via collaborative federal methods. The States Reorganisation Act of 1956 set up Zonal Councils, which do a similar job, particularly when it comes to border concerns, moving between states, and managing the economy (Rajwade, 2017). In places where both the state and federal governments have the same power, political coordination is needed to minimise duplication and policy disagreement. The 101st Constitutional Amendment created the Goods and Services

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Tax (GST) Council, which is an example of cooperative federalism in action. It has members from both the Centre and the states, and it provides suggestions for tax rates and structures. Even though decisions need three-fourths of the votes, the Union has one-third of the votes, which gives it the right to veto. This shows the larger trend of central predominance that is even present in groups that work together (Singh, 2018).

Even while the Constitution provides for a separation of powers, in fact, the central government typically has more authority than the states. National programs like Ayushman Bharat, NEP 2020, and changes to agriculture have had an effect on State List issues without enough input from the states. Tensions develop when policy decisions reflect consistent national goals but overlook regional variation or administrative capabilities. Conflicts over water allocation, language policies, and reserve quotas often reveal the constraints of legislative federalism and the need for institutional discussion. India's federal system, although officially allowing decentralisation, operates under a constitutional framework that emphasises unity and central power. The legislative lists, residual powers, and dispute resolution processes operate within a framework intended to harmonise variety with unity. The Union still has the last say, but how well the federal government works relies on how people in institutions use, interpret, and negotiate these powers in real life.

Relations Between Governments

For a federal system to work, it needs more than just a constitution that clearly divides powers. It also needs ways to handle interactions between different levels of government. In India, where the Constitution gives the Union a lot of power over the states, it is very important to have institutional structures for communication and coordination. These institutions don't work against central authority; instead, they provide a location for collaboration, dispute resolution, and policy harmonisation to happen (Sahoo & Pattanaik, 2015). The Inter-State Council and the Zonal Councils are two of the most important tools for encouraging organised debate. The rules that regulate the financial relationship between the Centre and the states are just as significant. They determine how much autonomy the states really have (Elangovan, 2014). The Constitution's Article 263 says that the Inter-State Council should look into and provide advice on conflicts between states, talk about things that are important to all states, and suggest ways to better coordinate policies and administrative processes. The provision is optional, but the Council was eventually set up in 1990 by a Presidential decree. The Prime Minister is the Chairperson, and there are also Union Ministers and Chief Ministers from all states and Union Territories that have legislatures (Rajwade, 2017). This arrangement shows that there is an attempt to provide a place where political leaders from both levels may talk directly about policy matters that affect both levels of government (Singh, 2018).

The Council has had a limited effect, even though it has a wide range of responsibilities. It hasn't convened often, and its suggestions aren't legally binding. But don't underestimate its potential. Structured and ongoing communication is needed to deal with problems like water conflicts, coordinating internal security, and making sure that development policy is the same across the board. For instance, the disagreements between Tamil Nadu and Karnataka over

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sharing rivers or the problems with irrigation in Punjab and Haryana show that we need a place where people can talk things out and come to an agreement instead of going to court. The Inter-State Council is one of the few organisations that may do this job according to the Constitution, however it is not used very often. The Zonal Councils, which were set up by the States Reorganisation Act of 1956, also work as advisory organisations to encourage collaboration across regions. The Union Home Minister is in charge of each council, which is made up of Chief Ministers and Governors from different states. Zonal Councils, on the other hand, are focused on specific regions and deal with things like inter-state migration, border conflicts, economic planning, and keeping the peace. For example, the North-Eastern Zonal Council has been utilised a lot to deal with cross-border insurgencies and plan counter-terrorism measures among governments that share international borders (Sahoo & Pattanaik, 2015).

Zonal Councils let people from different regions work together to solve problems without needing the Union to step in on each one. This may be quite useful in a nation with a lot of different people, where states in the same area may have comparable problems with administration and growth. But, like the Inter-State Council, these groups don't have the power of law to make their suggestions happen. Their efficacy relies on political will and institutional dedication rather than legal obligation. We need to look at how well each of these institutions work in light of the financial relationship between the Centre and the States, which determines how much money states have to carry out policy. The Constitution does provide for a federal distribution of resources under Articles 268 to 275, but the vertical imbalance in fiscal authorities is still quite large. The Union has jurisdiction over most of the taxes that bring in a lot of money, such income tax, business tax, and customs charges. States, on the other hand, depend on taxes that are less broad, including property tax and excise tax on alcohol.

Every five years, the Finance Commission is set up under Article 280. Its job is to suggest how taxes should be divided between the Union and the states and to decide on grants-in-aid. People frequently agree with its suggestions, but they are not required to follow them. People frequently disagree about the formulas utilised, specifically the weight given to population versus performance measures. States with lower birth rates or greater per capita earnings frequently don't like formulas that reward population growth instead of good administration (Rajwade, 2017). The 101st Constitutional Amendment included the Goods and Services Tax (GST), which made financial power even more concentrated. The Union has one-third of the votes on the GST Council, which was set up to make sure that everyone has a say in decisions. This means that the Union has frequently had a say in establishing rates and distributing income. In subsequent years, the promise of complete reimbursement for losses caused by GST was not entirely delivered, which many states unhappy. During the COVID-19 epidemic, delays in paying GST compensation made people trust the government less and made them think that the government was in charge of the economy (Sahoo & Pattanaik, 2015).

The issue extends beyond tax distribution. The Union has a lot of power on state priorities because of grants and centrally supported programs. Even though these kinds of programs frequently deal with things on the State List, including health and education, they

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come with rules that states must follow that are set by the central government. This limits the options that states have for policy and changes the character of federalism from working together to following rules. When you look at all of India's institutional systems for interstate interactions, they show an uneven dynamic (Singh, 2018). On paper, groups like the Inter-State Council and Zonal Councils are meant to make it easier for the federal government to talk to each other. However, their limited jurisdiction, inconsistent operation, and lack of enforcement capability limit their power in reality. This mismatch is made worse by financial dependence, as the Union controls most sources of income and uses subsidies and programs to set conditions (Rajwade, 2017). These forums need to become active places for making policy, not just places for people to talk about it, if federalism is going to work as a cooperative system instead of a hierarchical one. Political decentralisation has to go together with flexibility in finances and administration. Otherwise, nominal autonomy will continue to be subjugated to economic reliance and institutional inertia.

Challenges to Federalism

The provision for President's Rule under Article 356 of the Indian Constitution introduces one of the most contentious features of Indian federalism. The article permits the President to assume the functions of a state government when "the Government of the State cannot be carried on in accordance with the provisions of the Constitution." Although framed as a safeguard against constitutional breakdown, its practical application has revealed a pattern of overreach that raises structural questions about the federal balance between the Union and the states.

The drafters of the Constitution borrowed Article 356 from Section 93 of the Government of India Act, 1935, but with significant hesitation. During the Constituent Assembly Debates, members such as H.V. Kamath and K.T. Shah expressed concern that such a provision could become a tool for political control. Their apprehensions were not theoretical. In the decades following independence, Article 356 became a method through which the ruling party at the Centre often removed elected state governments on grounds that were legally tenuous or politically motivated (Elangovan, 2014).

Between 1950 and 1994, Article 356 was used over ninety times. The pattern of its invocation often coincided with changes in political alignments at the Union level. For instance, after the Congress party lost power in several states in 1967, President's Rule was imposed in many of them under the pretext of administrative breakdown (Sahoo & Pattanaik, 2015). Similarly, in 1977, following the Janata Party's victory at the Centre, nine Congress-ruled states were placed under President's Rule. These instances suggest that the provision, though legally grounded, has often been used to bypass democratic outcomes. he constitutional threshold for invoking Article 356 remains vague (Rajwade, 2017). The phrase "failure of constitutional machinery" lacks precise definition, giving the Union executive considerable discretion. Although the President acts on the advice of the Council of Ministers, the absence of objective legal standards has facilitated misuse. The judiciary, for many years, adopted a deferential stance. In State of Rajasthan v. Union of India (1977), the Supreme Court upheld the use of

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Article 356 on the ground that the President's satisfaction was not justiciable. This ruling effectively shielded the executive from judicial scrutiny, leaving state governments vulnerable to partisan intervention (Singh, 2018).

The momentous decision in S.R. Bommai v. Union of India (1994) marked a turning point. The Supreme Court said that the announcement of President's Rule may be reviewed by the courts. The Court said that the President's satisfaction had to be based on objective evidence, and that if it was based on bad faith or irrelevant reasons, the proclamation would be unlawful. The important thing is that the judgement put in place protections including floor tests, parliamentary approval, and a limited time period until reapproved. This ruling made the use of Article 356 more orderly and stopped state governments from being removed at random.

Even while the courts are being careful, politicians are nonetheless using Article 356 in ways that make federalism harder. The Union government fired the elected administrations of Arunachal Pradesh (2016) and Uttarakhand (2016) because they weren't working properly. In both occasions, the courts stepped in to bring back the state assemblies. This showed that the Governor or the Centre should not be able to dictate what the legislative majority is. The Governor's job of suggesting President's Rule makes the federal system even more complicated. The President chooses the Governor, who is usually on the same side as the dominant party in the Centre. The Governor is in charge of state constitutionalism. However, numerous times, people have said that the Governor's reports aren't fair. The Sarkaria Commission (1988) and the Punchhi Commission (2010) both suggested rules for Governors to follow so that they may do their jobs fairly, although these rules have not been followed by everyone. The lack of ways to hold the Governor accountable makes the imbalance under Article 356 much worse (Sahoo & Pattanaik, 2015).

The clause also has an effect on the continuation of democracy. When President's Rule is in effect, the elected government is put on hold, Parliament gets the right to make laws, and the Union gets the power to carry out laws (Sahoo & Pattanaik, 2015). The disruption it creates to representative institutions is significant, even if it was meant to be a temporary fix. It makes it such that state policy is set by central authorities who don't have to worry about being elected in that state. This goes against the idea that federalism should be based on democratic decentralisation. To maintain equilibrium between essential intervention and political exploitation, the use of Article 356 must be restricted to extraordinary situations. The legal criteria set out in Bommai must be strictly adhered to. Governors' reports must be based on facts that can be checked, not guesses or political calculations. The only way to find out whether the majority supports something is via floor testing. Above all, the Union must show prudence and remember that short-term electoral advantages can't make up for long-term damage to federal values (Singh, 2018). Federalism in India is not just a matter of written rules; it must also work through respect for institutions and political maturity. Article 356 is still needed in the Constitution, but it has to be watched carefully so it doesn't become a tool for central control. The Indian federal system is technically organised by a constitutional separation of powers, yet it works in a setting where many identities overlap and interact. Regionalism and

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identity politics arise not as anomalies but as manifestations of political assertion grounded on linguistic, cultural, ethnic, and economic disparities. These dynamics provide structural obstacles to federal unity, especially when regional interests clash with national strategy, undermine the authority of central institutions, or oppose standardised administrative arrangements (Rajwade, 2017).

The development of Indian federalism has been characterised by persistent declarations of regional identity. The 1956 linguistic restructuring of states was a direct result of regional mobilisation. The demand for the formation of Andhra Pradesh from the Telugu-speaking regions of the Madras Presidency, which resulted in the death of Potti Sriramulu during a hunger strike, compelled the Union to relinquish its previous hesitance. The States Reorganisation Act recognised the need of aligning state borders with linguistic and cultural characteristics, therefore integrating regional recognition into the federal framework. But creating linguistic states didn't end regionalism; it made it a part of the system. Regionalism often expresses itself via requests for more autonomy. In Tamil Nadu, the Dravida movement once wanted to break away from India, but then it changed into a platform for strong regional self-government. The DMK and AIADMK are two of the most powerful regional parties in Tamil Nadu. This shows that people in Tamil Nadu are still against what they see as central control over things like education, language policy, and how money is distributed. The Anandpur Sahib Resolution of 1973 in Punjab also advocated for changing the way the Centre and the states work together so that the states have more authority over their own affairs. The paper showed underlying complaints about autonomy, identity, and resource allocation, even if it wasn't fully acted on (Sahoo & Pattanaik, 2015).

These migrations are not just motivated by emotional ties to region or culture. Economic differences between governments may lead to regional mobilisation. States that feel that they aren't getting their fair share of resources or infrastructure investment rally political support behind regional identity (Elangovan, 2014). The desire for a separate Vidarbha in Maharashtra or Telangana in Andhra Pradesh was supported in part by the fact that the government was not paying enough attention to the area and was not giving it enough power. Telangana became a state in 2014, but many areas still argue about fair taxes, sharing water, and running the government well. Resistance to perceived cultural absorption may also help people build their regional identity. North-eastern states like Nagaland, Manipur, and Mizoram have seen long-lasting movements based on ethnic differences and worries about changes in the population. The constitutional reaction has included Article 371's unique provisions, Sixth Schedule autonomy for tribal regions, and federal arrangements that aren't the same for everyone. These steps are meant to bring together areas with different cultural and historical paths without pushing everyone to be the same. But there are still problems with citizenship rules, military presence, and resource management that show that nominal autonomy hasn't totally fixed underlying structural issues (Rajwade, 2017).

The triumph of regional parties in elections changes federal politics even more. Regional parties, on the other hand, are based on ethnic, linguistic, or sub-national identities

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and represent local concerns. National parties, on the other hand, tend to push for the same policies across the board (Singh, 2018). Their presence in coalition administrations, notably from 1996 to 2014, changed the balance of power such that states had to be consulted more. But when regional parties aren't allowed to help make decisions for the Union, or when centrally enforced policies damage state jurisdictions without enough discussion, conflict comes back (Sahoo & Pattanaik, 2015). Language, education, and citizenship are some of the policy areas that commonly cause conflict between regional identity and national goals. For example, southern states, notably Tamil Nadu, have been against the development of Hindi as a national language for a long time. States that want to protect their regional heritage or linguistic diversity have fought against education changes that are seen as encouraging standard curriculum. The Citizenship Amendment Act (2019) faced significant resistance in certain northeastern states, where identity politics is intricately linked to ethnic demographics and historical migratory trends. These examples show how weak federal consensus may be when people feel that their identity claims are being ignored.

Even with these difficulties, regionalism doesn't necessarily hurt national unity. In many circumstances, it makes democratic involvement stronger by letting local goals be met via constitutional methods. The Constitution lets governments be flexible by allowing things like Article 3, which lets new states be formed, and Article 371, which lets special rules be made. The Union can meet regional needs without using force thanks to these instruments. But for them to work, politicians need to be involved in a timely manner and respect the needs of the area, not just follow the law. Identity politics poses a challenge to federalism alone when exclusionary assertions try to delegitimise other groups, provoke violence, or repudiate constitutional authority. When regional needs are expressed using the language of common constitutional values—dignity, equality, and representation—they may enhance the federal system. However, when identification serves as a conduit for discrimination, sectarianism, or separatist discourse, it undermines the stability of the system (Elangovan, 2014).

The difficulty with Indian federalism is not the presence of regional identities, but rather the ability of institutions to integrate them without undermining collective unity (Sahoo & Pattanaik, 2015). The Constitution offers mechanisms for this accommodation; but, political actors must practise moderation, participate in discourse, and refrain from the exploitation of identity for transient electoral gain. If there isn't this kind of discipline, federalism might turn into a fight for clashing loyalties instead of a way for different levels of government to work together (Singh, 2018). The introduction of the Goods and Services Tax (GST) in 2017 was a major change in India's tax system (Rajwade, 2017). It got rid of a complicated system of indirect taxes and replaced it with a single system that was meant to make compliance easier and establish a single economic market. The GST system has made tax collection more logical, but it has also prompted worries about the undermining of fiscal federalism. The change in who has the power to tax, who depends on income, and how institutions are set up has changed the balance between the Union and the states. This has raised problems about autonomy, negotiation, and accountability in India's federal system.

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Before GST, states could only tax items at the point of sale. The Union taxed services and manufactured goods via customs, excise, and service tax. The Constitution (One Hundred and First Amendment) Act, 2016, introduced a new system that combined most of these taxes into one. The official reasons for this were consistency, openness, and efficiency. However, putting tax authority in one place meant that federal principles had to be rethought. States consented to relinquish a significant portion of their indirect tax sovereignty in return for guaranteed reimbursement and collaborative decision-making via the GST Council. The Union Finance Minister is the Chairperson of the GST Council, which is made up of state finance ministers. To make a decision, three-fourths of the votes must be in favour, and the Union must have one-third of the votes (Elangovan, 2014). Even though unanimity has been the norm, the Union has effective veto power because of the structural asymmetry in voting power (Sahoo & Pattanaik, 2015). This changes how the federal government negotiates. While states have a say in decisions, the Centre still has the most power. Fiscal autonomy is made further harder by reliance on revenue. The GST (Compensation to States) Act of 2017 set up a way for states to be paid for any deficit in GST income for five years, starting with 2015–16 and assuming a 14% growth rate (Singh, 2018). This formula was meant to protect state income throughout the changeover. But the Union's delay in giving out compensation amid the economic downturn of 2019–20 and the pandemic made things worse. Instead of getting direct payments, states were requested to borrow money from the market or from a special Reserve Bank of India facility. Even though states lost their capacity to tax, this change put the financial pressure on them. The GST system also makes it harder for governments to change tax rates based on what their regions require. States used to use indirect taxes as a flexible way to support local businesses or keep track of their money. States can't adjust rates or make exclusions on their own under GST. Uniformity throughout the nation limits the ability to attempt new things in the economy in different areas. For example, agricultural states that want to exclude certain farm-related commodities or states that rely heavily on tourism and want to cut taxes on hospitality cannot do so without Council agreement.

GST has more effects on vertical fiscal imbalance. The Constitution already gives the Union control over high-yield revenue streams including income tax, customs charges, and corporation tax. States depend a lot on payments from the Finance Commission and Centrally Sponsored Schemes (Sahoo & Pattanaik, 2015). States have less freedom to plan and carry out their plans since GST takes up about 60% of state-level indirect taxes and its money is allocated according to a formula. When states don't have the money to carry out their own development plans, the notion of cooperative fiscal federalism becomes harder to keep going (Elangovan, 2014). Smaller states and Union Territories have more problems than they should. Their economies are small, thus they rely nearly solely on GST income and compensation. Any delay or shortage makes it harder for them to pay wages, keep important services running, or put money into infrastructure. For instance, Himachal Pradesh and Goa have openly said that they are worried about not being able to satisfy their financial responsibilities without monthly pay.

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CONCLUSION

Legal challenges have also emerged. In Union of India v. Mohit Minerals Pvt Ltd (2022), the Supreme Court ruled that the GST Council's decisions are not binding and that Parliament and state legislatures retain their legislative competence under Article 246A. The judgment affirms that cooperative federalism under GST is a political mechanism, not a legal mandate. This has reaffirmed the legislative autonomy of states but also exposed the fragility of the consensus model. GST, as an institutional experiment, reflects both the potential and the limitations of India's federal design. It requires states to act collectively on fiscal matters without equal weight in decision-making. It demands compliance with uniform tax rates while restricting revenue autonomy. It promises compensation but delivers it conditionally and inconsistently. These contradictions undermine the constitutional ideal that states must possess meaningful financial autonomy to function as genuine units of governance. Unless corrective mechanisms are adopted—such as a transparent compensation formula, equitable revenue-sharing, and greater voting parity in the GST Council—the structure risks deepening fiscal dependency and political alienation. The success of fiscal federalism rests not only on institutional coordination but on genuine respect for state capacity and autonomy within a shared constitutional framework.

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