

# Centre-State relations in India: A Mixed Bag

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## 1. Introduction and Background

This paper examines the changes that took place in the centre-state relationship ever since India gained independence while flagging up some of the important challenges to the same in the imminent future. The paper also highlights some of the important events pertaining to federalism.

Immediately after independence in 1947, the key challenges for India's political leadership was to ensure that fissiparous tendencies were kept at bay, make certain that the autonomy of state governments was not impinged on in any manner, and keep the religious, ethnic, linguistic diversity intact. Chairman of the Drafting Committee BR Ambedkar (1948) clearly stated during a Constituent Assembly Debate that:

“All Federal Systems including the American are placed in a tight mould of Federalism. No matter what the circumstances, it cannot change its form and shape. It can never be unitary. On the other hand the Draft Constitution can be both unitary as well as federal according to the requirements of time and circumstances. In normal times, it is framed to work as federal system. But in times of war it is so designed as to make it work though it was a unitary system. Once the President issues a proclamation which he is authorized to do under the provisions of Article 275 the whole scene can be transformed and the state becomes a unitary state.”

There are three lists in Article 246, which define the legislative authority of parliament as well as the state legislatures. List 1 of Schedule 7 has been defined as the Union List, List 2 of Schedule 7 has been called State List, and List 3 of Schedule 7 has been called the Concurrent List. While parliament had the power to legislate on matters in the Union List, state legislatures could do so on matters listed in the state list, and both central and state legislatures could legislate on matters coming under the Concurrent List (Austin 1966).

There are 100 items in the Union List, 61 in the State List and 52 in the Concurrent List. Important items in the Union List are foreign affairs, finance, defence, banking, shipping, mineral and oil resources. Some of the important items in the state list are health, law and order, and police. Education is part of the Concurrent List. This distribution of powers was a continuation of the Government of India Act (1935), which had also divided powers between the three.

There are opposing views with regard to how India's centre actually dealt with this onerous responsibility. Some scholars argue that India is 'federal' only on paper, but in

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reality, most of the important powers are concentrated in the hands of the central government. Article 254 gives the authority to parliament to overrule state legislatures in case there is a disagreement between the two on any matter (Dash 2004).

There are others, who argue that the Indian Constitution has characteristics of both a unitary as well as federal system.

“On the one hand, the provision of legislative bodies in different states makes it a federal constitution; on the other through a number of legislative and executive powers that the Constitution bestows upon the Central Government, relating to both command over resources and exercise of political power, its unitary character is too prominent” (Gosh & Gupta 2009,p.188).”

If one were to look at centre-state relations right until the 1980s, the views of those believing that India is more unitary than federal may not be totally wrong. While during the Nehruvian period there were strains between the centre and the states, the level of acrimony increased in the post- Nehruvian period due to the changes that took place within the Congress Party. These changes included the marginalization of regional leaders in the party.

It is argued that ‘the Congress shifted from being a dominant party to an almost hegemonic party’ (Ray 1988, p.1132). In 1967 elections, though the Congress had been defeated in a number of states (9). The grievances of such states vis-à-vis New Delhi were ignored. States ruled by Congress also put forth their concerns but the centre tended to ignore them (Aalam 2013).

Over the past two decades, however, India has been witness to a changing relationship between New Delhi and the states. This has been attributed to a myriad of factors: the end of single-party rule, rise of coalition politics, increasing influence of regional parties as a consequence of the same, and last but not least, the state governments have become key contributors to India’s growth story, especially in the post liberalization era.

The current phase is especially interesting because it is only for the second time that a Chief Minister of a state has risen to the position of Prime Minister. It is all the more significant because Mr. Modi has often spoken about the need of giving greater leeway to states, especially in the economic realm and also making them genuine stakeholders in foreign policy, where necessary.

One of the steps which Modi has already taken — the abolition of the Planning Commission — and has replaced it with a 5-member think-tank which has been renamed the ‘Niti Aayog’ (National Institution for Transforming India) (The Hindu, January 2, 2015). This new body will be headed by the Prime Minister, Chief Ministers, and Lieutenant Governors of states will be on its governing council. Prominent economist, Arvind Panagriya, has been appointed as Vice Chairman. (The Indian Express, January 5, 2015)

PM Narendra Modi in his speech on Independence Day stated, 'We will replace the Planning Commission with a new institution having a new design and structure, a new body, a new soul, new thinking' (The Hindu, August 20, 2014).

Some argue that this step will strengthen federalism and further empower the states. As Chief Minister and the Prime Minister had opposed the Organization, arguing that it had lost its relevance.

In addition to granting greater autonomy to the states, it is also believed that the new body will be in a better position to deal with a market-economy approach toward which India has been veering as opposed to the socialist model adopted at the time of independence.

## **2. Political reasons for the changing nature of centre-state relations**

The first reason for a change in New Delhi's ties can be attributed to the move from a one-party system in the 1980s to a coalition era. For long, it was believed that Congress domination at the centre resulted in trampling of genuine federal rights. The personality of Jawahar Lal Nehru, the first Indian prime minister, favoured a strong centre as a result of the numerous challenges which the country faced immediately after independence, including building a homogeneous nation state.

If the argument that India was more unitary than parliamentary in the initial years after independence may be true, it would be fair to say that attempts were made to ensure good relations between New Delhi and the states. Yet India's first prime minister did share good relations with the then chief ministers and maintained regular communication with most of them. The fact that he shared a good rapport with many of the chief ministers at that time also helped them in maintaining a degree of autonomy. With regard to Nehru's frequent communication with his chief ministers on matters of national interest, it has been stated that:

He took the chief ministers (all of whom, with rare exceptions, were members of the Indian National Congress (INC), the party of which he was for part of this period the President and, of all this period, leader of the parliamentary party) seriously enough to write to each of them every month in an effort to keep them informed of the state of the nation and the world, and to solicit their opinion in an attempt to build a national consensus (Kumar 2014, p. 31).

In the context of strong rapport, which Nehru shared with regional leaders, it has also been argued:

"Jawahar Lal Nehru employed a leadership style that both as Prime Minister of the government and President of the Congress Party, relied heavily on the consensual support of regional leaders. Nehru and Kamaraj (Tamil Nadu) related to each other in ways that prevented centre-periphery relations from being a zero-sum game. As a major party regional boss, Kamaraj had political

resources at the center. Indeed, Kamaraj became one of the five members of the group called the “Syndicate” that co-ruled the congress party with Nehru (Stepan et al. 2011, p.124)

Most importantly, institutions like the Planning Commission, which has recently been replaced by the NITI Aayog and the National Development Council (NDC) were supposed to be the institutions where the centre and states can discuss issues pertaining to the five year plans. While The NDC was set up in 1952, the Planning Commission, which was responsible for allocation of funds for welfare programmes, came into being in 1950.

Interestingly, within the Congress there was opposition to excessive centralization. Some of the leading voices which spoke against this were C Rajagopalachari, who later on founded the Swatantra Party. Certain chief ministers like BC Roy of Bengal often complained about states not having enough of a role in economic development of the country (Ray 1988, p. 1132).

### 3. The Post-Nehru Phase

The rise of regional parties resulted in the rise of strong regional satraps from a number of states, who began to assert themselves on the national stage. The strong regional leadership began to rise within two decades after the independence, so the 1967 elections witnessed the formation of a number of non-Congress regimes. The victory of Janata Party also raised hopes of reforms, which would re-define centre-state relations. The government, which included amongst other regional parties, proved to be a disappointment.

“...nothing positive and concrete in the way of mitigating imbalances was initiated. Notwithstanding loud claims of decentralisation goals in its election manifesto and later, in its economic policy statement of November 1977, the Janata Party was right from the beginning reluctant to con-cede the regional demands for institutional reforms and greater devolution of resources” (Jain 1994, p.54).

In the 1980’s, the then prime minister Indira Gandhi, who was often accused of excessive centralization, was also compelled to set up Sarkaria Commission to look into the grievances of state governments. The Commission, which submitted its report in 1987-88 made some important recommendations, which included the reform of institutions like the Planning Commission and The National Development Council on the one hand, and the setting up of the Inter State Council under Article 263 of the Constitution (Ray 1988).

The coalition era of the late 1990s has resulted in a number of changes. First, regional parties begun to assert themselves in a number of economic and foreign policy issues. In the NDA Government (1998-2004), the Telugu Desam a regional outfit of Andhra Pradesh, was assertive not just in economic demands for the state but also in reaching out to the outside world, especially the US for closer economic ties (Rudolph and Rudolph 2001).

Regional parties continued to hold sway even in the UPA government with the prominent ones being the DMK of Tamil Nadu, the NCP of Maharashtra, and the Trinamool Congress in West Bengal. A strong illustration of regional satraps punching above their weight according to many is the blockage of many important reforms like Foreign Direct Investment (FDI) in retail by the Trinamool Congress, which was an ally of the erstwhile government. When the government did pass the bill Trinamool walked out of the alliance.

In the realm of foreign policy as well, states have begun to assert themselves more. This includes not just the Teesta River Water Treaty, and the signing of the land swap agreement between India and Bangladesh which was opposed by the Trinamool Congress. A number of Chief Ministers have taken the lead in reaching out and sought Foreign Direct Investment (FDI).

Owing to the compulsions of coalition politics, India was also compelled to vote against Sri Lanka at the United Nations in 2012 and 2013 due to pressure from the DMK, a regional party of Tamil Nadu, which ultimately walked out of the coalition. (Singh & Mishra 2012)

#### **4. Changing Economic Dynamics and their Impact on Centre-State Relations**

The shift from New Delhi to the states has also been an important reason for the same. It has been argued that apart from one-party dominance the centralised model of economic planning also led to too excessive concentration in New Delhi.

While it would be a gross exaggeration to say that things have totally transformed ever since the Indian economy began to open up to the rest of the world

There have been some changes in relations between New Delhi and state governments. In the words of Bagchi (2008:42):

After three decades of centralized federalism in the closing decades of the last century, India seemed to be moving towards an era of "cooperative federalism". Reforms forced by liberalization gave back to the states the power that had been taken away for the sake of planning and development (e.g. in the matter of industrial licensing).

In the post liberalisation era, a number of states have exhibited high rates of growth and are active in seeking investment from the outside world.

What has attracted media and policy attention in recent years is the competition among the states for international attention and for domestic and foreign private investment. State chief ministers and their finance and industries secretaries to the government went to the US, Western Europe, and Japan in search of private investors, including NRIs.... (Rudolph and Rudolph 2001).

"Direct attraction of foreign investment by states has contributed to de -facto authority to approve foreign investment projects, establish tax rates for foreign investment firms and

establish overall rules”(Sinha 2005, p. 344) States have begun to seek foreign investment not only through delegations but also through the investor summits. While Gujarat began this trend, other states are following suit. A number of states have also recently been actively supporting New Delhi’s initiatives with neighbouring countries. This includes states such as Punjab and Jammu and Kashmir, which share borders with Pakistan, and Tripura which shares borders with Bangladesh. (Rajamohan 2012)

In spite of the above changes in centre-state relations, there have been differences over a number of issues, such as grants which they receive from the centre. A number of states in Eastern India, including Orissa, Bihar, and West Bengal have also complained about not getting the desired assistance from the centre. (The Live Mint, March 20, 2013)

The current government is focusing even more on giving a greater role to the state governments, especially in the context of attracting foreign investment.

## **5. Future Challenges to Federalism in India**

It would also be fair to say that certain organizations which could have helped in strengthening consultative processes between New Delhi and the states have not been utilized optimally. Some of the recommendations of the Sarkaria Commission have been implemented. For instance, the Inter-state council which was recommended by the Sarkaria Commission is virtually a defunct organization. The government’s lack of seriousness vis-à-vis the interstate council is evident from the fact that over the past two decades, only 10 meetings were held. A number of steps can be taken to make the inter-state council more effective. Pande, in an article written for The Economic Times, makes some recommendations:

“Convert the ISC into an independent statutory body like the Election Commission. Transfer a substantial part of the existing manpower assets of the Planning Commission to strengthen its policy research and investigation capacity. Have the council establish a networking relationship with policy research, /social and economic research institutions across the country to enable independent research inputs to go into policy-making and bridge the research/policy divide.”

In addition to the ISC, other organizations like the NDC, which were set up with the aim of increasing consultations between New Delhi and the states on important issues, too have begun to lose sheen and have become increasingly centralized. Many chief ministers, including the current PM, as Gujarat CM, have often complained about some of the meetings, such as the National Development Council (NDC) being a futile exercise. In 2012, the Tamil Nadu chief minister walked out of the NDC Conference, accusing the UPA regime of giving more time to Congress CMs to speak.

It remains to be seen whether the current government can revive the Inter-State Council and the National Development Council.

Second, while it is true that the states have begun to actively seek Foreign Direct Investment (FDI), while a handful of them have done well and managed to draw FDI, a number of states are lagging behind. This has led to disparities between them. While Gujarat, Maharashtra, Tamil

Nadu, and Delhi get a larger share of the pie, states in Eastern and Central India have been left behind.

Though reforms of 1991 have increased the powers of states in certain ways, the flip side is that there are a lot of policies which ensure the centre keeping an upper hand over states.

“While getting more de-facto latitude in negotiating with foreign investors in some cases the states’ power to regulate (or deregulate) vital aspects of the activities of firms in their jurisdictions has been overshadowed by central directives enunciated through various national policies. While losing the power to intervene through its control of investment and industrial licensing, the centre has assumed a new role as a regulator concerned with market imperfections and state financial discipline” (Bagchi 2008, p.45)

While the recently elected government has on numerous occasions reiterated its desire to strengthen India’s federal structure and make centre-state relations more meaningful, it is yet to see whether some of the significant obstacles can be dealt with.

## 6. Conclusion

It is likely that with the increasing influence of regional parties and the state governments in areas like foreign policy as has been discussed above along with the increasing importance of state governments in attracting FDI, ‘Cooperative Federalism’, where the centre and states work together in certain spheres is possible.

There are important changes that need to be made specifically with the utilization of current institutions and there is a need to look at federalism from non-political lenses. The test of the current government, which has spoken in favour of improving ties between New Delhi and the states, will be working jointly and building a consensus over issues such as the Goods and Services Tax (GST).

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