



The Return of the Center: Reconfiguration of Center-State Relations in Modi's India

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8.1 INTRODUCTION: UNDERSTANDING THE OPERATION OF FEDERALISM

Recentralization is the systematic reassertion of central control over subnational authorities, often framed as a reform initiative, reversing a prior phase of decentralization characterized by evidence and/or narratives of inefficiency, corruption, and fragmentation (Eaton et al. 2025). A quintessential example is the dramatic recentralization in Russia under Vladimir Putin (2000–2004), which reversed the decentralization of the 1990s under Boris Yeltsin—a period characterized by security

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threats, corruption, economic instability, and inefficiency. Over time, this process significantly curtailed regional autonomy, eroded democratic accountability, and weakened the regions' capacity for self-governance (Konitzer and Wegren 2006). In Latin America, Argentina's President Carlos Menem (1991–1995) reversed the decentralization of the 1980s—a period marked by fiscal imbalances, provincial overspending, and hyperinflation (Eaton and Dickovick 2004). Likewise, Brazil's President Fernando Henrique Cardoso (1994–2002), reversed the highly decentralized fiscal arrangements institutionalized by the 1988 Constitution—which had led to widespread subnational fiscal mismanagement (Eaton and Dickovick 2004). However, in both cases, tensions between central control and subnational autonomy persist. A similar Process has occurred in India under Modi.

Modi's 2013–14 election campaign promised to reverse the perceived inefficiency, corruption, and fragmentation associated with the coalition government era. Central to Modi's appeal was the model of Gujarat's economic success, which he pledged to replicate at the national level—a vision that propelled the Bharatiya Janata Party (BJP) to a decisive victory (Sharma and Swenden 2020). The BJP's ascent to political dominance after 2014 fundamentally altered the political landscape since 1996 where state politics had been viewed as an 'autonomous domain' (Yadav and Palshikar 2008). This shift effectively ended the era of regionalization and reasserted the centrality of 'national politics'.

This article seeks to understand what effect the re-emergence of one-party dominance has had on the process of political and economic de/recentralization? If we assume that the strengthening of the states as political actors in the 1990s and 2000s is tied intrinsically to the pluralization of the Indian multi-level party system and the role of regional or regionalist parties therein, does the re-emergence of one-party dominance since 2014 inevitably regenerate a recentralization of the Indian polity? To answer this question, this article proceeds in three steps.

Firstly, we need to assess how 'federalism-proof' the Indian constitutional system is. One-party dominance at the central level of government does not necessarily trigger a more centralized polity if it coincides with a constitutional system in which (a) the powers of the states are constitutionally entrenched, thereby guaranteeing state autonomy or self-rule (b) mechanisms of shared rule, such as a federal second chamber, complement the self-rule attributes of a federal system and (c) the Supreme Court acts as a 'federal safeguard' against the encroachment on state rights.

We argue that the founders of the Indian constitution left the nature of Indian federalism highly vulnerable to the compulsion of politics. Subsequent constitutional amendments have not altered this fact. Other things being equal, one-party dominance strengthens the capacity of the party in central command to exert its constitutional authority and to weaken the shared and self-rule attributes of Indian federalism.

Secondly, the *capacity* to exert central dominance does not necessarily translate into a *willingness* to exercise it. The latter depends on the extent to which the ruling party and its leaders are ideologically committed to federalism. A ‘federal spirit’, in the view of the late Michael Burgess (2012, 22–28), commits a party and its leader(s)—even when fully in control of the center—to respect sub-state autonomy, to engage with the states in a form of partnership, to respect the right of states to (cultural) self-determination, to treat the states with courtesy, civility, and friendliness (comity and *Bundestreue*), to respect ‘unity in diversity’ and the contractual relationship between the center and the states and to acknowledge their mutual dependence. Of course, upholding a federal spirit is not just the responsibility of the central government alone. The literature concerning the ‘political safeguards of federalism’ places much of this responsibility on the shoulders of state governments (Bednar 2008; Nugent 2009) and the people (electorate) at large (Erk 2007) and highlights their shared commitment to the underlying values of federalism.

Thirdly, building on the above we demonstrate how the comparative weakness of the federal constitutional safeguards and the weak ideological commitment of the current party in power and leadership to a robust federal system have weakened the states as political and institutional actors in the Indian political system. We select three case studies which illustrate this process of centralization well across various dimensions. These cases illustrate distinctive dimensions of political, fiscal, and administrative centralization marking the Indian polity.¹ In the conclusion, we summarize our main findings and what this means for the resilience of the federal spirit in central and state politics in contemporary India.

¹ Earlier papers which deal with various aspects of centralization of Indian federalism under Modi’s first term in government are Sharma and Swenden (2018) and Aiyar and Tillin (2020).

8.2 A FLEXIBLE FEDERATION AND ITS UNINTENDED CONSEQUENCES: THE SIGNIFICANCE OF PARTY IDEOLOGY, PARLIAMENTARY MAJORITY, AND LEADERSHIP

Federalism is about dividing responsibilities between at least two levels of government. Especially in vast and complex polities, the argument for decentralization lies in bringing government officials closer to the people, so that the policies can be more closely aligned with local preferences. Localism, especially when matched by considerable revenue-raising authority strengthens accountability. Conversely, the argument for centralization lies in providing economies of scale and spreading social risk as well as in cultivating feelings of national unity which can help legitimize territorially redistributive policies. Therefore, federal systems seek to balance autonomy with solidarity (Sharma 2005; 2025).

There is no single template for how countries strike that balance.² However, for a country to be federal, there need to be at least some policy fields—at least one according to Riker (1975)—in which each level can operate autonomously. Beyond that, there is scope for much variation. US and Swiss federalism, both examples of coming-together federations, are usually seen as cases in which the constituent units have retained considerable legislative, fiscal, and administrative autonomy. In comparison, the German federation is marked by more limited sub-state (Land) autonomy; but what the Länder have lost in legislative influence at home, they have gained at the center. Even so, Germany meets the minimum requirements of federalism insofar as the Länder, apart from weighing in on federal politics, retained full autonomy in several policy fields, such as non-tertiary education (Watts 2018).

The placing of Indian federalism among the family of multi-level polities is rather confused. In writings on Indian federalism, well-substantiated cases argue contrasting and contradictory positions. To some observers, India is ‘extremely federal’(Appleby 1953, 51) and ‘undoubtedly a federation’(Alexandrowicz 1957, 169) while to others it is ‘federal in form and unitary in spirit’(Banerjee 1951), ‘a definitely unfederal or unitary constitution’(Mukerji 1954) ‘federal with strong centralizing tendencies’(Jennings 1953), ‘a paramount federation’(Santhanam 1963, 13), and ‘quasi-federal’(Chanda 1965, 11; Wheare 1963, 27–28). The

² For a global summary, see Hueglin and Fenna (2015).

founding fathers sought to confer upon the federal system the strength of a unitary government to nurture and consolidate the Indian nation. This led to a sovereigntist, statist bias whereby the interests of India's *sovereignty and integrity* are upheld as sacrosanct, which the constitutional functionaries at both levels are oath-bound to defend (as per the Third Schedule of the Constitution, as amended by the sixteenth Amendment Act 1963). Despite the statist and even unitary bias of the Constitution, some scholars such as Granville Austin see in its actual *working* an example of 'cooperative federalism' (Austin 1966, 187) in the sense of interdependence and cooperation between the center and the states as opposed to 'dual federalism', a system of independence, legal separation and coordination between the two levels. In India's federal system, interdependency, as argued by Austin and Appleby, is reflected in the fact that subnational governments are financially dependent on the national government, while the center depends on the subnational governments to administer national policies and social action programs. On the other hand, W. H. Morris Jones (1964) argued that center-state relations in India involve 'hard competitive bargaining', which implies conflict as well as cooperation based on the relative bargaining powers of the parties involved.

Under this 'flexible' model, India has experienced periods of high centralization as well as episodes of relative decentralization. Which modality prevailed has depended on (1) the ideology of the party (or coalition of parties) that was/were in power, (2) the extent of their majority and (3) under which leader. Each of these factors is linked to the nature of political power at the center. Hence, the extent to which the Indian state operates as federal is linked to the degree to which those who exercise power at the center are inclined to make it so. They can deploy the flexibility of the Indian constitution to infuse the polity with a stronger federal spirit (e.g. when bifurcating states on the basis of bottom-up demands as during the process of linguistic state reorganization) or to push it into a unitary direction (by suspending the autonomy of a state government when activating President's Rule or when legislating in the state list on the basis of a perceived 'national interest'). This echoes with the views of B. R. Ambedkar, the chairman of the drafting committee of the Indian constitution who argued that the flexibility of India's Constitution implies that it could be 'both unitary as well as federal according to the requirements of time and circumstances' (Constituent Assembly Debates, 1949, Vol. VII, pp. 33–34).

We argue that in the current circumstances, the ‘federal spirit’ is in short supply because in India post-2014 we observe the alignment of three important causal factors of centralization: (1) the rise of the BJP, a party with a centrist and Hindu nationalist ideology to power; (2) that party’s ability to govern the center with an absolute parliamentary majority especially between 2014 and 2024, (3) under a charismatic leader claiming legitimacy through a populist and centrist ‘cult of personality’. Under such conditions, when the allegiance to territorial (and religious) pluralism is suspect, and the party leadership has the capacity (absolute parliamentary majority) and (will or belief) to implement its vision, actions aimed at ‘exorcising’ the ‘federal spirit’ are a foregone conclusion. This contrasts with the period between 1989 and 2014 when power was held by multi-party coalition and/or minority-governments, the lead party or several coalition parties were ideologically more strongly committed to federalism, and Prime Ministers (even when of BJP-signature) were more tolerant of the horizontal and vertical diffusion of power within their own party and government at large.

Indeed, as the political arm of the Hindu volunteers’ organization, or *Rashtriya Swayamsevak Sangh* (RSS), the BJP has been committed to the rebuilding of India as a strong nation, built on a majoritarian or ethnic nationalism in which India is imagined as a Hindu Nation (Adeney 2005; Varshney 1993). This viewpoint implies that territorial diversity can exist, but only insofar as it does *not* impede the construction of a unified ‘Hindu national identity’. The BJP’s ideological parent, the RSS has a long-standing commitment to realize its core ideas of *Hindi, Hindu, Hindustan*; thus, *one nation*, one constitution, one executive, one poll, one language, one flag, one symbol, and one culture. This strengthens the belief that its long-term agenda is one of political centering and assimilation, not of accommodation. Furthermore, the BJP’s decisive victories in the 2014 and 2019 general elections, which marked the resurgence of one-party dominance in Indian politics, enabled the BJP to dominate the political landscape at the national and state levels (albeit in alliance through seat-sharing arrangements with several state parties). Despite a reduced majority in 2024, the BJP under Modi continues to operate largely as the dominant party, with no formal common minimum program in place with its allies in the National Democratic Alliance (NDA), whose support it relies on to stay in power.

Finally, just as there were notable differences in the style of governance of Congress leaders Nehru and Indira Gandhi during Congress

one-party dominance (Austin 2000, 571), so too there are also notable differences in the style of governance of the BJP's first Prime Minister, Atal Bihari Vajpayee (1996, 1998–2004) and that of the current office-holder, Narendra Modi. The former led a more internally decentralized party (with e.g. Narendra Modi as one of the regional 'satraps' in his role as Chief Minister of Gujarat) and adopted a more conciliatory tone, e.g. in relation to Kashmir (Adeney 2005). In contrast, since entering Prime Ministerial office Narendra Modi and his right-hand lieutenant Amit Shah have centralized authority within the party and played a more interventionist role in the making (and breaking) of state governments, candidate selection, and campaigning. This concentration of power is also evident in the central government, where the Prime Minister's Office has been strengthened at the expense of ministerial departments (e.g. the Ministry of External Affairs). The PMO has become the hub of union policy making which also decides (almost alone) on who gets selected as top officials (senior bureaucrats) in the Government of India. The frequency of 'transfers' of senior civil servants is also known to be the highest in decades (Gupta 2019).

To illustrate how the alignment of ideology, party dominance, and leadership centralized the Indian polity, we turn to three case studies, which are broadly representative of the process of centralization marking the Modi-era but emphasize different aspects of the triad highlighted above. The first case study concerns the management of territorial diversity through asymmetric federalism. This particularly challenges the BJP's view of India as 'one nation'. The second case study concerns territorial finance, which illustrates the BJP's willingness to use the power of the purse to cement its position of dominance vis-à-vis the states. The third case study concerns the management of COVID-19 in 2020, which again demonstrates the preference for a centralized political and administrative response and the key role of Modi therein, in spite of the legislative prerogative of the states in health policy and law and order.

8.3 CASE STUDY I: ASYMMETRIC FEDERALISM: MORE UNITY, LESS DIVERSITY

The Indian Constitution seeks to promote the cause of national integration through recognition and accommodation of diversity rather than by denial and assimilation. This is clear from the special legislative and political rights granted to Jammu and Kashmir (article 370, revoked by

Presidential orders since August 2019) as well as by Nagaland (article 371A), and Mizoram (article 371G). These provisions cannot be altered without the recommendation of the respective state assemblies. Similarly, a wide range of special provisions are available to the North-Eastern states of Assam (article 371B), Manipur (article 371C), Sikkim (article 371F), Mizoram (article 371G), Arunachal Pradesh (article 371H). Often, they carry forward colonial provisions that benefited the hill tribes of the erstwhile province of Assam. Further provisions benefit parts of Maharashtra and Gujarat (article 371), Goa (article 371I), and Karnataka (article 371J). Finally, special administrative structures and governance mechanisms exist for the protection of cultural distinctiveness of tribes residing in the ‘scheduled areas’ on the mainland (Vth Schedule) and ‘tribal areas’ in north-eastern India (VIth Schedule).³

The single most important change in the above provisions under the Modi government has been to abolish the special status of the state of Jammu and Kashmir (Article 370; 35) a key BJP manifesto pledge for decades. This is consistent with Hindu nationalist ideology, which sees Muslims as India’s ‘most significant other’. It corresponds with a wider Hindu nationalist understanding in which, ‘both center and states are running governments for the Nation and unitary states are constituents of the nation, they are not separate... Once special packages become a political tool and all other constituents feel that political blackmailing can take them forward then it leads to unhealthy competition’(Hindustan Times 2015).

And yet, after the 2014 state assembly elections had thrown up a fractured mandate, an unexpected post-election coalition government was forged between the People’s Democratic Party, which had canvassed on the platform of ‘Self Rule’, and the BJP, which had promised abolition of Article 370 and the integration of Jammu and Kashmir with India in its election manifesto. This initially strengthened hopes for the stability and development of the state. However, the suspension of this agreement and the imposition of Governor’s rule in 2018 quickly laid these hopes to rest. The state’s internal order had been disrupted following the killing of Burhan Wani, a commander of the pro-Pakistan militant Hizbul-Muhajedeen. The PDP, in turn, alleged that the BJP reneged on its coalition promises to seek negotiations with the separatist Hurriyat

³ For a comprehensive discussion on asymmetric federalism in India, see Tillin (2016).

Conference and to respect the state's special status (it did not stop judicial action against Article 35, which restricts land rights to Kashmiri residents). A breakdown of trust in the political system was made visible by single-digit turnout figures across parliamentary by-elections in 2018 and by not seeking to lift the political deadlock through holding state assembly elections in Spring 2019, concurrently with Lok Sabha elections, thus extending Governor's rule.

The re-election of the Modi government with an increased majority was then followed by a unilateral decision to abrogate the state's special status and to bifurcate it into two union territories instead: Jammu and Kashmir (with the prospect of an autonomous assembly) and Buddhist majority Ladakh (without assembly). How this was achieved is highly contentious (Nair 2019). The government first amended article 367, using the powers of the President under Article 370 (1)(d), and then issued a presidential order under Article 370(3) to declare all clauses of article 370 inoperative except the one which states that all provisions of the Constitution of India shall apply to the state of Jammu and Kashmir. Although the abrogation was challenged in the Supreme Court, the Attorney General KK Venugopal, representing the center, argued in March 2020 that 'the abrogation of provisions of Article 370, has now become a "fait accompli" leaving sole option to accept the change' (India Today 2020; Swenden and Saxena, 2022). In a controversial, but unexpected judgment, the Supreme Court indeed confirmed this stance in its December 2023 ruling on the issue (Herklotz 2023).

At the same time, however, the Modi government has asserted that similar asymmetric provisions for the North-Eastern states will not be touched. On 3 August 2015, it signed a framework agreement, the so-called Nagaland Peace Accord, with the *National Socialist Council of Nagaland*, Isak-Muivah (NSCN-IM) while upholding the concept of 'shared sovereignty'. The peace talks are not transparent but there are reports that the center has acknowledged equal rights and benefits for Nagas staying in Manipur, Assam and Arunachal Pradesh, while the Naga National Political Groups (NNPGs) suspended their wish to establish an autonomous Nagalim, consisting of the Naga-inhabited areas of neighboring Assam, Manipur, Arunachal Pradesh. However, recent reports indicate a deadlock as the NSCN-IM continues to insist on its demands for a separate flag and constitution, which remain non-negotiable for the Indian government. These demands had led to the creation of the NSCN-IM as a breakaway group from the Naga Nationalist Council (NNC),

which after the Shillong Accord in 1975 accepted the Indian constitution and gave up armed struggle (Bhargava 2012). So far, the Modi government has allowed Nagas to use their flag in cultural functions but not in government offices or functions. It is clear this has not satisfied Muivah, the leader of NSCN (Bhushan 2019). The NSCN-IM has recently issued warnings to resume armed resistance if its demands for a separate flag and constitution are not met (The Hindu, 2024). Additionally, the NSCN-IM has called for third-party mediation, reflecting its dissatisfaction with the current negotiation framework. In response to the escalating tensions, the Nagaland state government has sought urgent talks with the Indian government and the NSCN-IM to expedite the negotiation process. The situation remains complex leading to a protracted negotiation process that has yet to yield a final agreement.

Overall, the BJP's approach to the North-East is far more conciliatory than to Kashmir, where three states (Meghalaya, Mizoram, and Nagaland) are Christian-dominated, and the rest (Assam, Arunachal, Manipur, Tripura) except Sikkim have Hindu majorities but sizable populations of Christians and/or Muslim minorities. In the North-East the focus is on giving concessions to gain trust and consolidate power, given that prior to 2016, the BJP had not been in government in any of the north-eastern states. For instance, on 23 January 2019, the Union Cabinet approved a Constitutional amendment to Article 280 and the Sixth Schedule to grant more powers and financial resources to the 10 autonomous councils in Assam, Tripura, Manipur, Sikkim, Nagaland, Mizoram, Arunachal Pradesh, and Meghalaya. On 25 July 2019, the BJP formed a Missionary Cell in Mizoram to assist Christian Missionaries if they face religious persecution (Business Standard 2019). Furthermore, while the BJP is strengthening implementation of state-level legislation against cow slaughter in the rest of India, the BJP national leadership and state units' chiefs in Tripura, Meghalaya, Mizoram, and Nagaland openly declared that cow slaughter and beef-eating will not be banned (it is already banned in Manipur and Sikkim). Insofar as 'Hindutva' is at work, it has been displayed in more subtle or 'soft' ways; for instance by opening ventures of Hindu-guru and industrialist Baba Ramdev; by cultivating yoga or ayurvedic medicine, by strengthening the footprint of RSS-sponsored schools and by working with and not against some of the regionalist parties (Longkumer 2019). In this, the BJP is playing the long game, seeking to pull the region into the party's religious-cultural nationalism project. The financial dependence of the North-East on

central grants and the relative weakness of its indigenous industrial sector⁴ has helped to nurture this unlikely alliance between the North-East's indigenous politicians and the BJP.

The ability of the BJP to hold on to the North-East may be fractious though. The implementation of the Citizenship Amendment Act (CAA) in March 2024, along with the National Register of Citizens (NRC) process in Assam, are two recent developments that put the BJP at odds with some of its North-Eastern coalition partners (see Jaffrelot and Lalwala 2019). For instance, Assamese regionalist parties such as the Asom Gana Parishad consider the National Register of Citizens as a way to restrict citizenship rights to indigenous citizens of Assam (predominantly Assamese-speaking Hindus and other tribes from the state). In contrast, the BJP hoped to use the register as a mechanism to exclude—what they *thought* would be—predominantly Bengali-speaking Muslims who entered Assam post 1971—i.e. after Bangladesh's secession from Pakistan. However, the register once finalized in July 2019 under the supervision of the Supreme Court, revealed a Hindu majority among the approximately 2 million citizens left out of the register. This finding disrupted the BJP's narrative and created discontent within its support base, especially as the CAA promised citizenship to non-Muslim migrants, bypassing the NRC's exclusion criteria.

By seeking to grant citizenship to 'religious minorities' (excluding Muslims) who entered India *until December 2014*, the Asom Gana Parishad fears that the BJP is using the CAA to regularize often Bengali-speaking and therefore non-indigenous Hindus who would have been classified as illegal otherwise. In other words, the AGP supports the NRC because of its territorial (Assamese) and ethnic ('indigenous sons and daughters of the soil') intent. Although ethnic in intent too, the BJP focuses on the exclusion of Muslims, aiming to extend citizenship rights to Hindus and other minority religions (except Islam) irrespective of their origins, whether from outside Assam (within India) or from neighboring Bangladesh and Pakistan. This aspiration to regularize non-native Hindus who would not be registered otherwise has strained the BJP's relations with the AGP and other parties in Mizoram, Manipur, and Meghalaya, where protests have persisted against the CAA's implications for indigenous rights. Thus, the BJP's Hindu-first approach has forced the

⁴ For a review of the economic problems that beset Northeast India see Mishra and Upadhyay (2017).

indigenous communities of Assam to wonder whether to remain Assamese first (irrespective of their religion) or express their religious identity first?⁵ In March 2024, Assam Chief Minister Himanta Biswa Sarma assured that no one excluded from the NRC would receive citizenship under the CAA, reflecting the BJP's attempts to address competing interests in the region. However, the situation remains complex because the opposition parties claim that the CAA violates the 1985 Assam Accord, which aimed to protect the cultural, social, and linguistic identity of Assam's indigenous population by controlling illegal immigration and fixed March 25, 1971, as the cutoff date for detecting illegal migrants in Assam, irrespective of religion. However, the CAA effectively extends this cutoff date from March 24, 1971, to December 31, 2014, and, moreover, provides a pathway to citizenship for 'non-Muslim' religious minorities. The constitutionality of the CAA is currently under Supreme Court review on grounds of Article 14 (equality before law), Article 15 (prohibition of discrimination based on religion), Article 21 (right to life and dignity), and India's secular ethos.

In other parts of the country, the opposition-ruled states of West Bengal, Kerala, and Tamil Nadu have been vocal critics of the implementation of the Citizenship Amendment Act (CAA), citing the constitutional violations. However, in seeking to curb resistance from opposition-ruled states to the implementation of the Citizenship Amendment Bill, the central government inserted a clause (Section 6B) enabling it to redraft implementation rules so that citizenship applications of persecuted minorities can be dealt with by a central government officer in lieu of a district collector who normally is accountable to the state government.

8.4 CASE STUDY 2: FISCAL CENTERING

8.4.1 *Fiscal Centering I: Undoing the Decentralizing Recommendations of the XIV Finance Commission (FC)*

In preparing its 2015 report, the XIVth Finance Commission (constituted on the basis of the Terms of Reference determined by the *previous* Congress-led government and to advise on the distribution of the shared pool for the period 2015–2020), considered the global revenue expenditure requirements of the states, including their plan expenditure

⁵ For a comprehensive history of the Assam Agitation see Pisharoty (2019).

Table 8.1 States share of tax devolution and grants

Year	<i>Percent of total transfers</i>			<i>Percent of center's gross tax revenue</i>		
	Tax devolution <i>1</i>	Statutory grants <i>2</i>	Non-statutory grants <i>3</i>	Tax devolution <i>4</i>	Total grants <i>5</i>	Total transfers <i>6</i>
2009–10	40.96	11.42	46.98	26.39	37.63	64.44
2010–11	43.75	9.93	45.90	27.65	35.29	63.20
2011–12	46.45	9.55	44.12	28.17	32.56	60.66
2012–13	49.82	8.20	41.21	28.14	27.90	56.48
2013–14	50.13	9.54	40.17	27.95	27.71	55.74
2014–15	50.03	11.42	38.34	27.14	26.99	54.24
2015–16	60.66	10.14	28.54	34.77	22.17	57.33
2016–17	61.68	9.69	28.62	35.43	22.01	57.45
2017–18	62.02	8.50	29.48	35.07	21.48	56.55
2018–19 (RE)	61.08	8.51	30.40	33.87	21.58	55.45

Source Budget Documents, Government of India

Note The practice of giving a portion of central assistance directly to implementing agencies, bypassing the states, was reversed in 2014–2015. Thus, to ensure comparability, we have included the direct release of central assistance to state implementing agencies while calculating non-statutory grants and net transfers prior to 2014

and contribution toward the financing of centrally sponsored schemes, (CSS, centrally controlled cost-sharing programs, particularly in areas of welfare). The Finance Commission proposed to increase the states' share in the divisible pool of central tax revenue from 32 to 42%. Although the BJP continued a convention of accepting the FC recommendations, it has since sought to largely undo them. Indeed, as Table 8.1, col.4 demonstrates, the center has kept the states' share below 35%. In terms of percentage of GDP, their share has actually declined by 0.42% (RBI Annual Report 2019). To accomplish such a reduction, the central government has proceeded in three steps which are set out in greater detail below.

Step 1: Reduction of Central Contributory Share in Centrally Sponsored Schemes (CSS)

At first sight, some of the actions of the central government in the fiscal domain do not appear to be violative of the federal spirit. For instance, it had been a long-standing demand of the states that CSS

shall be either fully funded (a demand made by relatively revenue-poor states) or discontinued or transferred to states with untied grants (a preference of revenue-rich states). However, in reality, the quantum of CSS has been retained, while the states have been forced into more substantive cost-sharing. The XIVth Finance Commission, in its 2015 report, had recommended that CSS be rationalized, and more flexibility be given to the states in their implementation. The 2015–16 budget only proposed the delinking of eight CSS from central support (giving states full autonomy to discontinue them or not), because all other schemes represented national priorities (Ministry of Finance 2015). A sub-group ('Regional Council') of Chief Ministers on the Rationalization of Centrally Sponsored schemes, constituted on 9 March 2015 by the NITI Aayog (a federal think tank of which the Governing Council is composed of the Prime Minister and State Chief Ministers), recommended classifying CSS into three groups: core of core, core and optional (Debroy 2019; Swenden 2019).

In the 2019–20 budget, there were only 29 'umbrella' schemes, of which six have been classified as core of core and 23 as simply 'core' schemes (Ministry of Finance 2019). For the schemes defined as 'core of core', the funding pattern remained as before, but for the 'core' schemes the central contributory share was reduced from 75 to 60% (except for the North Eastern and Himalayan states, the erstwhile special category states, for which the federal share remained at 90%). For a majority of core schemes, this represents a reduction in the cost-sharing share of the center. Despite this, the total outlay of these schemes has increased fivefold from 5% of total transfers to 25% (see Fig. 8.1). Hence, the number of schemes has not been reduced but rather been regrouped under different headings. Indeed, a close examination of all the sub-schemes listed under each centrally sponsored 'umbrella' scheme reveals that the total figure could be between 200 and 700, depending on how one counts. Coupled with the obligation to adhere to fiscal discipline targets, this led to an erosion of the states' development expenditure, which decreased from 12% of GDP in 2016–17 to 11% in 2017–18 while their capital expenditure decreased from 3.4% to 2.5% (RBI Annual Report, 2019). The resulting financial strain on state budgets prompted state Chief Ministers to protest against these 'under-funded (rather than unfunded) mandates' at the fifth meeting of the NITI Aayog's Governing Council on 15 June 2019, but to no avail (Sharma and Swenden 2022).

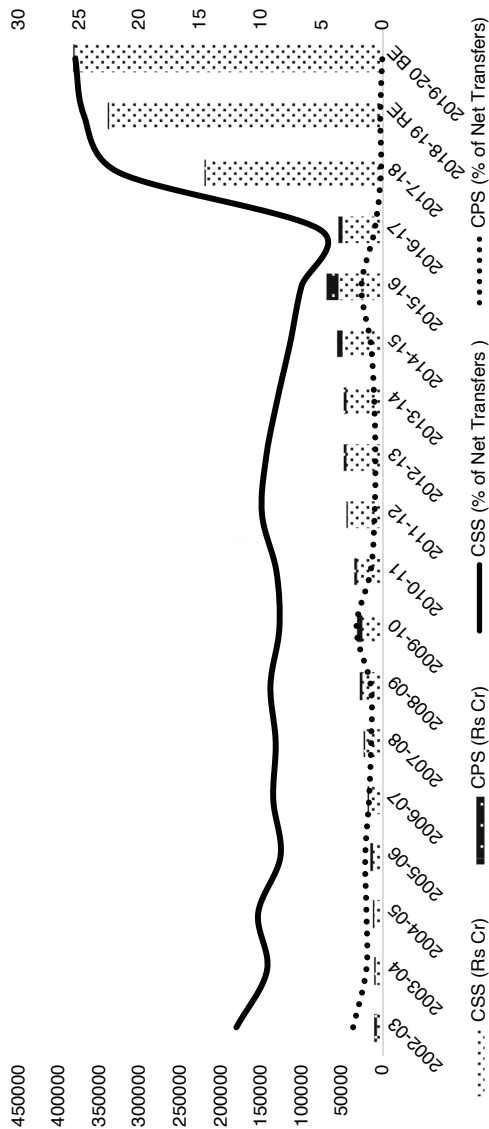


Fig. 8.1 Rising state burden of Centrally Sponsored Schemes. Note 1 Crore (Cr) denotes 10 million. The line graphs on the secondary axis show cesses and surcharges (% of the Centre's gross revenue). Source State Finances: A Study of Budgets, RBI

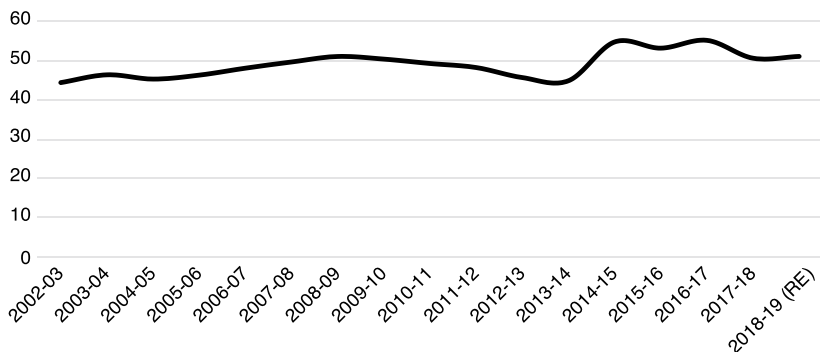


Fig. 8.2 Combined share of tax devolution and central grants in State's revenue receipts. *Source* State Finances: A Study of Budgets, 2019, RBI and Handbook of Statistics on Indian Economy, 2019, RBI

Union budget documents show that the states' share in the divisible pool of central revenue grew 3% faster rate during the XIVth Finance Commission period (2015–19) than in the previous, XIIIth Finance Commission period (2010–15). However, the annual growth rate of *total* transfers (tax devolution and central grants) as a percent of state revenue receipts did not alter significantly between both periods, as Fig. 8.2 illustrates. This share peaked at around 55% in 2016–17 but returned to a level of around 50–51%; similar to where it stood between 2008–10. This illustrates that the BJP government did not follow through on its 2014 election promise to devolve a higher share of central tax revenue to the states (Sharma and Swenden 2022).

Step 2: Increase Central Discretion in the Disbursement of Central Revenue to the States

The central government has increased the level of discretion (and therefore the scope for political patronage) in the disbursement of central revenue to the states. Apart from CSS, until 2015 there used to be a specific fund, earmarked as 'Normal Central Assistance for State Plans' which was formula-based (known as the Gadgil-Mukherjee formula), and therefore predictable in its allocation from one 5-year Plan to the next. The Modi-led government, alongside the scrapping of five-year and annual plans beyond 2017 also dropped Normal Assistance for State Plans (State Finance: a study of Budgets, RBI, 2019). This increased the

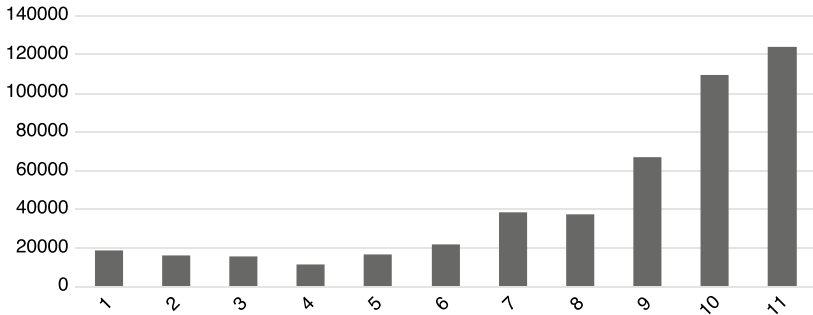


Fig. 8.3 The rise of the Ad-hoc Grants under the Modi government (2015–2019 in Rs Crore). *Source* State Finances: A Study of Budgets, RBI 2019

latitude of the central Ministry of Finance to devolve (or deny) the equivalent funds to the states in whichever manner preferable. Consequently, as Fig. 8.3 shows, during the period between 2015 and 2019, the average annual growth rate of discretionary ad hoc grants (in absolute totals) disbursed to the states grew exponentially to 46% compared with just 6% between 2010 and 2015.

Step 3: Minimize the Relative Size of the Divisible Pool

To offset the implications of the FC recommended 10% increase in the states' share in the divisible pool, the center has sought to minimize its relative size, primarily by increasing revenue bases that credit the central government alone. Hence, the Modi government has increased its reliance on non-shareable cesses and surcharges (as Fig. 8.4 attests), while reducing the rates of shareable taxes (also see Chandrasekhar and Ghosh (2019)). For instance, in the 2015–16 budget, the wealth tax was abolished, and in the 2016–17 budget, the tax rate on income between 2.5 and 5 lakh rupees (0.25 to 0.5 million) was reduced (both within the divisible pool); however, the surcharges on taxable income (not within the divisible pool) were increased by an equivalent amount for individuals with an income below 5 lakh, as well as for the so-called high-net-worth individuals (Ministry of Finance 2015). Similarly, in the 2018–19 budget, the excise duty on petrol was reduced by Rs. 9 per liter (in the divisible pool), while the road cess (not within the divisible pool) was hiked by a comparable amount (Ministry of Finance 2018).

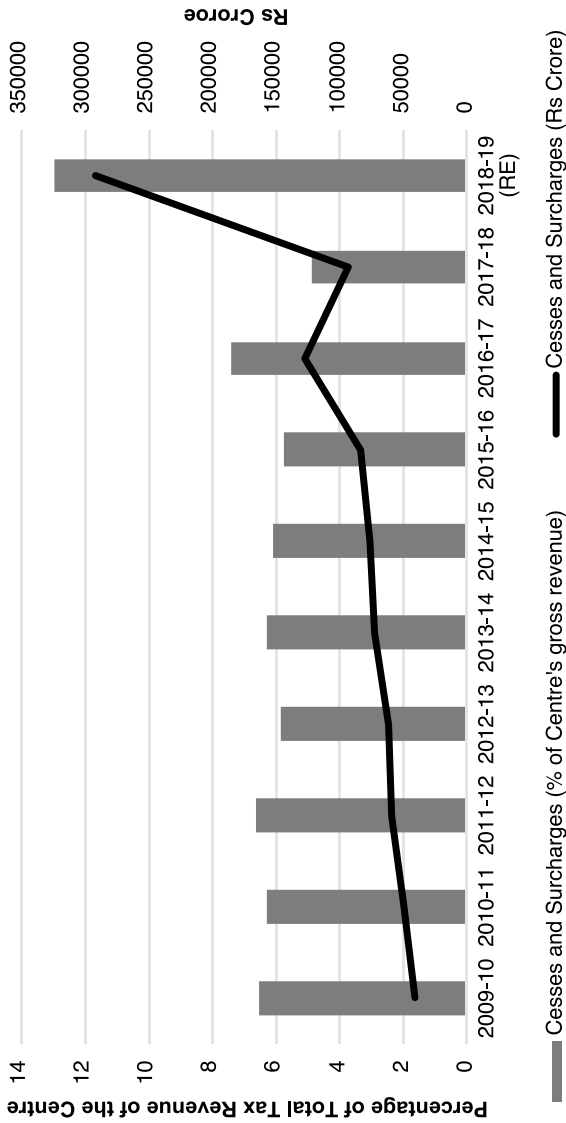


Fig. 8.4 Striking Hike in Cesses and Surcharges. *Note* GST compensation cess has been excluded because its proceeds are shared with states. 1 Crore denotes 10 million. *Source* Budget Documents: Receipt Budget, various years

Interestingly, in negotiations leading up to an agreement to introduce the Goods and Services Tax (GST) as of July 2017, the GST Council (an intergovernmental body in which the union and state finance ministers participate) decided that all cesses and surcharges, except those that are not specifically related to the supply of goods and services, would be subsumed under the GST. Given the need to cooperate with the states to roll out a GST, the union cabinet accepted the recommendation in March 2017, leading to a decline in the share of cesses and surcharges in the center's tax revenue (Fig. 8.1). However, after the GST was rolled out, in 2018–19, the center responded with an unprecedented hike in cesses and surcharges on income and corporation tax and imposed new cesses on crude oil and on roads and infrastructure to boost its revenue (RBI Annual Report 2019).

8.4.2 *Fiscal Centering II: Ring-Fencing and Increasing Future Central Revenue Shares*

To prevent the XVth Finance Commission from reversing the centralizing direction which the Modi government had taken after the recommendations of the previous Finance Commission, the central government has sought to determine its Terms of Reference (TOR). For the first time in history, a sitting government has required the new commission to reconsider the recommendations of the previous commission and their (adverse) impact on the fiscal situation of the Union Government, particularly in light of the imperative to implement the BJP's 'New India 2022' program announced a few months ahead of the 2019 elections. This makes it highly unlikely that the states' share in the center's divisible pool will increase by any significant amount. Oddly enough, the XVth Finance Commission in its interim report for 2020–21 (submitted to the President on December 5, 2019) has recommended a share of 41% out of the divisible pool, a decline of 1%. This 1% has been set aside for the reorganization of Jammu and Kashmir and Ladakh. Furthermore, the government tasked the FC to review the need for future 'post-devolution revenue deficit grants' possibly resulting in their elimination. Consequently, states which qualified for deficit grants in the past might have to borrow to meet their revenue expenditures, consuming funds meant for capital expenditures. While the full report is awaited in October 2020, the XVth Finance Commission in its interim report has recommended not only post-devolution revenue deficit grants of ₹74,340 crore for 14 States,

but also special grants worth ₹6764 crore to States to ensure that no State receives less than in the previous year. The Center has accepted the recommendation on revenue deficit grants but declined to give special grants to states.

Furthermore, the TOR seek to restrict states' borrowing autonomy by requiring the FC to formulate 'conditionalities' which the central government may impose when providing its consent to future state borrowing under Article 293(3) of the Constitution. The TOR risk increasing the dependence of states from the center. The Commission, in its interim report has indicated that the issue will be adequately addressed in its final report. However, as mandated by the TOR, the Commission has made provision for performance-based grants. As per the recommendations, states with higher tax collection efficiency will be rewarded with an additional share of 2.5%. In addition, annual financial incentives have been recommended for enacting central flagship welfare schemes (CSS) and achieving the targets based on certain broad parameters. Furthermore, the FC has been asked to work out a separate mechanism, outside the divisible pool of central taxes, to fund defense and internal security. These innovative TOR have alarmed all of the states. However, the Commission has promised to give this requirement an appropriate consideration in the final report.

By comparison, a proposed plan to shift the population base year from 1971 to 2011 has sparked a reaction from the Southern states. The latter, predominantly Dravidian-speaking states, persuaded the center to hold onto their 1971 population shares (both in previous Finance Commission rewards and in the computation of their seat share in parliament). This was seen as a reward for their disproportionate contributions to population control (generating a relative fall in their population share since 1971). The XIVth Finance Commission had assigned a 10% weightage in its horizontal devolution formula to demographic change already, reflecting the population shifts between 1971 and 2011 while reducing the weight of the population figure of 1971 to 17.5% from the earlier 25% mandated by the XIIth and XIIIth Finance Commissions. However, complying with the TOR, the XVth Finance Commission has done away with the 1971 population base completely and has given 15% weight to the 2011 population base. In order to compensate the states that have invested in family planning, the demographic performance criterion of 12.5% has been added. However, the Southern states have argued that

these will not make up for the loss they are likely to incur from a reduced tax share due to a shift in the population base year.

8.4.3 Fiscal Centering III: The Concurrent Dual GST and the Erosion of the State Tax Base

The transition from a planning to a market economy since the 1990s increased calls to replace the sales tax, which the Constitution had assigned to the states, with a uniform Goods and Services Tax (GST) (Chelliah 1996). Until 2014 such a tax reform had not been possible. The antagonistic politics of the coalition era prevented the necessary constitutional majorities from emerging. The arrival of BJP majorities at the center and across most of the states between 2014 and 2017 forged a large enough political consensus to overcome such constitutional constraints (Sharma 2022). The states bought into such a change because they were offered a collective veto power in an intergovernmental GST Council, determining the base and rates of the GST. Furthermore, the center also promised to keep certain commodities, like petroleum products and alcohol, out of the GST structure. This way it sought to preserve a measure of state fiscal autonomy at the margin. Finally, the center pledged to compensate states for their loss of revenue for five years, guaranteeing a 14% tax revenue growth, as per the methodology specified in the GST (Compensation to States) Act, 2017.

When they embraced the GST reforms, the state governments may have expected that the expansion of an independent revenue source ('shared taxes') coupled with a generous compensation package would offset their loss of control over own-source revenue (sales tax) in the wider fiscal federal structure. However, the reality has turned out somewhat differently. In fact, the tax-to-GDP ratio declined after the implementation of the GST due to a shortfall in GST collections. The 2019 Comptroller and Auditor General (CAG) report suggested that the faulty design of the GST, the economic slowdown, massive leakages, and non-compliance contributed to GST collections well below the level anticipated. Furthermore, with the introduction of a GST, states lost flexibility regarding their choice of the tax base (items to be taxed) and the determination of the tax rate after the GST implementation, which subsumed around 50% of their own-source tax revenue (RBI Annual Report 2019). This loss in fiscal autonomy was expected to be offset by greater untied resources through increased tax devolution recommended

by Finance Commissions. However, the reality has been starkly different. As set out above, the center has moved to shrink the divisible pool by overtly relying on cesses and surcharges and has reduced its contributory share to CSS, while still making most of these schemes mandatory. Furthermore, the release of GST compensation, which was to be paid monthly, became a new source of friction between the center and the states during the pandemic years of 2020–21 and 2021–22. The Modi government withheld compensation to opposition-ruled states, such as Delhi, Punjab, Kerala, West Bengal, and Rajasthan for four months and then released it without compensating for the delay. While the center claimed that it had paid states more than it collected in the form of compensation cess, states complained of outstanding dues.

8.5 CASE STUDY 3: MANAGING THE COVID CRISIS: UNILATERAL DECISION-MAKING INSTEAD OF NEGOTIATED COOPERATION

India's response to the COVID-19 pandemic in 2020 reinforced political and administrative centralization. Although the states took early action in contact tracing, testing and isolating COVID-cases, as soon as the pandemic acquired a national character, a centralized approach materialized. The response during the first wave was heavily centralized, reflecting the Modi government's broader approach, disregarding the spirit of federalism. In contrast, the second wave's 'fend-for-yourself' approach unilaterally shifted responsibility to states.

In truth, the center has a right (and obligation) to act, given its exclusive competence in migration and citizenship. Reflecting the global nature of the pandemic, the national government could be expected to take the lead in the closure of international borders and/or the quarantining of foreign entrants. However, per entry 29 of the concurrent list, the federal *alongside* the state governments are tasked with the 'prevention of the *inter-State* spread of contagious and infectious diseases'. Furthermore, the states, as per Entry 6 of the State List carry *sole* responsibility for public health and sanitation; hospitals and dispensaries'. They also control law and order (policing), necessary to enforce the lockdown (Saxena 2020). While these constitutional provisions highlight the need for a balanced federal response, the Modi government's unilateral approach during both the waves sidestepped this shared responsibility (Tillin 2021).

Instead, the Modi government adopted a very centralized approach; marked in part by unilateral decision making which projected Narendra Modi as ‘a strongman and savior’ of the country and restricted the constitutional rights of the states. The Prime Minister announced a nationwide lockdown in a nationalized TV-address to the nation, without prior consultation or planning with the state Chief Ministers. Once the announcement was made, it was legally backed by invoking Section 6 (2)(i) of the National Disaster Management Act, 2005 which grants extensive powers to the center over states for disaster management. The central government directly issued orders to district-level officials, bypassing state governments in many cases, reflecting an overtly top-down management style (Jerath 2020).⁶ States were advised to invoke provisions of Section 2 of the Epidemic Disease Act, 1897, if only to enforce centrally directed restrictions on the movement of people, but they were not allowed to relax the restrictions.

The first wave saw the center taking complete control over critical resources like masks, ventilators, and personal protection equipment, forbidding states from procuring these independently. The centralized procurement was inefficient and failed to meet state demands, further straining federal relations. Furthermore, the central government actively discouraged donations to the Chief Minister’s Relief Fund and encouraged contributions to the newly created PM-CARES (Prime Minister’s Citizen Assistance and Relief in Emergency Situations) fund instead, crowding out state-level fundraising efforts⁷ The state governments also

⁶ This echoes a more widely held concern that under Modi, the center has sought to circumvent state bureaucracies by creating direct chains of command with sub-state units or districts in the implementation of CSS or programs such as the ‘aspirational district scheme’. In doing so, state governments have ceded ground to the center in holding senior civil servants to account; even though states carry the financial and administrative brunt in the running of intergovernmental welfare schemes (Aiyar 2019). This ‘central intrusion’ facilitates central/Modi credit-taking for such programs (alongside the fact that many are now specifically prefixed as Prime Minister’s schemes (Aiyar and Tillin 2020; Sharma 2017, 35, 40)) but also prevents ‘state shirking’.

⁷ The crowding out of donations to the states was achieved by allowing uncapped corporate donations to the latter and making the same tax-exempt as well as countable against a company’s corporate social responsibility obligations—a double benefit of tax exemption—not available under either the state’s Chief Minister’s Fund or the pre-existing PMNRF (Prime Minister’s National Relief Fund) both of which have similar objectives. This prevented corporate houses from donating money directly to the industrial states

lamented the suspension of the MPLAD (MP Local Area Development) Scheme, limiting the ability of MPs, irrespective of party political affiliation, to use these funds to address the pandemic within their constituencies and district (EPW 2020).

Despite four intergovernmental video conferences involving the Prime Minister and state Chief Ministers between the start of the national lockdown and half May 2020, the ability for state leaders to participate, so press reports suggest, has been limited. Kerala's Chief Minister boycotted the third video conference altogether in which only eight Chief Ministers were invited to speak (four BJP Chief Ministers and three NDA-Chief Ministers but only one non-NDA (Congress) Chief Minister, heading the union territory of Puducherry). In contrast, the center adopted a 'fend-for-yourself' approach during the second wave, and abandoned states to their own devices, claiming healthcare was a state subject. This approach resulted in chaos and interstate conflicts, with states competing for resources like oxygen and vaccines and scrambling to secure other critical supplies. The Supreme Court's intervention during the second wave, particularly in the *Suo Motu Writ Petition (Civil) No.3 of 2021*, forced the center to take responsibility for vaccine procurement and equitable oxygen distribution.

A genuinely collaborative approach would have allowed each level to play to their comparative advantages, in which federal measures and support could have worked in tandem with the states' own health policies. In such an approach, the states would prioritize public health while the center mitigates the economic fallout by providing financial support not only to help states combat the virus but also to deliver food and aid to the vulnerable groups, including the millions of (interstate) migrant workers who were stranded as a result of the suddenly imposed national lockdown and the closing off of pan-Indian interstate traffic.

As important as the health crisis was the management of its economic aftermath. Will the center assist the states in their economic recovery? States have developed their own stimulus packages but lament the lack of central financial support. Opposition-ruled states criticized the center for not having received the full arrears of their GST (Goods and Services Tax) share particularly during the economic downturn caused by the pandemic. States have continued to hold the center accountable for revenue losses

in which they were housed, despite those states being the most affected by COVID-19, namely Maharashtra, Gujarat, Delhi, and Tamil Nadu the hardest.

during the pandemic, including those resulting from a centrally imposed ban on the sales of alcohol and tobacco (both sales taxes). Indian fiscal budgetary rules do not normally allow states to borrow above 3% of their state GDP on the market. In its stimulus package, the center created space for states to borrow an additional two percent. Although several Indian states have announced their own economic stimulus packages, they are limited in the size of the budget deficits they are allowed to accumulate. Furthermore, the center's stimulus package ('marketed' at '10% of India's GDP'), allows states to borrow a further 2%. However, only the first 0.5% of these borrowings are unconditional, with the remainder subject to conditions (such as the rolling out of a 'One nation, one ration card', state improvements in the 'ease of doing business', power sector reforms and urban and local reforms). Underlining fiscal centralization, public finance scholar Govinda Rao points out that this is the first time, the center has attached conditions to state market borrowing, potentially setting an important precedent (Rao 2020).

8.6 CONCLUSION

Since electing Modi and the BJP into the central office, India has moved progressively toward political centering. We argued that such a move was probable (though not inevitable), given (1) the more centrist inclinations of the BJP and especially of its ideological parent, the RSS; (2) the return of one-party dominance at the center in such a context, and (3) the centrist inclinations of the Prime Minister, as evidenced earlier by his leadership style as Chief Minister of Gujarat and as party leader prior to assuming the Prime Ministerial office. Furthermore, we showed that the architecture of the Indian constitution has made centralization possible, given its 'flexible' underpinnings. This is not a unique event but resembles the centralization of the Indian polity under Indira Gandhi.

We analyzed three important case studies to illustrate how the nexus between ideology, party dominance, and leadership has worked to remove the federal spirit of India's constitution. The abrogation of key provisions of Article 370 fulfills a long-standing commitment of the party to do away with special rights for what was until August 2019 India's only Muslim-majority state. It underlines the party's commitment to center the nation around a Hindu-majoritarian core. The undoing of the decentralizing recommendations of the XIV Finance Commission and the expansion of CSS at the financial cost of the states illustrates the central government's

desire to centralize fiscal power with a view to credit the BJP and Modi for pro-poor policies. Administrative and political centralization in the wake of the COVID pandemic underlines a desire for coercive action instead of collaborative federalism to deal with a major health crisis and the financial fallout thereof.

Under Prime Minister Modi, the spirit of federalism in India has diminished. The Modi government has systematically bypassed traditional mechanisms of legislative scrutiny, such as parliamentary committees, leading to a sharp decline in bills referred for detailed review. Additionally, state bureaucracies have been undermined through the establishment of direct chains of command with districts, further consolidating power at the center. This centralization aligns with the BJP's 'One Nation' agenda, which prioritizes unitarism under the pretext of efficiency. Sharma and Swenden (2022) describe this approach as 'one-nation nationalism', a concept distinct from Benjamin Disraeli's 'one-nationism', which sought to bridge social divides and address inequalities (Cole and Deighan 2012). This approach also diverges from 'national federalism', as championed by Riker (1964) and Beer (1993), which emphasizes national integration by fostering collective governance, and balancing state autonomy with national cohesion (Burgess 2006). Furthermore, it differs from 'one-nation federalism', as outlined by Forsyth (1981, 1989), which operates on the premise of pre-existing cultural and linguistic unity and focuses on uniting politically distinct units within a federal structure. In contrast, 'one-nation nationalism' is an active *ideological* project aimed at enforcing national uniformity.

However, it is fair to say that in re-electing the BJP in 2019 and 2024 (albeit with a plurality rather than majority of seats, though reflecting just a 1% drop in its popular vote) when its centralist intentions were plain to see and in *not* arguing more forcefully and effectively against this centrist tide, the electorate and opposition parties respectively have fallen equally short in their 'demand for federalism'. The questions of why the electorate have been willing to buy into the BJP homogenizing and centralizing narrative so easily, and why opposition parties have failed to mobilize against it more forcefully requires further probing.

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