

Research Article

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A study of changing nature of federalism after GST and NITI AAYOG

Babu. P K

Research Scholar, Department of Political Science, University of Calicut.

Assistant Professor of Political Science, Govt. College, Madappally, Kozhikode-673102

Aswathikrishnan

Post Graduate student, IV Semester MA Political Science, Govt. College, Madappally, Kozhikode -673102

Abstract

Indian federalism has changed a lot after 2015. To big reforms caused this change. GST in 2017 and NITI AAYOG in 2015 are the main reasons. This study checks how they affected Centre-State relations. GST took away state tax powers. States now depend more on the Centre. NITI AAYOG and GST Council improved talks between Centre and States. But cesses and Surcharges reduced state money. Compensation to states also ended in 2022. So, there is more cooperation but also more central control. The study suggests giving states more financial power. This will help balance unity and state autonomy.

Keywords

Federalism, Quasi-Federalism, Cooperative Federalism ,Competitive Federalism, Fiscal Federalism, Fiscal Autonomy, GST, GST Council, 101st Constitutional Amendment Act, 2016, Article 279A, NITI Aayog, Fiscal Devolution, Cesses and Surcharges, Divisible Tax Pool, National Federalism

1. Introduction

Federalism is a multidimensional framework. It goes beyond just dividing powers. It is the cornerstone of national unity. It supports democratic governance. It ensures developmental equity. India has a "quasi-federal" system. It balances central authority and regional autonomy. Governance must adapt to India's diversity. India is diverse in geography, culture, and economy. Earlier, federal relations were centralized. The Planning Commission controlled planning and fiscal matters. Now, modern India focuses on cooperative governance. It also focuses on fiscal efficiency. Participatory decision-making is important now. The 1991 economic liberalization changed things. Regional parties also started growing. This increased the demand for state participation. Federalism is not just a constitutional arrangement. It is a dynamic process. It helps in inclusive growth. It also ensures democratic accountability. (Sarkaria Commission, 1988)

The definition of "cooperative federalism" remains a complex governance challenge. It must balance national integration with the fiscal and political autonomy of states. In the Indian context, the Constitution defines this balance through the Union, State, and Concurrent lists under the Seventh Schedule, along with fiscal provisions in Articles 268-293. Generally, federalism is considered functional when the Centre and States work as partners—whether in policy formulation, revenue sharing, or developmental planning—without creating an undue burden on state capacities (Punchhi Commission, 2010).

Delineating these contours is essential for crafting institutional reforms such as the Goods and Services Tax (GST) and NITI Aayog, which aim to ensure that both national objectives and local priorities can be addressed effectively. In post-independence India, Centre-State relations held a unique political and fiscal position. Data from the first six decades indicates a distinct preference for a centralized model, where financial transfers, five-year plans, and administrative controls were dominated by the

Union government. This deep-rooted reliance on centralized planning underscores the state's need for coordination, but also highlights a growing disparity in fiscal autonomy. As economic realities changed, the burden of development fell disproportionately on states with limited resources, threatening the progress of balanced regional growth. Consequently, understanding the specific institutional changes to federalism is vital for maintaining India's democratic and developmental well-being. Focusing on the post-2015 period, this study investigates the dynamics of changing federalism through two landmark reforms: the Goods and Services Tax implemented in 2017 and the establishment of NITI Aayog in 2015. By analyzing the disparate impacts of these reforms on fiscal relations, policy formulation, and Centre-State cooperation, as well as their effects on financially weaker states, this research highlights how institutional shifts manifest in the federal landscape—specifically where fiscal powers are centralized while policy dialogue is decentralized. Furthermore, the study evaluates the efficacy of existing constitutional mechanisms, such as the GST Council under Article 279A, to identify structural gaps and propose evidence-based suggestions for reform. Ultimately, by exploring the fiscal and administrative backgrounds of Centre-State relations, this study underscores that enhancing cooperative federalism is not merely an economic objective but a fundamental prerequisite for fostering national integration, ensuring equitable development, and strengthening democratic governance for all citizens (101st Constitutional Amendment Act, 2016; NITI Aayog Act, 2015).

2. Review of Literature

Sarkaria Commission (1988) conducted the first comprehensive review of Centre-State relations in India. The study highlighted the misuse of Article 356 and recommended that it be used only as a last resort. It further suggested the appointment of non-political Governors and the establishment of a permanent Inter-State Council to promote dialogue and strengthen cooperative federalism (Government of India, 1988).

S.R. Bommai (1994) in a landmark Supreme Court judgment reinforced federal principles by declaring federalism a part of the basic structure of the Constitution. The judgment laid down strict guidelines for the imposition of President's Rule and mandated floor tests to prove majority, thereby reducing arbitrary dismissal of state governments (Sonia, 2019).

Punchhi Commission (2010) revisited Centre-State relations in the context of coalition politics and economic liberalization. The study stressed the need for "cooperative federalism" and recommended greater fiscal autonomy for states, a stronger Inter-State Council, and making the Finance Commission a permanent body to ensure continuity in fiscal devolution (Government of India, 2010).

Rao and Chakraborty (2016) examined the fiscal implications of GST and argued that the compensation mechanism introduced for five years was essential to maintain trust and cooperation between the Centre and States. The study found that GST helped in formalizing the economy but required careful revenue sharing to protect state finances. Bagchi (2006) and Kumar and Rao (2017) analyzed the centralizing tendencies of GST. Their research indicated that uniform tax rates and centralized administration under the GST Council reduced the policy space of states and created fiscal imbalances, particularly for manufacturing and consuming states. Mukherjee (2019) assessed the impact of GST compensation on state revenues. The study concluded that while compensation protected states during the initial years, the discontinuation post-2022 has led to significant revenue stress and increased dependence on the Centre (Walikar, 2025).

Singh (2020) explored the role of the GST Council under Article 279A as an institution of cooperative federalism. The study noted that joint decision-making in the Council represents a new model of fiscal governance, though the Centre's one-third voting weight gives it a de-facto veto power. *Union of India v. Mohit Minerals* (2022) was a key judicial intervention on GST.

The Supreme Court held that recommendations of the GST Council are persuasive and not binding on the Centre and States. The Court described this arrangement as "cooperative federalism" but also flagged the existing power asymmetry (Gawhankar, 2026).

Subramanyam and Shah (2025) evaluated the role of NITI Aayog in promoting cooperative and competitive federalism. The study highlighted that replacing the Planning Commission with NITI Aayog, along with the 14th Finance Commission's increase in state share to 42%, led to greater resource transfer. Schemes like Jal Jeevan Mission and PM-JAY were cited as examples of Centre-State collaboration that contributed to lifting 25 crore people out of multidimensional poverty. Aiyer and Tillin (2020) offered a critical perspective on NITI Aayog. The study argued that NITI functions more as a technocratic body implementing central directives rather than as a platform for genuine federal consultation. It further noted that flagship programs often create direct linkages between the Centre and districts, bypassing state governments. Sinha (2019) examined the Aspirational Districts Programme and found that it reduced the role of states by channeling funds and monitoring directly from the Centre to districts. The study suggested this model undermines the spirit of cooperative federalism. Oates (1999) provided the theoretical foundation for fiscal decentralization. His decentralization theorem argued that local governments are more efficient in providing public goods, and that effective federalism requires clear revenue autonomy and expenditure assignments for sub-national units. Yadav (2022) and Singh (2018) summarized the dilemma of contemporary federalism. Their studies argued that while the Constitution envisions a balance of unity and diversity, recent reforms like GST and NITI Aayog have centralized policy and financial control with the Centre. They emphasized that ideological differences and party politics are making cooperative federalism exist more on paper than in practice. Despite extensive literature on federalism, there remains a gap in empirical studies assessing the combined impact of GST and NITI Aayog on state autonomy post-2017.

Existing research often focuses on either fiscal or political aspects separately, overlooking how these institutions together reshape Centre-State relations. Furthermore, there is a lack of recent data-driven analysis on how revenue dependence, compensation delays, and conditional grants affect financially weaker states. This creates a significant gap in evaluating the localized effectiveness of cooperative federalism and necessitates evidence-based policy recommendations for rebalancing Centre-State relations. The review of literature reveals that GST and NITI Aayog have brought both cooperation and centralization to Indian federalism. While institutions like the GST Council and NITI Aayog promote joint decision-making and competitive performance, they have also contributed to fiscal centralization and reduced state autonomy. This indicates a shift from "cooperative federalism" in theory to "National Federalism" in practice. Therefore, the key challenge remains to balance national unity with genuine state participation to ensure inclusive, equitable, and sustainable growth (Halsana, 2025).

3. Objectives

1. To examine the impact of GST on Centre-State fiscal relations and State autonomy.
2. To assess the role of NITI Aayog in promoting cooperative and competitive federalism

3. To identify the key challenges in Centre-State relations and the shift towards "National Federalism"

4. Methodology

This study is conducting by using descriptive and analytical method. The descriptive approach used to explain the institutional changes from planning commission to NITI AAYOG and legislative reforms brought through GST. The qualitative analysis used to analyze whether these changes strengthened cooperative federalism or whether it strengthened centralized tendencies. This study is conducting primarily based on secondary sources. It includes peer-reviewed journals, official government websites, and published reports. The study covers the period from 2011-12 to 2023-24.

5. Discussion

Tax sharing is important for cooperative federalism. The Centre gives part of its taxes to States. The Finance Commission decides the share and this is done every five years. The share of the divisible tax pool indicates the degree of fiscal autonomy available to States. The structure of tax devolution has witnessed significant changes in the last decade. Mainly, the share of States was classified into three phases based on the recommendations of the 13th, 14th and 15th Finance Commissions.

Table 1 State's Share in Divisible Tax Pool

Finance Commission	Share Given to States
13th Finance Commission	32%
14th Finance Commission	42%
15th Finance Commission	41%

(Source: Finance Commission Reports and PRS Legislative Research)

Table 1 indicates that the share of States in the divisible tax pool has shown an overall increasing trend. The 14th Finance Commission constituted the largest increase, with 42% devolution to States. This suggests a high level of cooperative federalism during 2015-2020. The 13th Finance Commission had 32% share, representing a lower baseline. The 15th Finance Commission reduced

it marginally to 41%, which may include the impact of cesses and surcharges being kept out of the divisible pool. Despite the small reduction, the 41% share still represents a significant improvement over the pre-14th FC period and highlights the institutionalization of higher resource transfer to States.

Table 2 Share of Cesses and Surcharges in Gross Tax Revenue

Year	Percentage Share
2011-12	8%
2020-21	20%
2023-24	14.5%

(Source: Union Budget Analysis and Fiscal Policy Reports)

Table 2 shows that the share of cesses and surcharges in gross tax revenue increased sharply from 8% in 2011-12 to 20% in 2020-21. Although it declined to 14.5% in 2023-24, it remains significantly higher than the pre-GST level. This indicates that a larger portion of tax revenue is

now being retained by the Centre. As States do not receive a share from these collections, their dependence on the Centre has increased. The trend points toward growing centralization in Indian fiscal federalism despite higher devolution percentages.

Table 3 GST Revenue Sharing Structure

GST Component	Share
CGST (Central GST)	50%
SGST (State GST)	50%

(Source: GST Constitutional Framework)

Table 3 indicates GST created one common tax system for the whole country. It made indirect taxes the same across all States. In GST, there are taxes on goods sold within a State. This tax is called intra-state tax. The Centre gets 50% of this tax. The state also gets 50% of this tax. So the money is split equally between them. GST shows cooperative federalism in India. This is because Centre and States share tax money together. But

States cannot set tax rates by themselves anymore. Earlier, States had full power over indirect tax rates. GST Council decides most tax rates and rules. So GST helps Centre and States work together. At the same time, States lost some financial freedom. The CGST and SGST each account for 50% of GST revenue from intra-state transactions.

Table 4 Divisible Pool Share in Gross Tax Revenue

Year	Share of Divisible Pool
2011	89%
2021	79%

(Source: Fiscal Federalism Studies and Budget Analysis)

Table 4 shows another big issue in Indian federalism is about tax sharing. The Centre uses more cesses and surcharges now. These are not fully shared with States. So the main tax pool for States becomes smaller. This tax pool is called the divisible pool. Because of this, States get less money from shared taxes. The divisible pool was

89% of total tax in 2011. It fell to 79% in 2021. This means the share for States became smaller. The Centre is collecting more money through cesses and surcharges. Cesses and surcharges are not shared with States. The official devolution rate may have gone up. But in reality, States get less money to spend.

Table 5 Trend of GST Compensation to States After Implementation

A	B
Financial Year	Amount
2017-18	42146
2018-19	69275
2019-20	165302
2020-21	65546
2021-22	159000

(Source: GST Council Compensation Fund Reports; Ministry of Finance)

Table 5 says before GST, states relied on taxes such as VAT, Entry Tax, Luxury Tax, and Entertainment Tax. After GST, many of these taxes were subsumed into GST, leaving states dependent primarily on SGST and a few other taxes. Compensation to states increased significantly after the implementation of GST, peaking in 2019-20. It declined in 2020-21 due to

the pandemic but again rose in 2021-22. NITI Aayog promotes cooperative federalism by including Chief Ministers in policy discussions. However, it has no financial powers, as fund allocation is controlled only by the Finance Ministry. Thus, while states have a greater voice in decision-making, they do not have full fiscal autonomy.

Table 6 Gross GST Collections Over the Years

Figures in ₹ lakh crore

Financial Year	Gross GST Collection
2018-19	11.77
2019-20	12.22
2020-21	11.37
2021-22	14.83
2022-23	18.10
2023-24	20.18

(Union Budget Documents; PIB Releases; GST Council Data)

Table 6 indicates that there is an upward trend in gross GST collections from 2018-19 to 2023-24, except for a decline in 2020-21 due to the COVID-19 pandemic. The GST collections increased from ₹ 11.77 lakh crore in 2018-19 to ₹ 20.18 lakh crore in 2023-24. The sharp rise

post-2021 indicates improved tax compliance, digitalization through GSTN, and economic recovery. This demonstrates the success of GST in strengthening fiscal federalism and revenue mobilization in India.

Table 7 Tax Devolution to States under Finance Commissions

Finance Commission	Period	Share of States in Central Tax
12 th Finance Commission	2005-2010	29.5%
13 th Finance Commission	2010-2015	32.0%
14 th Finance Commission	2015-2020	42.0%
15 th Finance Commission	2021-2026	41.0%

(Source: Reports of 12th, 13th, 14th, and 15th Finance Commissions)

Table 7 shows the gradual increase in states' share of central taxes from 29.5% under the 12th Finance Commission to 42% under the 14th Finance Commission, followed by a slight reduction to 41% under the 15th Finance

Commission. The share of states in central taxes increased from 29.5% under the 12th finance commission to 42% under the 14th FC. It is 41% for the period 2021-26 as recommended by the 15th FC.

Table 8 Growth of Cesses and Surcharges in Gross Tax Revenue

Year	Amount	Percent
2011-12	1.07	8
2015-16	1.65	10.7
2020-21	4.12	20
2023-24	4.86	14.5

(Source: Union Budget Documents; RBI- State Finances: A Study of Budgets.)

Table 8 shows that Cesses and surcharges have increased substantially in absolute terms and also as a share of gross tax revenue, though the share declined from 20% in 2020-21 to 14.5% in 2023-24.

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Table 9 indicates that there is an upward trend in gross GST collections from 2018-19 to 2023-24, except for a decline in 2020-21 due to the COVID-19 pandemic. The GST collections increased from ₹ 11.77 lakh crore in 2018-19 to ₹ 20.18 lakh crore in 2023-24. The sharp rise post-2021 indicates improved tax compliance, digitalization through GSTN, and economic recovery. This demonstrates the success of GST in strengthening fiscal federalism and revenue mobilization in India.

6. Findings of the Study

The study on the changing nature of federalism after GST and NITI Aayog reveals several important findings regarding Centre-State relations in India. The introduction of GST significantly altered India's fiscal federal structure by subsuming several state taxes such as VAT, entry tax, luxury tax, and advertisement tax into a unified tax system. As a result, states lost the power to independently determine tax rates and policies, making them more dependent on the GST Council and central revenue transfers. This has directly reduced the fiscal autonomy of states and increased their reliance on the Centre.

The GST Council has emerged as an important institutional mechanism for cooperative federalism. Regular meetings involving the Union Finance Minister and State Finance Ministers have created a platform for dialogue and consensus-building in tax administration. This institutional arrangement has provided states with a formal space to negotiate and coordinate fiscal policy, thereby strengthening cooperative decision-making. The GST Compensation Scheme initially protected states from revenue losses during the transition period. However, delays in compensation payments during the COVID-19 period and the complete end of compensation in 2022 exposed states to significant fiscal stress. This increased their dependence on the Centre and highlighted the vulnerability of state finances in the new tax regime.

Unlike the Planning Commission, NITI Aayog promotes a consultative and participatory approach to policy making. Through the Governing Council, Regional Councils, and various state-level consultations, states have gained greater opportunities to participate in policy formulation. This shift has enhanced state participation in national policy discussions and planning processes. State rankings, SDG indices, Aspirational District Programme, Ease of Doing Business rankings, and performance-based assessments have encouraged states to compete in governance, innovation, and development outcomes. This has made competitive federalism more prominent, where states are incentivized to improve their performance to attract investment and central assistance.

The Fourteenth Finance Commission increased states' share in the divisible pool from 32% to 42%, which enhanced financial transfers to states. However, the growing use of cesses and surcharges by the Centre has reduced the actual shareable revenue available to states. This indicates that while fiscal devolution has increased on paper, the actual fiscal freedom of states remains limited. Although GST and NITI Aayog are often presented as instruments of cooperative federalism, the study finds that

decision-making power remains concentrated with the Centre. The Centre continues to dominate key fiscal and policy decisions, which reflects the continuing quasi-federal character of the Indian political system. Thus, centralization continues despite the rhetoric of cooperation.

The combined impact of GST and NITI Aayog has created a more integrated and coordinated federal structure. While national economic integration has improved and policy implementation has become more uniform, state autonomy in fiscal matters has become relatively weaker. This suggests that India is moving towards a model of "National Federalism" where national priorities override state flexibility. NITI Aayog promotes competitive federalism through performance-based rankings of States. Indices like the SDG India Index and Health Index create competition among States to improve outcomes in health, education, and development. This has shifted the focus from resource allocation to outcome-based governance.

7. Suggestions

Based on the findings of the study, the following suggestions are proposed to strengthen Centre-State relations and improve the functioning of fiscal federalism in India. States should be provided with greater flexibility in taxation and revenue generation. Alternative sources of state revenue should be explored to reduce excessive dependence on central transfers and GST compensation. Granting states some autonomy within the GST framework can help restore their fiscal independence. A revised compensation framework should be introduced for financially weaker states to address revenue fluctuations and ensure fiscal stability. The new mechanism should be more predictable and should not be abruptly withdrawn, especially for states that are still adjusting to the GST regime.

The Centre should limit the use of cesses and surcharges because these revenues are not shared with states. Increasing the shareable tax pool would strengthen fiscal federalism and provide

states with more resources to meet their expenditure needs. This requires political commitment to uphold the spirit of cooperative federalism. Greater weight should be given to state concerns in GST Council decisions. Consensus-based decision-making should be encouraged to maintain the spirit of cooperative federalism. The voting structure and agenda-setting process of the Council should be reformed to ensure that states have a more meaningful role.

NITI Aayog should be given greater institutional authority to facilitate effective Centre-State coordination and monitor policy implementation across states. It should function not just as a think tank but as a platform for resolving inter-state and Centre-State disputes and for joint policy design. More financial resources and decision-making powers should be devolved to Panchayats and Urban Local Bodies in line with the principles of democratic decentralization. Strengthening local governments will ensure that the benefits of fiscal devolution reach the grassroots level. Special assistance should continue for economically weaker and backward states to reduce regional disparities and ensure inclusive growth. Promoting balanced regional development is essential to prevent widening inequalities between developed and lagging states. Regular consultations, transparent fiscal transfers, and cooperative policy-making are necessary to reduce political conflicts and strengthen federal harmony. Building trust between Centre and States through continuous dialogue is vital for the long-term stability of Indian federalism.

8. Conclusion

Indian federalism has undergone significant transformation after the introduction of GST and the establishment of NITI Aayog. GST created a unified national tax system and strengthened economic integration, while NITI Aayog replaced centralized planning with a more consultative and participatory approach. These reforms have enhanced coordination between the Centre and States and promoted both cooperative and competitive federalism. However, the study finds

that these reforms have also led to increasing fiscal centralization. States have lost important taxation powers under GST and have become more dependent on central transfers and GST Council decisions. Similarly, while NITI Aayog provides a platform for state participation, its advisory nature limits its capacity to influence decision-making independently. The rising use of cesses and surcharges has further reduced the divisible pool available to States. Thus, the changing nature of Indian federalism reflects a shift from the traditional fiscal independence of States towards a more coordinated and nationally integrated system. While GST and NITI Aayog have improved policy coordination, maintaining a balance between national unity and State autonomy remains a critical challenge. The future success of Indian federalism will depend on strengthening cooperative mechanisms, ensuring equitable fiscal relations, and building mutual trust between the Centre and the States.

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