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From Planning Commission to NITI Aayog : A Discourse Shift in Indian Federalism?

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Abstract

The replacement of the Planning Commission with NITI Aayog, on Jan 1, 2015, marks one of the major consequential institutional shifts in post - independence federal structure of India. Officially framed as a shift from "**command & control**" centralized planning towards "**cooperative federalism**" , this transition basically altered the Center-State relations by reshaping fiscal federalism, resource allocation mechanisms, and inter- governmental consultation processes. However, the ground reality diverges significantly from the rhetoric. While states Apparently received a higher share of tax devolution [jumping from 32% to 42% under the 14th Finance Commission], they simultaneously lost critical institutional forums for negotiation, faced increased political discretion in fund allocation, and witnessed an erosion of fiscal autonomy through the implementation of GST and a sudden increase in the non- shareable cesses. This paper presents the comprehensive evidence from state government testimonies , primary government documents, and scholarly analysis, to argue that this transition does not represent genuine federalization. Instead, it signals a shift from institutional centralization to political centralization, where "cooperative federalism" remains largely aspirational rather than operational.

Introduction :- Understanding the Institutional Shift

On 13th August , 2014, the newly elected government of PM of India- Narendra Damodardas Modi formally demolish the old Planning Commission, an extra- constitutional body that had direct the India's economic development for 64 years through its 12 Five-Year Plans. In his Independence Day address, PM Modi publicly announced the decision, emphasizing that the new institution would "respect the federal structure of the country." On January 1, 2015, Cabinet Resolution No.- 511/2/1/2015-Cab formally established the National Institution for Transforming India (NITI Aayog) as the successor to the Planning Commission. This transition occurred within the context of India's broader economic transformation, moving from a centralised, state-led development model toward market- oriented liberalization, a process that began tentatively in 1991 but accelerated dramatically post- 2014. The critical question for federal theory & practice is whether this institutional replacement represents a genuine transfer of power to the states or merely a stratergic reconfiguration of central control under a new terminology.

The Planning Commission symbolized Nehruvian socialist approach of India to development . Established by a Cabinet Resolution on 15 March, 1950, just months after the Constitution came into effect, it functioned as the central government's "economic cabinet." It formulated 5 -Year Plans based on Soviet principles, allocated resources to states through various grant mechanisms, and exercised substantial discretion over development priorities. Critics described it as a "Super Cabinet " and a "parallel government" that wielded immense power without a constitutional mandate or parliamentary accountability. The Deputy Chairman of Commission, a prominent economist holding Cabinet rank, acted as de-facto head, drafting plans and negotiating with the states. Through the NDC (National Development Council), comprising the PM, all CMs, and members of the Planning Commission, the institution maintained regular consultation with states, though many scholars argue this often reflected the "dominance of the central economic thought" rather than a true partnership.

In contrast, NITI Aayog positions itself as a "Policy think tank" promoting "cooperative and competitive federalism" , with a Governing Council that includes all CMs and LGs of Union Territories, creating formal equality in representation. However, NITI Aayog possess no fund allocation powers, a dramatic departure from the Planning Commission's direct financial authority. Instead, the Finance Ministry controls all resource allocations, while NITI Aayog provides merely advisory recommendations. This structural change raises few fundamental questions about inter- governmental relations—Has the state autonomy increased after ending the centralized financial control the Planning Commission, or has it merely shifted the discretionary power to a less transparent and more politically influenced Finance Ministry mechanism?

This paper addresses these fundamental questions through a detailed analysis of - primary government documents, constitutional provisions, reports of Finance Commission, academic literature, and, crucially, statements from the state governments themselves. The research demonstrates that while there were some positive changes like- increased tax devolution, abolition of rigid 5-Year Plans, introduction of performance indices etc., these gains have been largely offset by losses in consultation mechanisms, fiscal autonomy, and the predictability of resource flows. Opposition-ruled states, in particular, document systematic discrimination in fund allocation, delayed transfers, and the political weaponization of federal institutions. The massive boycott of the NITI Aayog Governing Council meeting by 10 states in July 2024, where West Bengal CM Mamata Banerjee walked out mid-meeting, symbolizes the deep trust deficit that has emerged.

Historical Evolution and Constitutional Basis of the Planning Commission

Origins in Pre-Independence Nationalist Thought

India's Economic planning predates independence. In 1938, as Congress President, Netaji Subhash Chandra Bose initiated early planning discussions through a National Planning Committe chaired by Jawaharlal Nehru. This reflected a growing nationalist consensus that independent India would require systematic economic transformation to overcome colonial underdevelopment. Under K.C. Neogy , the British government maintained an advisory planning board from 1944 -1946, but comprehensive planning awaited sovereign control.

Post-independence, the Constituent Assembly debated whether to constitutionally place a planning mechanism. Ultimately, the framers of the constitution decided against mandating such a body in the Constitution, relying instead on Article-39 (Part. IV) of the DPSP as a philosophical justification. Article-39 directs the state to ensure that " the operation of the economic system doesn't result in the concentration of wealth and means of production to the common detriment" and mandates the distribution of " material resources of the community…. to subserve the common good.” Although Directive Principles are non-justiciable, they provided ideological legitimacy for central economic planning.

On March 15, 1950, the Government of India established the Planning Commission as an extra-constitutional, non-statutory advisory body via Cabinet Resolution No. I-P(C)/50. Finance Minister John Mathai resigned in protest, arguing that the Commission would function as “a parallel authority to the Cabinet, extra-constitutional, and not subject to the ordinary disciplines of the democratic system.” His prescient warning about democratic deficits would resonate throughout the Commission’s 64-year existence.

Organizational Structure and Operational Mechanisms

The structure of Planning Commission reflected centralized authority. The Prime Minister served as its *ex-officio* Chairman. The Deputy Chairman, appointed by the central cabinet and holding Cabinet rank, managed day-to-day operations and acted as the institution’s public face. Notable Deputy Chairmen included figures who later became Prime Minister (Gulzarilal Nanda, P.V. Narasimha Rao, Manmohan Singh) or President (Pranab Mukherjee), underscoring the post’s political weight.

The PlanningCommission comprised 4to7 full-time members (holding the rank of State Minister), several *ex-officio* members including the Finance Minister, and a Member-Secretary (a senior IAS officer). Operationally, it maintained 31 specialized divisions covering sectors (agriculture, industry, power, transport) and cross-cutting areas (financial resources, perspective planning, rural development). For each Five-Year Plan, the Commission established working groups and steering committees with technical experts and state representatives , though final authority rested with the central Commission and N.D.C. approval.

The National Development Council: Inter-Governmental Forum

Recognizing the need for federal validity given the Planning Commission’s central character, the government created the National Development Council (NDC) on 6 August, 1952, through a Cabinet Secretariat Resolution . The NDC’s composition, the Prime Minister as Chairman, all Union Cabinet Ministers, all State Chief Ministers, Administrators of UT, and members of Planning Commission, provided the necessary federal veneer in India’s diverse polity. The NDC’s formal functions included approving Five -Year Plans, setting guidelines for national plan formulation, reviewing implementation, and facilitating Center-State coordination.

However, critical analysis reveals significant limitations. The NDC worked by consensus rather than voting, maintain no formal resolution process, and met irregularly (56 meetings from 1952 to 2012, hardly once a year). Academic research by Swenden and Saxena (2017) analyse the 1st 50 N.D.C. meetings concluded:- “Analysis of agenda paper and records indicates the dominance of central economic thought , articulated by the Prime Minister and Union Ministers, with states following that direction.” States could record disagreeing opinions, but the priorities determined by the Planning Commission and Prime Minister effectively.

Five-Year Plans :- Development Impact and Ideological Evolution

The Planning Commission (from 1951- 2017) formulated 12 Five-Year Plans, each reflecting prevailing development paradigms :-

The **1st Five-Year Plan (1951- 56)** used the Harrod- Domar model, emphasize agriculture, price stability, power, & transport. Allocating ₹2,069 cr., it exceeded its 2.1percent growth target, achieving 3.6 percent real growth. The **2nd Five-Year Plan (1956- 61)** marked India's decisive turn toward heavy industrialization under P.C. Mahalanobis's model, establishing major steel plants (Durgapur, Bhilai, Rourkela), 5 IITs, and the UGC (University Grants Commission). This plan institutionalized the " Socialist Pattern of Society" that would dominate Indian economic for about 3 decades.

Subsequent plans faced implementation challenges. The **3rd Five-Year Plan (1961-66)** was disrupted by the 1962 Sino -Indian War and the 1965 Indo -Pak. War, followed by severe droughts . From 1966 - 69, India operated under annual plans (" Plan Holiday") rather than a comprehensive five-year framework. The **4th Five-Year Plan (1969- 74)** introduced the Gadgil Formula, a landmark development in fiscal federalism discussed below.

The **8th Five-Year Plan (1992- 97)**, implemented post -liberalization, represented a partial ideological retreat from comprehensive planning. Yet, the Commission retained substantial authority through the Gadgil - Mukherjee Formula & continued CSS design. The **11th Five-Year Plan (2007- 12)** emphasized " faster & more inclusive growth," while the **12th Five-Year Plan (2012-17)**, ultimately cut short by the Commission's 2014 abolition, focused on " faster, sustainable, and more inclusive growth ."

Fiscal Federalism Mechanisms :- Evolution of Gadgil Formula

Central assistance to states operated through two parallel channels: the constitutionally mandated Finance Commission (Article 280) recommending tax devolution and grants, and the extra-constitutional Planning Commission allocating plan grants and loans. This duality created tension, with the Finance Commission emphasizing equity and constitutional principles while the Planning Commission pursued development objectives with greater discretion.

To rationalize the fund allocation by state and to reduce the political irrationality, Gadgil Formula was introduced by the Dhananjay Ramchandra Gadgil, Deputy Chairman, in 1969, approved by the NDC for the Fourth Five-Year Plan. The formula created two categories:- Special Category States (initially Assam, J & K, and Nagaland, eventually expanding to 11 states) which received 90 % grants and 10 % loans due to hilly terrain, tribal population, strategic borders, and economic backwardness; and General Category States receiving formula -based allocations.

For General Category States, the original formula weighted: Population (60 %), Per Capita Income below national average (10 %), Tax Effort (10%), Ongoing Irrigation/Power Projects (10 %), and Special State Problems (10 %). A 1980 revision altered weights: Population (60 %), Per Capita Income (25 %), Tax Effort (7.5 %), Special Problems (7.5 %). The Gadgil -Mukherjee Formula (1991), named after Pranab Mukherjee , Deputy Chairman, further refined the allocation: after setting aside funds for externally aided project and special area programs, 30 % went to Special Category States, with the remainder distributed as Population (55 %), Per Capita Income/ Backwardness (25 %), Fiscal Management (5 %), and Special Problems (15 %).

Performance components were added in 2000, fiscal management, including tax effort, population control, female literacy, and projects completion metrics.

The Gadgil Formula represented a progressive innovation promoting objective criteria and favoring poorer states. However, it also institutionalized central discretion over state resources and created dependencies. Southern states complained that population- based allocation penalized successful family planning. This formula became obsolete with the Planning Commission's abolition in 2015, and the 14th Finance Commission discontinued Special Category Status (except for North- East and hill states), causing substantial controversy.

Centrally Sponsored Schemes: Policy Uniformity vs. State Autonomy

The Planning Commission designed and administered CSS (Centrally Sponsored Schemes), programs implemented by states with shared funding (Center providing the majority share, states contributing). Till 2014 ,147 CSS existed, leading critics termed it " Schematic Raj", an excessive spread with overlapping objectives , disjointed funding, and bureaucratic red tape. CSS incorporate the tension between national priorities and state autonomy : while ensuring the countrywide minimum standards (like- rural employment, education, health), they forced states to co- fund programs they didn't design and might not have prioritized the given local conditions .

Academic critiques emphasize that CSS has weakened the fiscal federalism by converting states into " Implementing agencies" for fulfilling the centrally determined priorities. The Center government controlled scheme design, funding patterns, and do monitoring, while states performate only implementation responsibility and partial costs. This created mismatch between the planning requirements and the state capacities, especially for the poorer states, unable to provide matching funds. Yet ,CSS also delivered significant development outcomes, like- MGNREGA , SSA- Sarva Shiksha Abhiyan (universal education), National Health Mission, and the Mid -Day Meal scheme for students reached millions of beneficiaries, establishing minimum service floors across diverse states of India.

Critiques of the "Command-&-Control" Approach -

The Planning Commission faced sustained criticism from multiple ideological positions. Federal theorists argued it violated the spirit of India's federal constitution by concentrating excessive power in a central extra-constitutional body. The Sarkaria Commission on Centre -State Relations (1988) recommended strengthening the NDC and converting the Planning Commission into a constitutional National Economic and Development Council under Article 263.

Liberal economists challenged the efficacy of central planning. B.R. Shenoy (1961) argued, "Statistical tinkering with market mechanisms in the name of planning has brought upon us the worst of both worlds, the evils of planning and the evils that the market mechanism produces when tinkered with." The Centre for Public Policy Research (2010-2012) described the Planning Commission as " the institutionalization of an impossibility theorm, a centralized planning process that is ideologically deeply flawed . "

State governments, particularly those governed by the opposition parties, complained about the inadequate consultation, arbitrary allocations, & the imposition of unfunded mandates through CSS. Richer states resented subsidizing poorer ones while receiving limited benefits. Poorer states remained dependent on central discretion. Southern states opposed population -based formulas penalizing better governance.

Academically, Swenden and Saxena's comprehensive 2017 study concluded that- "The Planning Commission had a centralized impact- monitoring five - year and annual planning, designing and monitoring Centrally Sponsored Schemes, and discretionary grant -making participation. Central policy priorities and inter -state disagreements prevented the Planning Commission from acquiring a shared governance institution role, unable to off set the centralized implications of the aforementioned policies."

Constitutional Status & Democratic Deficit

The Planning Commission's extra-constitutional status created accountability gaps. Not mentioned in the Constitution, not established by parliamentary statute, & not accountable to Parliament, it exercised immense power over states and economic policy. The Deputy Chairman answered the questions in Parliament, but the Commission itself remained beyond direct legislative control. P.V. Rajamannar, Chairman of the 4th Finance Commission, highlighted " overlapping functions and responsibilities between the Finance Commission & Planning Commission in fiscal federal transfers," noting that constitutional Finance Commission recommendations could be undermined by the discretionary allocations of the extra-constitutional Planning Commission.

Critics of Planning Commission described it as the " 5th wheel of the coach", unnecessary and awkward within the constitutional framework of India. Yet its defenders argued that its extra-constitutional status provided flexibility for the economic co-ordination that might be hindered by rigid constitutional provisions. This tension between the constitutional decency and functional effectiveness remained unresolved throughout the existence of this Commission.

Structure, Mandate, & Functioning of NITI Aayog

Cabinet Resolution & Foundational Documents

The National Institution for Transforming India (N I T I Aayog) came into existence on Jan 1, 2015, through **Cabinet Secretariat Resolution No. 511/2/1/2015 –Cab.**, published in the Gazete of India. The resolution stated : -"The institution that will give life to these aspirations is NITI Aayog (National Institution for Transforming India). This is being proposed after extensive consultation across the spectrum of stakeholders, domain experts, and relevant institutions." The resolution formally superseded Resolution No. I - P(C)/50 of 15 March, 1950, ending the 64-year tenure of the Planning Commission.

The Cabinet Secretariat subsequently issued notifications on Jan 7 and Feb 16, 2015, detailing appointments and constituting the Governing Council. P M Modi announced appointments on Jan 5, naming Dr. Arvind Panagariya (Columbia University economist, former ADB Chief Economist) as Vice-Chairman with Cabinet rank, Bibek Debroy (economist) and Dr. V. K. Saraswat (former DRDO Secretary) as full- time members, and Sindhushree Khullar as its CEO.

Organizational Structure :- Governing Council & Advisory Framework

Structure of NITI Ayog differs fundamentally from the Planning Commission. The Governing Council, comprising the Prime Minister as its Chairman, Chief Ministers of all State, Lt. Governors of U Ts, the Vice -Chairman, & few selected Union Ministers, formally provides all states with an equal voice. This is contrary to the Planning Commission, where only the Deputy Chairman represented the institution in the Center- State discussions, and the N.D.C. didn't met regularly.

However, structural similarity doesn't ensure functional impact. The Governing Council has met only once annually {& irregularly, with no meetings in several years}, reducing it largely to a honorary status. Unlike the regular engagement through state- by- state plan formulation and approval processes of the Planning Commission, Advisory role of NITI Ayog lacks Systematic consultation mechanisms. States attend Governing Council meetings but doesn't have te power/ authority to negotiate on allocation of resources (NITI Ayog possesses no allocation powers) or bind the Finance Ministry to decisions.

NITI Aayog also established Regional Councils for specific cross-state issues, theoretically enabling collaborative problem-solving. In practice, these have met irregularly and yielded limited results. The institution operates through thematic verticals (Agriculture, Health, Education, Urban Development, etc.) with domain experts, but lacks the broad sectoral divisions and permanent state engagement that characterized the Planning Commission.

Mandate and Functions: Think Tank vs. Planning Authority

The 2015 Cabinet Resolution defined NITI Aayog's mandate :-

- To promote cooperative federalism through structured support initiatives and mechanisms with the states.
- To develop mechanisms to formulate credible plans at the village level and aggregate these upwards.
- To ensure special attention to sections of society that may be at risk of not benefitting adequately from economic progress.
- To design strategic and long-term policy frameworks, including a 15- year vision, 7-year strategy, and 3-year action agenda.
- To provide advice and recommendations to the Center and States on key policy matters.
- To create a knowledge and innovation hub for best practices and foster partnerships.
- To monitor and evaluate program implementation.
- To mainstream external ideas into policy-making through collaboration with think tanks and academic institutions.

Crucially, the resolution states NITI Aayog will work " in the spirit of Team India, in partnership with states " but explicitly avoids granting any binding authority or financial powers. The shift from a planning body to a think tank is complete, NITI Aayog recommends, the Finance Ministry decides.

This represents a profound change. The Planning Commission allocated resources, approved state plans, administered CSS funding, and exercised implementation oversight. States negotiated with the Commission knowing it controlled financial levers. NITI Aayog can only advise. States attending Governing Council meetings participate in discussions but cannot secure binding commitments. As West Bengal's Chief Minister Mamata Banerjee complained after walking out of the July 2024 meeting :- "What is the point of attending if we can't decide on our pending dues? "

Strategic Documents: Vision, Strategy, and Action Agenda

NITI Aayog replaced Five -Year Plans with longer- term framework :- a **15-Year Vision** document , a **7 -Year Strategy**, and a **3 -Year Action Agenda**. This replacement aimed to remove the rigidity of five -year cycles as done under Five year plans, enabling better, more efficient and effective, long-term planning while retaining the medium-term flexibility, ensuring periodic assessment and improvement . However, unlike Five

-Year Plans, which contained specific departmental divisions and state plan components , NITI Aayog 's documents are more aspirational rather than operational. NITI Aayog lacks mandatory resource allocation or implementation mechanisms.

The 3 -Year Action Agenda (from 2017-18 to 2019-20) identified priority sectors including -- education, agricultural transformation, manufacturing , health , and infrastructure. The 7-Year Strategy focused on structural transformation toward high growth. Yet these documents have limited support without economic support . States may voluntarily adopt the recommendations, but face no penalty for the non- adoption nor receive guaranteed resources for their implementation .

Competitive Federalism : Rankings & Performance Indices

Most visible contribution NITI Aayog is Competitive federalism through state rankings on various performance indices like :- School Education Quality Index, SDG India Index (Sustainable Development Goals), Innovation Index, Export Preparedness Index, Health Index , Composite Water Management Index , & State Energy and Climate Index. Similar methodology applies to the Aspirational Districts Programme 112 most backward districts of India, using real -time data and rankings to promote competitive enhancement.

The logic is convincing - publishing the transparent, comparable performance data creates credibility - related incentives for states to reform. Special recognition to Best -performing states gain and may attract investment. Poor performering states face pressure to improve their situation / ranking. The approach has generated positive competitions among states , states now work actively to improve their rankings, share best practices among themselves , & adopt elsewhere tested innovations , saving time & resources.

Critics express concerns about the methodology, data quality, & unintended consequences of such policies. Well known Economist Jayati Ghosh argues that parameters often favor states with better administrative capacity to report data rather than actual performance . Rankings may encourage " teaching to the test" rather than genuine reform. The approach could create a "race to the bottom" on labor and environmental standards as states compete for investment , raising a question on sustainable development . Essentially , competitive federalism without cooperative mechanisms for resource sharing may amplify inequalities , rich , capable states improve faster while poor , weak states fall further behind .

Comparative Analysis of Center-State Relations

Institutional Comparison: Bargaining Forum vs. Advisory Platform

Planning Commission, even with its centralized character, provided more regular, systematic engagement between the Center and States through its plan formulation processes, annual plan discussions , NDC meetings , and sector - specific working groups. States submitted plan proposals , mutually determined allocations with Planning Commission officials, and received specific resource commitments. While the Center dominated, states had institutional channels to advocate interests & negotiate priorities.

NITI Aayog eliminated all of these channels . The Governing Council only meets once annually, insufficient for the substantive negotiation on complex policy matters . States present concerns but receive no binding commitments . Critical decisions on resource allocation occurs within the Ministry of Finance without much systematic state input . The Inter - State Council, constitutionally outlined under Article 263 for Center -State co-ordination, remains largely dormant. Regional Councils meet irregularly. India lacks a permanent , functional inter -governmental relations mechanism .

This clearly represents a shift from **institutional federalism to executive federalism** . The Planning Commission established certain procedural requirements for Center - State interaction . NITI Aayog leaves such interaction to mere executive discretion, making outcomes dependent on political relationships rather than the institutional processes .

Fiscal Federalism Transformation: The Watershed of the 14th Finance Commission

The most important fiscal shift occurred through the **14th Finance Commission (2015 - 2020)**, whose recommendations coincided with the creation of NITI Aayog. The Commission increased states' share in central tax revenue from 32 % to 42 % of the divisible pool, an unprecedented 10 percentage point jump. In Financial Year 2015 -16, states received a sum of ₹ 5.79 lakh crore against ₹ 3.82 lakh cr. in 2014 -15, representing increase of about 51.56 %.

The 14th Finance Commission's philosophy emphasized untied resources to states, reducing discretionary central grants. The Commission recommended consolidating and reducing CSS, increasing formula-based transfers, and phasing out the plan/non-plan expenditure distinction. From F Y 2017 -18, the government formally abolished plan and non - plan budgets, integrating all expenditure into a unified framework.

However, reality proved more complex than headline numbers. While nominal devolution to states increased, several factors undermined autonomy gains:

First, the Center's increasing reliance on cesses and surcharges, which are *not* shared with states unlike normal taxes, shrank the effective divisible pool. Cesses rose from 9.43% of Gross Tax Revenue (GTR) in 2011-12 to 16.47 % in 2015-16, reaching nearly 18 % (₹4.23 lakh crore) in the 2024 -25 budget. The Center uses cesses to fund education (Primary Education Cess), roads (Road & Infrastructure Cess), health, and other sectors, precisely the areas where higher devolution was meant to give states autonomy. This bypasses devolution increases.

Second, the actual state share as a percentage of GTR declined. M. Govinda Rao's research shows that, accounting for cesses and other factors, states' *effective* share fell below 33% of GTR despite the nominal 42 % devolution rate.

Third, conditional transfers remained substantial. While the 14th Finance Commission increased untied resources, nearly 40 % of central transfers to states still occur through Centrally Sponsored Schemes outside the Finance Commission's ambit. CSS allocation data shows the Center continued to tie state budgets to central priorities, spending substantial amounts on state subjects through schemes that states must co-fund.

GST Implementation: Unified Market vs Fiscal Autonomy

The Goods and Services Tax (GST), implemented in 2017, represents India's most significant indirect tax reform. By subsuming multiple central and state taxes into a unified structure, GST created a common national market, reduced the cascading effect of taxes, and simplified compliance. The GST Council, comprising the Union Finance Minister and the Finance Ministers of all states, operates on consensus-based decision-making, which theoretically reflects cooperative federalism.

However, GST also represents a major surrender of states' fiscal autonomy. Earlier, states controlled their Value Added Tax (VAT) rates, generating significant revenue. Under GST, states cannot independently alter tax rates, decisions require approval from the GST Council where the Centre holds 33 % of the vote (enough to block changes with support from a few states). While states collectively hold 67 %, in practice the Centre's political leverage and structural advantages usually ensure that its preferences prevail.

The GST compensation mechanism promised states a 14% annual revenue growth for five years (2017-2022), funded through a compensation cess. However, during the COVID -19 pandemic, the Centre delayed compensation payments, with ₹78,000 crore pending in FY 2021- 22. The Centre eventually paid through loans that states had to borrow, and ended compensation in 2022 despite state concerns about inadequate revenue. States now face the worst of both worlds: loss of taxation powers without stable revenue replacement.

The Supreme Court's 2022 judgment on *Mohit Minerals* clarified that GST Council recommendations are only " advisory, not binding, " ideally preserving state legislative autonomy. In practice, states lack the political capacity to deviate from Council decisions, making this advisory status largely theoretical .

CSS Restructuring: Fewer Schemes, Continuing Conditionality

To address the problematic proliferation of Centrally Sponsored Schemes (CSS), the Central Government set up a sub-group of Chief Ministers in Feb 2015 to recommend rationalization . The group proposed integrating 147 schemes into umbrella categories with more state flexibility, increased central funding (min. 50 % for optional schemes), 25 % flexi -funds within schemes for state-specific adaptations, and streamlined procedures.

By 2015, the government reorganised CSS into 28 umbrella schemes, later classified into:

- **6 " Core of the Core " schemes** (mandatory, high central funding),
- **20 " Core " schemes** (important, some flexibility),
- **2 " Optional " schemes** (states may participate voluntarily).

Funding patterns changed: most CSS now operate on a 60:40 basis for general states and 90:10 for Northeastern and hill states, replacing earlier patterns that often included 100% central funding.

Though reducing the number of schemes from 147 to 28 was significant consolidation, fundamental issues persist: states must co-finance centrally designed schemes with limited input into priorities or implementation. The 40:60 or 50:50 patterns increase state fiscal burdens compared to earlier high central-share schemes. States also argue that "optional" schemes become effectively mandatory due to political pressure or linked policy requirements.

Budget data shows that 15 schemes constitute over 90 % of CSS expenditure (FY 2021- 22), including MGNREGS , PM- Kisan, PMAY, Jal Jeevan Mission, National Health Mission, and education schemes. This means most state resources remain tied to central priorities. Moreover, frequent delays in fund releases force states to either delay implementation or fund expenditure themselves, creating fiscal uncertainty.

Special Category Status (SCS) Controversy

The 14th Finance Commission's decision to discontinue Special Category Status (except for existing Northeastern and three hill states) sparked major political conflict. The rationale was that SCS was linked to the Planning Commission's 'plan assistance' mechanism, and with the Planning Commission abolished, SCS lost its institutional basis. The Commission argued that need-based formula transfers could address backwardness more effectively than categorical status.

States that previously held or demanded SCS, especially Andhra Pradesh, Bihar, and Odisha, strongly opposed this. Andhra Pradesh is the most contentious case. After the 2014 bifurcation that created Telangana, PM Manmohan Singh and later PM Modi promised SCS for five years to compensate for losing Hyderabad (which generated virtually all IT industry revenue and 98 % of software exports). Later, Finance Minister Arun Jaitley offered a "monetary equivalent" but explicitly refused SCS, citing the Finance Commission's framework and potential demands from other states.

AP documented severe impacts: it retained 59 % of the population and debt but only 47 % of revenue; per capita revenue receipts were ₹ 8,397 compared to Telangana's ₹ 14,411; and the actual revenue deficit was ₹ 66,362 crore versus the Finance Commission's estimated ₹ 22,113 crore. The SCS dispute led the TDP to leave the NDA in 2018 and return only in 2024 after receiving major infrastructure allocations in the Central Budget, suggesting political considerations now drive resource flows more than formula-based mechanisms.

Real Examples of Changing Centre-State Dynamics

1. July 2024 Governing Council Boycott : Symbolic Breakdown

On 27 July 2024, the 9th Governing Council meeting of NITI Aayog saw an unprecedented collective boycott. Ten opposition- ruled CMs either fully boycotted or staged dramatic walkouts :

- **Tamil Nadu CM M.K. Stalin** announced a boycott, stating: "The Union Budget has completely ignored Tamil Nadu. Since the centre has boycotted us, we are boycotting the NITI Aayog meeting." The state highlighted pending dues and discriminatory CSS fund allocation.
- **West Bengal CM Mamata Banerjee** walked out after five minutes, claiming she was interrupted while BJP CMs received 10–12 minutes. She alleged ₹1.16 lakh crore in pending central dues, including a total stoppage of MGNREGS funds since December 2021.
- **Karnataka, Kerala, Telangana, Himachal Pradesh, Punjab, and Jharkhand CMs** boycotted, citing the 2024–25 Budget's heavy allocations to Bihar and Andhra Pradesh (both NDA allies), while opposition states' demands were ignored.

This occurred as PM Narendra Modi formed a coalition government after lacking a majority for the first time since 2014. The Budget's preferential treatment of Bihar and AP intensified perceptions of **quid- pro- quo politics** rather than need- based federal fiscal transfers.

2. Andhra Pradesh : The Broken Promise of Special Assistance

The Andhra Pradesh Re-organisation Act, 2014, passed by Parliament and assented to by President Pranab Mukherjee, provided SCS for the residual state to compensate for losing Hyderabad. PM Manmohan Singh and later PM Narendra Modi reaffirmed this.

But after the 14^{th} Finance Commission ended SCS, the Centre argued that granting it would require a constitutional amendment and set precedents for other states. Multiple compensation packages were offered instead. The TDP quit the NDA in 2018 over this issue and rejoined only in 2024 after receiving large budget allocations for the capital city, Polavaram project, and industrial corridors, effectively giving the benefits of SCS without the title, demonstrating political discretion over institutional mechanisms.

3. Allegations of Fund Withholding: MGNREGS and Other Schemes

Opposition - led states document systematic delays or withholding of central funds :

- **West Bengal:** Reports complete stoppage of MGNREGS funds since Dec 2021, claiming selective punitive action.
- **Tamil Nadu:** Reported ₹38,000 crore pending dues; alleges funds were withheld after it opposed NEP 2020.
- **Karnataka:** Documents ₹1.87 lakh crore unmet demands including drought relief; claims it contributes far more to Central taxes than it receives.
- **Kerala:** Highlights denial of disaster relief funds despite constitutional provisions; also reports delayed GST compensation and CSS releases.

The pattern suggests political considerations influences the fund flow, marking a shift away from transparent, formula -based mechanisms like the Gadgil formula of Planning Commission.

Cooperative Federalism ? The GST Council Experience

Though the GST Council is often cited as a model of cooperative federalism, with around 50 meetings and consensus -based decisions, it also reveals significant limitations. During the pandemic COVID-19, when whole revenues crashed, the Centre refused to borrow to meet statutory compensation and instead asked states to borrow. Later, Centre borrowed but deducted dues from future compensation. When compensation ended in 2022, the Centre rejected state requests for extension despite unmet revenue guarantees.

While decisions appear consensual, Central priorities dominate due to:

- 33 % voting share,
- control over the Council Secretariat ,
- broader political power

States rarely use their collective 67 % voting share, making the Council more of a legitimising mechanism for Central decisions.

Competitive Federalism: Development Gains Vs Widening Inequalities

NITI Aayog's indices have generated healthy competition, states aim to improve SDG rankings, adopt best practices in education, water management, and health. Gujarat's business policies, Kerala's social achievements, Maharashtra's urban innovations, and Telangana's IT policies have influenced others.

However, without cooperative redistribution mechanisms, competitive federalism risks widening inequalities. Wealthy states with stronger capacities improve faster; poorer states struggle. The Aspirational Districts Programme targets backward districts but does not address broader state-level capacity gaps.

Competitive pressure also creates perverse incentives: states may prioritise measurable indicators over real outcomes, manipulate reporting, or adopt policies unsuitable for local contexts. Labour and environmental standards may erode as states compete for investment, leading to a "race to the bottom."

Critiques from State Governments & Federal Scholars

Opposition States' Critique: "Discriminatory Federalism"

CMs of Opposition parties argue that the Union uses fiscal and administrative mechanisms to reward loyalty and punish opposition. The "double -engine government" slogan by BJP, promoting the idea that states with the same party as the Centre progress faster, is seen as proof of politically motivated resource allocation .

Additional concerns involve :-

- selective use of CBI / ED against opposition leaders ,
- Governors delaying approval of state bills ,
- threats or imposition of President's Rule ,
- delays in project clearances for opposition states .

Kerala CM Pinarayi Vijayan calls this "oppressive centralisation." Tamil Nadu's Stalin describes it as an "autocratic federalism" where the Centre dictates and states obey, or face economic constraint.

Academic Assessments: Centralisation in New Forms

Well known federalist scholars offer critical assessments on this :

- **Wilfried Swenden & Rekha Saxena (2017) :**
  The Replacement of the Planning Commission with NITI Aayog has weakened India's already limited "shared rule" institutions and strengthened the Finance Ministry's discretion.
- **Prabhat Patnaik (2015) :**
  The transition to NITI Aayog represents India's shift from socialistic planning to neo-liberal governance , centralising power in the Ministry of Finance and PMO .
- **Louise Tillin (2019) :**
  Despite increase in tax devolution, simultaneous developments (GST, CSS restructuring, rise of cesses, weak advisory role of NITI Aayog) have reduced state's practical autonomy .
- **M. Govinda Rao :**
  Elimination of Planning Commission didn't eliminate the planning ; it removed all the transparent allocation mechanisms , increasing Finance Ministry control without structured state consultation .

CPI-(M)'s Analysis : Neoliberal Federalism and Corporate Influence

The CPI (M) argues that PM Modi - era reforms represent "corporate - driven centralization ," weakening public planning and turning states into competitors for private capital . This fosters labour deregulation , weaker environmental norms, and political centralisation through federal institutions.

Though ideologically grounded , this analysis reflects many academic and state- level concerns.

Missing Institutional Infrastructure for Federalism

Scholars emphasize that real cooperative federalism requires institutions India currently lacks :

- **Inter-State Council (Art. 263):** Constitutionally intended for dispute resolution and policy coordination, but meets irregularly and remains ineffective.
- **Permanent consultation mechanisms:** The Planning Commission and NDC, despite flaws, offered regular engagement. NITI Aayog's annual meeting is inadequate.
- **Platforms for state input before major policies:** Especially important for subjects affecting state finances.

Conclusion - From Institutional to Political Centralization

The evidence shows that abolition of the Planning Commission & creating NITI Aayog was more than a cosmetic administrative change - it coincid with a deep structural transformation of India's fiscal and planning architecture. Under the new framework , states formally gain a larger share of Union taxes , but the mechanism of federal negotiation & accountability have been weakened . Planning & strategy functions have shifted out of a state -engaged model into executive agencies under the P.M.O. and Finance Ministry. In practice , the fiscal authority has become much more centralized . Key consultation platforms - the NDC, inter -governmental committes, and even the state advisory role in 5 -Year Plans - have largely disappeared . Governing Council of NITI Aayog has few practical tools , & the Finance Ministry's discretion in fund allocation remains practically unchecked. The analysis above shows, the gap between the government's co-operative federalism narrative and the on - the - ground outcomes has so far been substantial .

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