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# Indian Federalism and Fiscal Transfers

Published On: 20-05-2026



A recent debate on Indian federalism has highlighted growing concerns regarding political representation, fiscal redistribution, Centre–State relations, and democratic balance in India. Economists and policy experts Devesh Kapur and Arvind Subramanian argued that widening regional economic disparities and increasing tensions over fiscal transfers are posing major challenges to India’s federal structure. The debate gained prominence in the context of the upcoming delimitation exercise after 2026 and concerns raised by several southern states over political representation and financial allocations.?

## Issues Related to Political Representation

The debate centres around the freeze on Lok Sabha seat allocation based on the 1971 Census. Constitutional amendments enacted in 1976 and extended in 2002 froze the delimitation process until the first Census conducted after 2026. As a result, states that successfully controlled population growth, especially southern states, fear losing parliamentary representation in future delimitation exercises.

### Experts noted that if seats were allocated according to present population estimates:

Northern states such as Uttar Pradesh, Bihar, Rajasthan, and Madhya Pradesh would gain more seats.

Southern states such as Tamil Nadu, Kerala, Andhra Pradesh, and Telangana could lose representation.

### This has raised concerns regarding:

Federal balance

Political equity

Representation of economically better-performing states.

## Fiscal Federalism Concerns

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The debate also focuses on fiscal federalism, which refers to the financial relations between the Centre and states. Southern and economically stronger states have argued that they contribute a larger share to national revenues but receive comparatively lower financial transfers from the Centre.

### **Experts warned that:**

Excessive redistribution without performance incentives may create dependency.

Perceived imbalance in fiscal transfers may weaken trust between the Centre and states.

Fiscal disagreements can affect national integration and cooperative federalism.

### **Federalism in India**

India follows a quasi-federal system with a strong Centre. The Constitution distributes powers between the Union and states through:

Union List

State List

Concurrent List

### **The Constitution also provides mechanisms such as:**

Finance Commission

Inter-State Council

GST Council

to strengthen cooperative federalism.

Delimitation and Democracy Debate

### **The issue has intensified because delimitation directly affects:**

Equal representation

Parliamentary democracy

Federal balance

### **Supporters of delimitation argue that:**

“One person, one vote” requires equal representation based on population.

### **Opponents argue that:**

States that controlled population growth should not be politically penalised.

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Federalism and regional balance must also be protected.

### **Suggestions by Experts**

#### **Experts suggested that resolving federal tensions requires:**

Greater consultation between Centre and states

Consensus-building mechanisms

Transparent fiscal transfer systems

Balanced representation arrangements

Cooperative rather than coercive federalism.

### **About Federalism**

#### **Federalism refers to a system of government where powers are constitutionally divided between:**

Central government

State governments

Federal Features of Indian Constitution

Written Constitution

Division of powers

Independent judiciary

Bicameral legislature

Supremacy of Constitution

### **Unitary Features of Indian Constitution**

Strong Centre

Single citizenship

Emergency provisions

Governor appointed by Centre

Parliament's power to alter state boundaries

### **Important Constitutional Provisions**

Article 1: India as a "Union of States"

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Article 246: Distribution of legislative powers

Article 280: Finance Commission

Article 263: Inter-State Council

Article 356: President's Rule

Seventh Schedule: Union, State, and Concurrent Lists

### **Finance Commission**

Constituted every five years by the President under Article 280.

#### **Recommends:**

Tax devolution

Grants-in-aid

Fiscal distribution between Centre and states.

### **Delimitation Commission**

Independent body responsible for redrawing parliamentary and assembly constituencies.

Constituted under Delimitation Commission Act.

Decisions of the Commission cannot normally be challenged in court.

### **Cooperative Federalism**

Cooperative federalism refers to collaboration between the Centre and states in policymaking and governance.

#### **Institutions promoting cooperative federalism include:**

NITI Aayog

GST Council

Inter-State Council