Centre-State Disputes

Why in news?

In recent years, the economic conflicts between Centre and States in India have increased and become a source of 'persistent frictions' in the federal system.

Why there is economic conflict between Centre and State?

- **Economic reforms**- New Economic Policy, 1991 changed the context of Centre-State relations from cooperative to a conflictual one.
- **Mobilisation of resources**- States have less autonomy over their public expenditure policies and more disputes arouse over resource sharing with the Centre.
- **Policy resistance**- States have resisted the Centre's policies leading to breakdown of the give and take equation that used to govern the Centre-State relations.
    - Example- Tamil Nadu oppose Centre's NEET (National Eligibility and Entrance Test) for admission to undergraduate medical courses.
- **One size fits all approach-** Homogenisation of social sector policies may not address the specific challenges faced by each State.
- **Hinders fiscal federalism**- 16th Finance Commission has recommended 45% weightage criteria to income which is not welcomed by rich States.
- **Limited autonomy**- States should ideally have more discretion and autonomy in regulatory institutions and central agencies, but the Centre has tried to impose its own preferences and agendas on them.
- **Impact on fiscal autonomy**- Both have adopted a more rigid and confrontational stance, reducing the scope for negotiation and compromise.

Cooperative federalism is a concept that emphasise the need for coordination, collaboration and consensus among different levels of government in federal system.

What are the economic consequences due to conflict?

Underinvestment by States	Parallel Policies

• The spread of Centre's activities leads to a situation where the Centre starts crowding out the States in terms of investments. • **Infrastructure development**- In PM Gati Sakti, the flexibility of States in formulating their master plan is curtailed by centralised planning and implementation leading to underinvestment by States. • **States disparity**- The spending for the infrastructure scheme is more concentrated in the 3 largest States of Uttar Pradesh, Maharashtra and Gujarat.	• Federal conflicts leads to either the Centre or States duplicating others' policies. • **Pension reforms**- Many States joined the National Pension Scheme initially but some States started to roll back to old pension scheme as the fiscal cost would be visible only after 2034 when most of the newly joined employees retire. • **Trust deficit**- The emergence of such parallel schemes is mainly due to trust deficit prevailing in the federal system, whose fiscal costs will have long run consequences on the economy.
Fiscal competition	
• **Competition** - It is due to frictions with the Centre, State governments will engage in competition with other States and with the Centre. • **Welfare provisioning**- The Centre has upper hand over States revenues as raising non-taxes are confined to smaller sphere. • This is due to direct provisioning of many utilities and services by the Centre.	

What lies ahead?

- The inter-dependence between Centre and States must be preserved for successful implementation of laws and policies.
- The Centre should respect the State's autonomy and discretion in various spheres.

References

1. The Hindu- Persistent federal frictions
2. Indian Express- Constitution of 16th Finance Commission

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