



**GST, NITI Aayog, and the Politics of Cooperative Federalism: Evaluating Centre–State Policy Coordination in India**

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**Abstract**

India's transition to the Goods and Services Tax (GST) in July 2017 and the concurrent reconstitution of the planning apparatus through NITI Aayog (2015) represent two landmark institutional transformations that have fundamentally reordered Centre–State fiscal and policy relations. This paper critically studies whether these twin reforms have made the practice of cooperative federalism in India stronger or weaker. Based on primary data collected from the GST Council meetings, the Finance Commission reports (14th and 15th), and the progress reports of the NITI Aayog, the study analyzes the revenue buoyancy of the GST, compensation disputes between states, the transfer patterns between different governments, and the role of NITI Aayog in governance during 2015–2024. The results show an ambivalent picture, as the GST Council has provided a meaningful, multi-tier deliberative platform, and NITI Aayog has contributed to convergence programming through the Aspirational Districts Programme, but there are also big concerns about the cessation of compensation cess, the differential revenue performance between states, and the sense that state planning autonomy has been subsumed by the central technocratic preferences. The paper concludes that genuine cooperative federalism requires constitutionally entrenched revenue-sharing guarantees, a revitalised role for states in NITI Aayog's governance architecture, and a rules-based dispute resolution framework within the GST Council.

**Keywords:** *cooperative federalism, goods and services tax, NITI Aayog, Centre–State relations, fiscal federalism, GST Council, intergovernmental fiscal transfers, Indian federalism*

**1. Introduction**

India's federal architecture, enshrined in Parts XI and XII of the Constitution of India (1950), has long been characterised by scholars as a union of states that leans constitutionally toward the centre (Singh, 2011). The post-liberalisation era, since 1991, accelerated the economic and political contestations inherent in this asymmetric arrangement, as states became progressively significant as sites of investment, governance innovation, and electoral realignment (Sharma, 2019). Against this background, two institutional ruptures that occurred under the National Democratic Alliance (NDA) government led by Prime Minister Narendra Modi—the dissolution of the Planning Commission and its replacement by NITI Aayog in January 2015, and the rollout of the Goods and Services Tax on 1 July 2017—have transformed the landscape of Centre–State fiscal and policy coordination in ways that remain contested among economists, political scientists, and state governments. The GST is widely acknowledged as India's most consequential tax reform since independence (Rao, 2018). By subsuming seventeen central taxes and thirteen state taxes into a unified indirect tax framework, the GST constituted a grand fiscal bargain between twenty-nine states and two union territories with legislature, mediated through the GST Council—a constitutionally established body under Article 279A in which states hold a collective voting weight of two-thirds. Simultaneously, NITI Aayog displaced the centralised, directive-plan model of the erstwhile Planning Commission and ostensibly repositioned itself as a collaborative think-tank that would promote competitive and cooperative federalism (NITI Aayog, 2015). Both reforms, in official discourse, were branded as milestones in the deepening of cooperative federalism. However, the empirical record since 2015 invites a more nuanced interrogation. The lack of funds for the GST caused a long-standing disagreement between the States and the mechanism for compensation, where the cumulative compensation demand till 2022 was estimated to be higher than ₹7 lakh crore (Reserve Bank of India [RBI], 2023). The compensation guarantee was suspended in June 2022, five years after the introduction of the Goods and Services Tax (GST), putting revenue-shortfall states at risk at a time of fiscal strain caused by the COVID-19 pandemic. Despite using consultative language, NITI Aayog has been seen to lack institutional arrangements to convert inputs from the states into binding policy commitments, thus being open to charges of being a tool for centralisation under the guise of cooperativeness (Kumar & Mishra, 2021). Such tensions reveal the divide between the ideology of cooperative federalism and the politics of intergovernmental relations in India.

This paper addresses three principal research questions. First, to what extent has the GST institutional framework—especially the GST Council—functioned as a genuine instrument of cooperative federalism? Second, how has NITI Aayog reframed Centre–State policy coordination relative to its predecessor, and with what consequences for state policy autonomy? Third, what structural reforms are necessary to embed cooperative federalism as an operational norm rather than an aspirational discourse in India's governance architecture? The study synthesises quantitative data from GST revenue returns, Finance Commission reports, and RBI state budget studies with qualitative analysis of institutional design features and political economy dynamics.

The paper is structured as follows. Section 2 provides the theoretical framework for cooperative federalism. Section 3 examines the design and functioning of GST as a means of fiscal federalism. In Section 4, the role and constraints of NITI Aayog are discussed. Section 5 presents the information on Centre–State fiscal transfers. The compensation dispute is analysed in Section 6. The role of policy coordination by NITI Aayog is explored in Section 7. Section 8 outlines structural tensions and reform needs. A comparative perspective is given in Section 9. This paper finally ends with thoughts on the future of cooperative federalism in India in the concluding section 10.

**2. Theoretical Framework: Cooperative Federalism:** Cooperative federalism, in its theoretical sense, first became a part of the American political tradition in the mid-20th Century, and is defined by the sharing of responsibilities, negotiated policymaking, and collaboration between federal and sub-national units on the implementation of programmes (Bagchi, 2006). Cooperative federalism recognizes the need for multi-level government coordination in areas like environmental regulation, health care, education, and taxation, where policy areas are complex and have no clear lines of jurisdiction. To this day, the metaphor of federalism as a marble cake (as contrasted with a layer cake), as developed by Elazar (1966, cited in Bagchi, 2006), is analytically useful in capturing this interpenetration of governmental functions. Cooperative federalism is distinctively a federal tradition in the Indian context. Historically, state fiscal autonomy has been limited by the centralising tendencies in the Constitution (Schedule VII), by the Finance Commission's and the Planning Commission's dominant position as vertical transfer mechanisms, and by centrally sponsored schemes (CSS) with conditional grants (Rao & Singh, 2005). The fiscal 'federalism' literature, rooted in the traditional approach, has focused on the importance of two components of fiscal decentralisation: revenue autonomy (freedom to tax) and expenditure autonomy (freedom to spend), and the rules of transfers needed to address horizontal fiscal imbalances between states with different resource bases, including Bahl and Martinez-Vazquez (2006). Several preconditions have been suggested in the normative literature for meaningful cooperative federalism: (a) constitutionally guaranteed revenue shares, (b) institutional forums for multi-party deliberation and conflict resolution, (c) transparency in transfer mechanisms, (d) support for state policy autonomy in concurrent areas, and (e) capacity-building assistance to fiscally weaker states (Shankar & Shah, 2003). The Indian experience of GST and NITI Aayog is instructive in this context in terms of the limited institutional innovation in the face of political economy pressures that work in favour of central concentration. A more general comparative perspective is provided by Swenden and Saxena (2017), who discuss federal systems around the world that face the problem of 'asymmetric federalism', where formal constitutional symmetry and substantive asymmetries in economic power, administrative power, and political bargaining power are present. This imbalance is stark in India between the states of Maharashtra, Karnataka, Tamil Nadu, Uttar Pradesh, Bihar, and many states in the northeastern region. The structure of the GST is fiscally sensible, but is politically sensitive due to its structural shift of revenue from producing states to consuming states, which has led to political tensions with the manufacturing and resource-exporting states (Chakraborty & Rao, 2010). This paper spells out the nature of cooperative federalism as a mix of three institutional features: (i) procedural cooperation – the presence of formal intergovernmental deliberative forums; (ii) substantive cooperation – how much state preferences influence policy outcomes; and (iii) fiscal cooperation – the quality and reliability of central transfers. The GST Council's work is like procedural cooperation, but shows mixed performance on substantive and fiscal aspects. NITI Aayog has been set up as a consultative institute without the financial transfer powers of its predecessor and therefore has restricted powers to provide substantive and fiscal cooperation.



3. GST: Architecture and Institutional Design

3.1 Constitutional and Legislative Framework: The Constitution (One Hundred and First Amendment) Act, 2016, amended Articles 246, 248, 249, 250, 268, 268A, 269, 269A, and 270, and inserted Article 246A (Government of India, 2017). Article 246A granted concurrent taxing powers to Parliament and the State legislatures on goods and services tax, on condition that GST on inter-state supply will be levied and collected by the Union. This constitutional design, therefore, establishes a dual GST system which includes the Central GST (CGST) levied by the Centre and State GST (SGST) levied by each state, while Integrated GST (IGST) will apply to transactions across the states, and will be levied on the importing state.

The highest decision-making body under the new regime is the GST Council, which is set up under Article 279A. The members of the committee are either the Union Finance Minister, the Union Minister of State for Finance, or the Finance Ministers/ Deputy Chief Ministers of all states, as this represents the federal interest twice. As per the voting rule, any decision must have a three-fourths majority of votes, which includes one-third of the votes from the Centre and two-thirds of the votes from the states (combined). This arithmetic has been invoked to make sure that no central decision can be taken without the consent of the states, and no state group can challenge the Centre. However, in reality, nearly all the GST Council decisions made till 2024 have been taken by consensus, with voting in formal vote mode being used only twice, especially in the case of the compensation cess dispute in 2020 (GST Council, 2023).

3.2 GST Rate Architecture and Revenue Performance: The four broad categories of the GST rate structure will be 0%, 5%, 12% and 18%. This means that there will be four broad rates of GST. The essential commodities will have 0% GST, uncut diamonds and gems will have 0.25% GST, and gold will have 3% GST. The highest 28% is allocated for demerit goods and luxury goods, and the extra compensation cess is collected for the state compensation fund. Since launch, the rate structure has undergone significant rationalisation: in the 23rd Council meeting of November 2017, rates were reduced on 177 items to address inverted duty structures and consumer welfare concerns (GST Council, 2023).

Table 1. GST Revenue Collection in India: 2017-18 to 2023-24 (₹ Crore)

Table with 6 columns: Year, Gross GST Revenue (₹ Cr), CGST (₹ Cr), SGST (₹ Cr), IGST (₹ Cr), Cess (₹ Cr). Rows show data from 2017-18\* to 2023-24.

Note. Figures sourced from GST Council Secretariat (2024) and Ministry of Finance (2024). \* Partial year (July 2017-March 2018). CGST = Central Goods and Services Tax; SGST = State Goods and Services Tax; IGST = Integrated Goods and Services Tax. Revenue for 2023-24 includes provisional data released in April 2024.

The CAGR of the revenue collection from the new tax has been 12.8% per annum in the last five years, as can be seen in Table 1, from ₹7.19 lakh crore in the truncated year of 2017-18 to ₹20.18 lakh crore in 2023-24. Better outcomes and with monthly collections touched a record ₹1.5 lakh crore in April 2022 (up from earlier months) and crossed ₹1.6 lakh crore since then, following the e-invoicing mandate, e-way bill system (India, Ministry of Finance, 2023), phased rollout, and introducing an invoice matching framework in the e-way bill reconciliation process-GSTR-2A. The average revenue buoyancy coefficient (revenue growth in GST/Ratio of revenue growth in nominal GDP) over 2021-24 has been 1.4, indicating higher growth in GST compared to higher growth in nominal GDP in the post-pandemic recovery phase. Despite this overall positive outcome, horizontal equity is an ongoing issue. The destination-based tax principle has been heavily advantageous for large consumer states (such as Uttar Pradesh, Maharashtra, and West Bengal) and the losing states (producing and exporting states) have suffered structural losses in their revenue relative to their pre-GST levels (Chakraborty, 2018). Though it is argued that this fiscal realignment is warranted by the destination principle of VAT economics, it has had political costs and has been a factor in the compensation issues explored in Section 6.

4. NITI Aayog: Reconstituting the Planning Architecture: 4.1 From Planning Commission to NITI Aayog: The Planning Commission was dissolved on 1 January 2015 by executive resolution, and a new body called the National Institution for Transforming India (NITI Aayog) was established at the same time by Cabinet Resolution (NITI Aayog, 2015). Since 1950, the Planning Commission had been the site of a lot of power, as it controlled the allocation of plan assistance to states, essentially acting as a parallel finance authority, while bypassing constitutional transfer mechanisms and placing ideological and political conditions on the states' receipt of plan assistance. The term cooperative federalism was explicitly used in the mandate of NITI Aayog. The mission statement of the Commission, which explicitly states a new direction from the Commission's 'prescriptive planning model' to a 'facilitative advisory knowledge institution' that will undergird 'Team India' through bottom-up development planning, state-led innovation, and competitive benchmarking. The Governing Council, chaired by the Prime Minister and comprising all the Chief Ministers and Lt. Governors, was set up to provide a platform for genuine Centre-State discussions on development priorities (NITI Aayog, 2023).

4.2 Structural Differences and Continuities: The Planning Commission and NITI Aayog have several structural differences. Firstly, it lacks an allocation function, and it is no longer an allocator of plan grants to the states, as this responsibility is now taken on by the Finance Commission's formula-based devolution and the Ministry of Finance's CSS transfers. This separation is important institutionally, as it takes the political hurdles of conditionality out of the Planning Commission's grant allocation. Secondly, the NITI Aayog has a full-time CEO and has sector-specific verticals with domain experts from the academic, industry, and civil services. Third, it comes with the development indices such as the SDG India Index, Health Index, School Education Quality Index, and State Innovation Ranking, which creates competitive pressure through benchmarking (NITI Aayog, 2021). Several important parallels have been noted, though. The Vice-Chairman and CEO of NITI Aayog is appointed by the Prime Minister without undergoing any confirmation process in Parliament or other stakeholder bodies (Kumar & Mishra, 2021). On the principle of inclusiveness, the Governing Council meets infrequently, usually once a year, and the extent to which it makes substantive decisions has been described by the participating Chief Ministers as 'mostly ceremonial'. State-level planning boards, the institutional link between state governments and the Planning Commission via State Plan approvals, have been left without a viable replacement, leaving an institutional void in state-level development planning.

5. Centre-State Fiscal Dynamics under GST

5.1 Finance Commission Devolution: The Finance Commission, constituted under Article 280 of the Constitution, is the primary constitutional mechanism for Centre-State fiscal transfers in India. The Fourteenth Finance Commission (FC-XIV), for the award period 2015-20, recommended a historically unprecedented increase in the states' share of central taxes from 32% (under FC-XIII) to 42%, representing the largest single enhancement of vertical devolution in the Finance Commission's history (Fifteenth Finance Commission, 2021). The Fifteenth Finance Commission (FC-XV) modestly reduced this to 41% for 2021-26, partly to accommodate defence and internal security expenditure obligations of the Union, and introduced substantial conditional grants tied to local governance reform.

Table 2. State-wise GST Compensation Claims: 2018-19 to 2021-22 (₹ Crore, Select States)

Table with 6 columns: State / UT, 2018-19 (₹ Cr), 2019-20 (₹ Cr), 2020-21 (₹ Cr), 2021-22 (₹ Cr), Cumulative (₹ Cr). Rows list Maharashtra, Delhi, Punjab, Himachal Pradesh, Uttarakhand, Kerala, Goa, and All States (Total).

Note. Compiled from Comptroller and Auditor General of India (2022), RBI State Finances Report (2023), and GST Council Secretariat (2024). Compensation is calculated as the shortfall relative to a protected revenue base growing at 14% per annum from the 2015-16 base-year revenue. 'All States (Total)' denotes aggregate claims from all eligible states and UTs with a legislature.

Table 3. Finance Commission Tax Devolution to States: 12th-15th Finance Commissions



Finance Commission	Period	Share to States (%)	Grants-in-Aid (₹ Lakh Cr)	Tax Devolution (₹ Lakh Cr)	Key Feature
Twelfth FC	2005–10	30.5	6.31	14.82	Debt relief to states
Thirteenth FC	2010–15	32.0	8.75	17.86	Fiscal capacity equalisation
Fourteenth FC	2015–20	42.0	11.44	38.61	Largest-ever devolution jump
Fifteenth FC	2020–21 (Interim)	41.0	—	6.83	COVID adjustment
Fifteenth FC	2021–26	41.0	10.33	43.45	Local body grants have been enhanced.

**Note.** Source: Fifteenth Finance Commission (2021, Vol. I, Chapter 3) and Ministry of Finance (2022, Economic Survey). Grants-in-Aid include local body grants, disaster management grants, and sector-specific grants. The 42% devolution under FC-XIV represents the highest share ever recommended; the marginal reduction to 41% under FC-XV reflects ring-fencing of defence allocations.

Table 3 shows that a series of awards by the Finance Commission over the years has progressively shifted the distribution of tax revenue toward states, in keeping with the constitutional principles of fiscal decentralisation. This, however, has been partially offset by the concurrent decline in the buoyancy of the divisible pool, which is mainly due to cesses and surcharges levied that are not paid to states. The effective devolution rate is also significantly lower than the nominal 41%, as indicated by the increase in cesses and surcharges as a share of gross tax revenue from 10.4% in 2011–12 to 18.6% in 2022–23 (RBI 2023).

**5.2 Centrally Sponsored Schemes and Conditionality**

One of the key issues that continues to cause a rift between the Centre and the States is the design and conditionality of Centrally Sponsored Schemes (CSS). Although FC-XIV advocated for the rationalisation of CSS to respect state fiscal autonomy, the number of CSS rose from 66 at the beginning of FC-XIV to 131 in 2021, and there were many conditions attached to the release of central shares (India, Ministry of Finance, 2022). States have to match the contribution of the schemes, ranging from 25% up to 40% depending on their category (general, special category, and northeastern states), thus resulting in a strain on the finances of the states with low own revenue. The limitations imposed on state governments in terms of conditionality to adhere to central implementation formats, utilise certificates, or meet performance targets, have severely reduced the flexibility for state governments to adapt nationally-funded programmes to local priorities. NITI Aayog’s Aspirational Districts Programme (ADP), launched in 2018, represents a notable attempt to institutionalise convergent implementation of multiple CSS in 112 of India’s most backward districts across 28 states (NITI Aayog, 2018). The ADP’s delta-ranking methodology—measuring incremental improvement rather than absolute scores—has created positive competitive incentives among district administrations. Table 4 documents selected ADP performance outcomes.

**Table 4. NITI Aayog Aspirational Districts Programme: Selected State-wise Development Outcomes**

State	Districts Covered	Health Index Improvement (pts)	Education Index (pts)	Agriculture Score	Key Intervention
Jharkhand	19	14.3	12.8	9.7	Nutrition & immunisation
Uttar Pradesh	8	11.2	13.1	8.4	Institutional deliveries
Rajasthan	5	10.8	11.5	12.3	Water & sanitation
Madhya Pradesh	8	13.4	14.2	11.1	Anaemia reduction
Odisha	10	15.1	13.7	13.5	Skill development
All 112 Districts	112	13.2	12.9	10.6	Multi-sectoral convergence

**Note.** Source: NITI Aayog (2021, 2023). Index improvement points measured against the 2018 baseline composite indices across 49 key performance indicators in five domains: health and nutrition, education, agriculture, basic infrastructure, and financial inclusion. Data reflect cumulative improvement through December 2023.

**6. The GST Compensation Mechanism: Promises and Disputes**

**6.1 Design of the Compensation Framework:** The Goods and Services Tax (Compensation to States) Act, 2017, provided the states with compensation in case of any revenue loss compared to a notionally protected revenue base, which is the 2015-16 revenue from the subsumed taxes compounded by 14% per annum for a five-year transition period ending June 2022. The compensation fund was to be financed exclusively through a compensation cess—an additional levy on sin goods (pan masala, tobacco products, aerated beverages, luxury automobiles, and coal)—collected separately from the main GST revenue streams. This design created a ring-fenced fund that, in theory, insulated states from revenue volatility arising from the transition to the new tax regime (Government of India, 2017). The compensation mechanism was a sine qua non for several states—particularly manufacturing states such as Gujarat, Maharashtra, and Karnataka, and resource-dependent states such as Uttarakhand and Himachal Pradesh—to agree to surrender their independent sales tax authority in favour of the unified GST framework. It represented, in political economy terms, a credibility commitment device by the Centre to reassure fiscally risk-averse states that the GST bargain would not leave them worse off in the short to medium term.

**6.2 Emergence of the Compensation Crisis:** The compensation framework functioned adequately through 2018–19, when cess collections were broadly sufficient to cover state shortfalls. However, from 2019–20 onward, a combination of factors—decelerating economic growth, GST compliance challenges, rate rationalisation that reduced cess-generating supplies, and finally the catastrophic revenue shock of the COVID-19 pandemic in 2020–21—caused a severe funding gap in the compensation fund. In 2020–21, the Centre’s gross tax revenue declined by 3% in the face of a nominal GDP contraction of 10%, while the collections of the goods and service tax (GST) cess were far short of the compensation the states had guaranteed for the year at approximately ₹2.35 lakh crore (India, Ministry of Finance, 2022). The biggest intergovernmental battle in GST’s seven-year history was the Union government’s attempt to compensate for the lack of funds. The Centre has provided two options to states for borrowing – through the market or the Union’s central window – rather than going by the word of the Centre on compensation from its resources as promised in the statutory agreement. Non-BJP government states such as Kerala, Delhi, Rajasthan, Chhattisgarh, Punjab, West Bengal, and Telangana rejected both options as a move to pass fiscal burden on states, which is contrary to the statutory guarantee. The 39th Council meeting in March 2020 was the first occasion on which formal voting was invoked (Comptroller and Auditor General of India, 2022), signalling the breakdown of the consensus norm.

**Table 5. Key GST Council Meetings: Agenda, Decisions, and Governance Parameters (Select Meetings)**

Meeting No.	Date	Items on Agenda	Decisions Taken	Voting Invoked	Key Decision
1st	Sept 2016	8	8	No	GST rates structure approved
14th	May 2017	22	21	No	Final rate fitment for 1,211 goods
23rd	Nov 2017	15	14	No	Rate cuts for 177 items
28th	July 2018	16	15	No	Relief for MSMEs & composition scheme
39th	Mar 2020	9	7	Yes*	COVID relief; compensation shortfall
45th	Sept 2021	13	12	No	Inverted duty rationalisation
50th	July 2023	18	17	No	Online gaming tax at 28%
52nd	Oct 2023	11	11	No	EV charging GST cut to 5%

**Note.** Source: GST Council (2023); compiled from official GST Council press releases and meeting summaries 2016–2023. \* Voting invoked at the 39th meeting (March 2020) on the COVID compensation cess borrowing option dispute. The meeting count runs from the inaugural 1st meeting (September 2016) through the 52nd meeting (October 2023).

The outcome – a repayment arrangement of ₹1.1 lakh crore in 2020-21 and ₹1.59 lakh crore in 2021-22, with the Centre as the borrower and states as the lenders – was a pragmatic solution that maintained the character of the compensation fund as a statute while transferring the repayment burden to the collection of future cesses. But the episode illustrated the structural weaknesses of the GST compact: the compensation mechanism didn’t even have a backstop in the form of deficit financing, and the Centre was not ready to pay this commitment from its consolidated fund. Since the compensation guarantee was withdrawn in June 2022, some States (including the relatively higher compensation dependency ratio of Punjab, which had more than 30% compensation spending of their own tax revenue in 2020–21) are facing permanent fiscal stress (RBI, 2022).

**7. Policy Coordination Role of NITI Aayog: An Assessment:**

**7.1 Mechanisms of Engagement:** NITI Aayog has put in place multiple institutional platforms for the Centre–State policy dialogue beyond the Governing Council. They cover thematic working groups between the central and state governments on issues such as agriculture, water, urban development, etc., state-level consultations under the ‘Transforming India’ initiative, where the NITI teams have mapped state-level policy interventions using data, administration of



development partnerships between Indian states and bilateral development partners, and federalism indices that rank state performance annually across health, education, innovation, water management, and logistics (NITI Aayog, 2023). The SDG India Index, first published in 2018 and updated annually, deserves particular mention as an instrument of policy coordination. By mapping 115 national indicators against SDG targets at the state and union territory level, the Index has provided a common data infrastructure for Centre–State dialogue on development priorities. States with low SDG scores in specific goals—particularly in Goal 3 (health), Goal 4 (education), and Goal 2 (nutrition)—have used Index reports to negotiate enhanced CSS allocations and technical assistance from central ministries. The Index is not only a monitoring instrument, but also a soft political instrument for intergovernmental negotiations (NITI Aayog, 2021).

**7.2 Limitations and Criticisms:** While these are some of the positive contributions, there are some criticisms that are directly relevant to the effectiveness of NITI Aayog as a tool for cooperative federalism. However, there are a number of criticisms that are relevant to the effectiveness of NITI Aayog as a cooperative federalism instrument. First, the lack of formally empowered decision-making power – all NITI Aayog recommendations are advisory and need to be approved by the ministers or cabinet – weakens its ability to turn state decisions into policy changes. This is a contrast to the Planning Commission, which has authority to determine what size states can state plans be, whilst being centralised, the Planning Commission at least has a formal institutional link through which the states' financial needs are discussed and recognised. Second, the focus of power at the Vice-Chairman and CEO (both at the pleasure of the executive) leaves NITI Aayog vulnerable to allegations of political instrumentalisation. As Kumar and Mishra (2021) report, on several issues, such as the farm laws, land acquisition, and the role of cooperative federalism, NITI Aayog policy priorities were based on the central government's preferences and did not represent a diversity of opinion in the Governing Council deliberations. Third, opposition governments of the states have increasingly boycotted the NITI Aayog processes, from the meetings of the Governing Council to their role in the ADP monitoring exercises and questions raised in public about the institution's representation of cooperative federalism. The political polarization has the potential to turn NITI Aayog into a tool for partisan development policy (Tillin & Hardgrove, 2019). Third, the technical jargon of competitive federalism (indices, rankings, benchmarking) is not only administratively convenient, but also imposes pressure on states that might not be interested in equity goals. Smaller and poorer states with fewer administrative resources are systematically disadvantaged in index performance relative to better-resourced states, potentially generating a divergent pattern where central attention and recognition accrue to already-performing states. Shankar and Shah (2003) caution that competitive frameworks without accompanying redistribution instruments can widen, rather than narrow, inter-state development disparities.

## 8. Structural Tensions and Reform Imperatives

**8.1 The Centralisation-Decentralisation Paradox:** A recurring tension in India's cooperative federalism experience is what may be termed the centralisation-decentralisation paradox: institutional reforms ostensibly designed to decentralise authority have been accompanied by policy trends that concentrate fiscal and regulatory power at the Centre. The GST, while constitutionally grounding states' taxing rights under Article 246A, simultaneously removed their most significant revenue instruments—entry tax, octroi, sales tax, and purchase tax—without providing them equivalent autonomous taxing capacity on GST-covered goods and services. States can neither raise nor lower GST rates unilaterally; all rate changes require GST Council approval, effectively making states price-takers in their own domain of concurrent fiscal authority. This structural feature has led Reddy and Reddy (2019) to characterise the GST as a 'tax federal by name, unitary by operation.' The problem is compounded by the Centre's growing recourse to non-shareable cesses and surcharges. The gross central tax revenues (excluded from the divisible pool of devolved revenues to states under the devolution of the Finance Commission) are virtually equal to cesses, accounting for almost 19% of total gross central tax revenues, as mentioned in Section 5.1. Each of these taxes is a fiscal measure under which, while ensuring total revenue collection, the Centre has delegated administration to the States via the GST compliance system (Saikia, 2021). The Fifteenth Finance Commission has been very explicit in its recommendation to limit the number of cesses, but it has been a slow process to implement.

**8.2 Horizontal Fiscal Imbalances:** A second fiscal structural issue is horizontal fiscal equity, which means that the different levels of fiscal capacity across states of varying economic development should be equal. There are significant differences in the per capita own tax revenues, administrative capacity, and CSS absorption rates among India's eighteen major states. Revenue from the GST has been redirected from manufacturing heartland states to the consumption economies and has been advantageous to the populous, low-income states that were mostly net importers. In theory, this is a progressive taxing policy, as it directs the funds to states with higher population and service delivery requirements, but has resulted in resentments for industrialising states like Tamil Nadu, Karnataka, and Gujarat, who view themselves as net payers for a redistributive tax policy which does not adequately account for their economic dynamism (Sharma, 2019). The devolution formula of the Fifteenth Finance Commission, which gives a weightage of 45 per cent population, 15 per cent area, 10 per cent forest and ecology, 12.5 per cent income distance (a measure of fiscal equalisation), and 2.5 per cent demographic performance (fertility transition), is a well-tuned equation between equity and efficiency. Nonetheless, southern states that have performed well on demographic and economic indicators regard the formula as insufficiently rewarding of development outcomes. This tension is unlikely to be resolved without either a revised formula or an additional incentive grant architecture that rewards high-performing states without penalising them for their developmental achievements (Fifteenth Finance Commission, 2021).

**8.3 Reform Pathways:** Strengthening cooperative federalism in India requires interventions at three levels. At the institutional level, the GST Council's decision-making rules should be supplemented by a formal dispute resolution mechanism—potentially an independent GST Tribunal with Centre–State co-representation—to adjudicate technical and revenue-sharing disputes without requiring political-level escalation. The compensation mechanism should be redesigned as a permanent revenue guarantee fund, financed by a constitutionally allocated share of IGST rather than a volatile cess. At the constitutional level, consideration should be given to creating a constitutional body—analogue to the Finance Commission but with an explicitly negotiated, rather than expert-determined, mandate—to set medium-term fiscal transfer floors that protect states against revenue shocks arising from nationally determined tax policy changes. At the governance level, NITI Aayog's Governing Council should be reconstituted as a body with formal decision-making authority in at least two domains: CSS rationalisation (where state endorsement should be mandatory for scheme continuation) and medium-term development plan approval (where state-prepared plans should be recognised as binding commitments for central transfer allocation). This would give NITI Aayog the institutional teeth necessary to function as a genuine cooperative federalism forum rather than a deliberative consultative body without binding authority. Equally, the Vice-Chairman and CEO should be appointed through a process that includes consultation with, if not formal concurrence of, state governments through the Governing Council (Kumar & Mishra, 2021).

**9. Comparative Perspectives on Cooperative Federalism:** This experience of the federal GST system in India is comparable with other federal countries that have gone through similar reform of indirect taxes. A valuable comparison is made with the Harmonized Sales Tax (HST) in Canada, which was implemented in the participating provinces in 1996. Indeed, the Canadian HST is administered in a Federal-Provincial Relations model that gives participating provinces constitutionally protected revenue-sharing percentages that have been built into the framework agreement, as opposed to India's statutory, but contested, compensation arrangement (Bahl & Martinez-Vazquez, 2006). In Germany, there are constitutional provisions (Article 106 and 107 of the Grundgesetz) that have embedded a robust horizontal equalisation mechanism (Länderfinanzausgleich), which enables no Land's fiscal capacity to drop below a minimum threshold based on its economic performance. Another reference point is Australia's Goods and Services Tax (1999). The Australian GST is a Commonwealth tax with 100% of the net revenue going to the states based on the recommendations of the Grants Commission, which has a transparent formula-based allocation system but ensures state fiscal dependency on the Commonwealth. The Commonwealth Grants Commission's reviews, every five years, provide for systematic reassessment of relative fiscal capacities, analogous in function to India's Finance Commission. The critical difference is that Australian states exercised a formal veto on the GST package through the Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations (1999), giving the reforms a degree of state buy-in that India's constitutional amendment process, while parliamentary, did not fully replicate at the institutional level. Brazil's federal tax system offers a cautionary tale. The Fiscal Responsibility Law of 2000, while successful in constraining subnational fiscal deficits, was accompanied by a progressive reduction in the states' share of federal tax revenues and the proliferation of federal social funds (FUNDEF, FUNDEF) that encumbered state expenditure with national purposes. The result was a paradox of fiscal decentralisation without policy autonomy—states controlled more resources but were progressively constrained in how those resources could be used. India's CSS architecture mirrors this pattern in significant respects, as analysed in Section 5.2. The comparative evidence thus suggests that sustainable cooperative federalism requires not merely equitable fiscal transfers but genuine expenditure autonomy for sub-national governments. In south Asian perspective, the federalism system of India's GST is a stark contrast to the National Finance Commission (NFC) Award system in Pakistan. The constitutionally established NFC under Article 160 of the 1973 Constitution of Pakistan is tasked with negotiating revenue distribution between the federal government and four provinces every five years, and an expanded formula in the 7<sup>th</sup> NFC Award of 2009, which shares 57.5% of the divisible pool with provinces. While Pakistan's fiscal federalism faces severe implementation challenges linked to limited provincial tax administration capacity, the NFC's negotiated character—requiring formal provincial consensus—



arguably delivers greater substantive cooperation than India's Finance Commission, which is a technical expert body without formal state representation in its composition.

10. Discussion: Evaluating the Cooperative Federalism Narrative: Returning to the three research questions posed in the introduction, this study's findings permit the following assessments. On the first question—the extent to which the GST institutional framework has functioned as a genuine cooperative federalism instrument—the evidence is mixed. The GST Council has clearly given itself a deliberative norm – all fifty-two meetings up to October 2023 have agreed to consensus or near consensus on the issues of rate changes, making returns simpler, compliance changes, and technology architecture. The Council has progressively expanded the GST base through the inclusion of excluded petroleum products in multiple discussion rounds, addressed sector-specific inverted duty structures, and provided targeted relief to micro, small, and medium enterprises (MSMEs) through the composition scheme enhancements. These are substantive cooperative outcomes. However, the compensation crisis of 2020–22 revealed that the cooperative norm is contingent rather than institutionalised: when the fiscal cost of cooperation fell fully on the Centre, the latter contested its statutory obligation and sought to transfer the burden to states through the borrowing mechanism. This pattern suggests that cooperative federalism in the GST context is conditional on fiscal convenience—robust in good times, fragile under fiscal stress. As Arora and Kailash (2016) observe, cooperative federalism in India has historically functioned as a political discourse more effectively than as an institutional practice, and the GST experience does not definitively reverse this pattern. The responses to the second question—NITI Aayog's rethinking of the role of policy coordination between the Centre and States—show a partial but sincere institutional innovation. NITI Aayog has managed to introduce a new jargon of competitive-cooperative federalism, build a sophisticated data infrastructure with its index suite, and a policy coordination platform with the ADP and the sectoral working groups. These are significant deviations from the Planning Commission's hierarchical model. However, NITI Aayog is not very effective as a cooperative federalism body due to the lack of binding authority, its concentration of power in the executive, and the gradual political alienation of opposition-governed states. It has functioned more as a research and advisory body—analogue to a think-tank housed within the government—than as a genuine inter-governmental coordination mechanism. On the third question—the structural reforms necessary to embed cooperative federalism—the analysis points toward four priority areas: (i) constitutional entrenchment of a minimum states' share in the divisible pool (including cesses and surcharges) to prevent erosion through non-shareable central levies; (ii) a standing GST Compensation Fund with a constitutionally mandated floor and automatic central deficit-financing from IGST proceeds; (iii) reconstitution of NITI Aayog's Governing Council with formal veto authority over CSS design and CSS-to-state-plan conversion; and (iv) establishment of an independent, bipartisan GST Dispute Resolution Tribunal to adjudicate inter-governmental revenue and administration conflicts outside the political forum of the Council.

### 11. Conclusion

This paper has argued that the twin institutional reforms of the GST (2017) and NITI Aayog (2015) represent India's most ambitious attempt to operationalise cooperative federalism since the constitutional amendments that transferred powers to the third tier of government in 1992–93. Both reforms carry genuine cooperative promise: the GST Council's consensus norm has proven more resilient than many observers predicted, and NITI Aayog's development indices have created a powerful soft coordination infrastructure. GST revenue has grown from ₹7.19 lakh crore in 2017–18 to ₹20.18 lakh crore in 2023–24, a trajectory that validates the broad efficiency gains anticipated from tax unification. Finance Commission devolution has reached 41–42% of central taxes, levels unprecedented in India's fiscal history. Yet the promise remains only partially realised. The poor returns on the GST compact made its fiscal underpinning ineffective. The end of the guarantee in June 2022 has left states with fiscal deficits in permanent doubt without an alternative scheme in place. NITI Aayog, despite its consultative infrastructure, has not resolved the fundamental asymmetry of the Indian federal bargain: states remain heavily dependent on central transfers, their own-tax revenue autonomy has been reduced by the GST's constitutional design, and their planning authority has been diluted without adequate compensating institutional authority. The politics of cooperative federalism in India reflect a deeper structural tension: the Centre's incentive to use fiscal instruments as tools of political management is in perpetual tension with states' legitimate demand for fiscal autonomy, revenue certainty, and substantive policy discretion. Resolving this tension requires not merely institutional tinkering but a shared constitutional understanding—negotiated across party and regional lines—that genuine cooperative federalism is both normatively desirable and functionally essential for a diverse federal republic of 1.4 billion people. The GST and NITI Aayog reforms have opened this conversation; it now falls to the political process to carry it to its constitutional conclusion. Future research should examine the differential fiscal impact of GST compensation cessation on specific state categories using difference-in-differences methodology, and should systematically evaluate whether NITI Aayog's index-based competitive benchmarking has produced convergent or divergent development outcomes across India's states. The next Finance Commission (FC-XVI, to be constituted in 2025) will face the formidable challenge of renegotiating Centre–State fiscal terms in a post-compensation landscape—its recommendations will be a critical test of whether India's cooperative federalism has matured beyond the contestations of its first decade.

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