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Centre-State Relations in Budgetary and Fiscal Allocations: Political Biases or Economic Rationale

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ABSTRACT

The Union Budget is far more than a routine financial exercise—it reflects the government's policy direction, political priorities, and institutional frameworks. In India's federal setup, where power and responsibilities are constitutionally distributed between the Centre and the states, budget allocations are ideally expected to follow principles of fiscal fairness, balanced regional development, and economic necessity. These allocations should, in theory, be impartial and shaped by data-driven assessments. However, recent budgetary trends have sparked significant debate. Observers have noted that states governed by political alliances aligned with the ruling party at the Centre, often appear to receive more generous financial support than states led by opposition parties. This trend has prompted important questions: How in several states where the alliances of BJP are in power have been given a better share in budget as compared to the states where the central government is not in power? Is there a rationale behind such an allocation? Or is it solely governed by party biases and coalition politics? To understand answers to these questions one must understand coalition politics, party biases, center state relations and how they impact the Budgetary allocation. By the end of this paper, all the questions listed above shall be answered. These issues bring forth a deeper concern about whether political loyalty or electoral strategy influences fiscal decisions, potentially sidelining objective criteria. Understanding the answers to these questions requires a thorough examination of the nature of coalition politics, the extent of party influence in governance, and the structure of Centre-State relations—all of which play a vital role in shaping budgetary outcomes. By exploring these dimensions, this paper seeks to provide clear insights into the above questions and critically evaluate whether India's budget truly reflects economic rationale or political strategy.

Keywords: *Universal Jurisdiction, International Criminal Law, Genocide, Crimes Against Humanity, War Crimes, International Court of Justice (ICJ)*

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I. INTRODUCTION: INTER-STATE FISCAL DISPARITIES

"Inter-state disparity in terms of revenue receipts remains huge," according to the reports. It pointed out that several states have set relatively modest goals, even though the federal government has planned for a 14.7% increase in revenue receipts. "In FY25BE, while the Centre budgeted 14.7 per cent growth in revenue receipts, most states have budgeted a lower growth except Telangana, Karnataka, Jharkhand and Uttar Pradesh" stated the report. The report emphasized that states with higher predicted growth in income receipts include Telangana, Karnataka, Jharkhand, and Uttar Pradesh. However, there are indications of slower revenue growth in a number of states, especially in India's eastern and northern areas. In comparison to the FY24 revised estimates, states such as Himachal Pradesh (where the ruling party is Indian National Congress), Meghalaya (National People's Party), and Mizoram (Zoram People's movement) have either budgeted a contraction or minimal growth in their revenue receipts.[2]

II. POLITICAL BIASES AND CENTRE-STATE RELATIONS

A. Political biases

Centrally sponsored programs tied grants that restrict state sovereignty, and the selective devolution of cash are all examples of how finance has become politicized. Opposition party-controlled states have expressed concerns over unfair distribution, pointing to fund reductions and late payments under flagship programs. The arbitrary control over funds, especially post-2014 and the increasing dependence of states on centrally sponsored schemes reflect the political nature of fiscal transfers.

The Center's discretionary influence over fiscal transfers has grown since 2014. States' financial freedom is being restricted by the growing trend of tied grants over untied ones, according to data from the Finance Commission[3] and RBI[4]. Moreover, studies by policy think tanks indicate that states governed by opposition parties often report delayed payments under centrally sponsored schemes and reduced allocations. This raises concerns about political biases embedded in budgetary practices.[5]

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[2] Inter State Disparity, Economic Times, https://economictimes.indiatimes.com/news/economy/finance/inter-state-disparity-in-terms-of-revenue-receipt-remains-huge-report/articleshow/114411113.cms?from=mdr, Last Visited on 19th February, 2025.

[3] **15th Finance Commission** (FC) Report, https://fincomindia.nic.in, Last Visited on 20th February, 2025.

[4] State Finances, Publications , RBI , https://www.rbi.org.in , Last Visited on 20th February 2025.

[5] Yamini Aiyar & Avani Kapur, The centralization vs decentralization tug of war and the emerging narrative of fiscal federalism for social policy in India, , Taylor & Francis file:///C:/Users/Dell/Downloads/00-The%20centralization%20vs%20decentralization%20tug%20of%20war%20and%20the%20emerging%20narrati

B. Constitutional mandates: adding to the plight of states

Articles 268-293 deal with the distribution of financial resources between the Union and the states, including taxes levied and collected by the Union but assigned to the states, and the role of the Finance Commission in recommending the distribution of tax proceeds. Although the article that is operative for the present discussion is Article 293 which again shows a tacit edge of central power over state's fiscal powers in a quasi-federal country like India. Sub-section (3) and (4) of this article provide that the state government has to take permission from the centre to borrow any funds , if it is already indebted to the Centre. In practice , majority of the states remain indebted to the center majorly because; (i) most of the schemes and projects are to be implemented by state governments (ii) since the fact that only tax on sales of goods has proved to yield revenue for states, they have very less scope for generating their own revenue and to meet growing expenses. This shows another way in which the country's federal framework appears to union dominated and how political biases enhance the plight of states in presence of such laws. [6]

Originally, the Constitution called for a "quasi-federal" system with a powerful center to maintain unity, but as time has gone on, this hasn't progressively resulted in the concentration of power, particularly in the area of finance. The 80:20 tax devolution arrangement, which states receive 20% and the center keeps 80%, is frequently criticized for causing budgetary imbalances.[7]

C. Dominant Centre: democratic necessity or a way to support political agendas of the Centre

1. Arguments often posed in favor of a dominant Centre are:

Preserving Diversity and Pluralism: In the face of growing efforts from the Center or dominant groups to homogenize and assimilate, federalism is required to safeguard and preserve India's diversity and pluralism in terms of society, culture, language, religion, etc.

Protecting Autonomy and Rights: In the face of growing centralization and meddling from the federal government or other outside forces, federalism is required to protect and strengthen the autonomy and rights of the states and other subnational entities.

Enhancing Governance Quality and Efficiency: By giving states and other subnational entities the authority to create and carry out their own policies and programs in accordance with their

ve%20of%20fiscal%20federal%20(2).pdf , Last Visited on 21st February, 2025

[6] B.L Fadia, Sarkaria Report and Proposal for Inter-Governmental Council, Last Visited on 21st February, 2025.

[7] Supra Note 6.

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needs and capabilities, federalism is required to enhance and guarantee the quality and efficiency of governance and service delivery at all levels.

Encouraging Balanced and Inclusive Development: By guaranteeing the fair and open allocation of resources and opportunities among the various governmental levels or units, federalism is required to encourage and accomplish the balanced and inclusive development and welfare of all Indian regions and sections.

Promoting Harmony and Cooperation: By settling disagreements and problems amicably and cooperatively rather than via force and confrontation, federalism is required to promote and maintain harmony and cooperation among the various governmental levels or units.[8]

2. Arguments posed against a dominant Center are:-

Absence of diversity: An environment that is homogeneous due to a dominating group may restrict representation and viewpoint.

Prejudice and stereotyping: Predominant groups have the power to foster biases and preconceptions that harm other groups.

Social injustice: An uneven allocation of opportunities, resources, and power can result from dominance.

Decreased interest and zeal: A dominant power can lessen the thrill and allure of a game in sports or other competitive settings.[9]fail.

III. Attention on Economic Rationale

Since the inter-state fiscal disparities clearly indicate political biases, it is evident that economic rationale is not among one of the top priorities in the budget making. It is majorly influenced by political agendas, personal/party gains. It implies the meritless dominance by the Centre. India, being the Union of States, according to the preamble to the Constitution, must be equally affected by each and every state that forms a part of the Union.

Such a practice violates principles of essential principles of fiscal federalism, which are as follows:

i) The Centre and states should be independent of each other for finances.

ii) Both should be able to obtain enough funds for expenditure.

iii) The receipts should grow with the need of expenditure.

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[8] Supra Note 2.

[9]Chanchal Shrama, Economic Governance, https://www.jstor.org/stable/26956853, Last Visited on 25th February, 2025.

A budget grounded in economic rationale is essential for making government spending efficient, goal-oriented, and sustainable. It ensures that limited financial resources are directed towards crucial areas like education, healthcare, infrastructure, and social welfare, thereby enhancing overall public welfare. Such a budget maintains fiscal responsibility by avoiding unnecessary deficits and debt, contributing to long-term economic health. Additionally, it supports economic growth by encouraging investments, job creation, and consumer spending. An economically sound budget also helps reduce inequality through fair taxation and targeted support for underprivileged groups. It serves as a stabilizing tool during economic fluctuations and promotes transparency and accountability through evidence-based planning. Furthermore, it paves the way for sustainable development by prioritizing environmental protection and future-focused initiatives. Thus, economic reasoning is fundamental to a well-structured and inclusive budgeting system.[10]

IV. Suggestions

1. Institutional Oversight on Discretionary Transfers: There is a pressing need to establish an independent intergovernmental institution, such as an Inter-State Fiscal Council, to monitor and audit discretionary fiscal transfers. This body should include balanced representation from the central and state governments, along with neutral financial and policy experts. Its primary objective would be to ensure that financial allocations are guided by objective, equitable, and transparent parameters, thereby minimizing the scope for political influence or favoritism.

2. Digitized Transparency in Budgetary Allocations: To promote fiscal accountability and strengthen trust between the Centre and the states, budgetary processes must be digitized and made publicly accessible. Real-time dashboards and data portals should be developed to track the allocation, release, and utilization of funds by each state. These platforms must also provide analytical justifications rooted in empirical evidence, helping to demystify the rationale behind financial decisions and safeguard against arbitrary or politically motivated actions.

3. Revisiting Constraints under Article 293: The provisions under Article 293(3) and (4) of the Constitution should be re-evaluated to reduce states' over-dependence on central approval for incurring debt. In scenarios where such approvals remain necessary, decisions should be based strictly on merit and fiscal prudence rather than political considerations. An

[10] Budgeting Principles, OECD, https://www.oecd.org/gov/budgeting/principles-budgetary-governance.htm, Last Visited on 2nd April, 2025.

independent review mechanism may be considered to assess and sanction state borrowing requests in a transparent and unbiased manner.

V. CONCLUSION

The intricate dynamics of fiscal relations between India's Centre and its states underscore a pressing need for reforms that prioritize economic logic over political considerations. The noticeable disparities in budgetary allocations, often favoring states governed by the ruling coalition, cast doubt on the fairness of fiscal federalism. Such practices not only challenge the ideals of balanced development but also strain the federal structure envisioned by the Constitution. These disparities are further exacerbated by the central government's discretionary control over fiscal transfers, which can lead to perceptions of bias and undermine the trust between different levels of government.[11]

Constitutional provisions, notably Article 293, were intended to uphold fiscal discipline. However, in practice, they have sometimes been used to limit states' borrowing powers, potentially hindering their developmental efforts. The imposition of borrowing limits and the necessity for central approval have, on occasions, restricted states' autonomy, leading to legal disputes and political tensions. This central oversight, while aimed at maintaining macroeconomic stability, can inadvertently stifle the financial independence of states, especially when approvals are perceived to be influenced by political considerations.[12]

Addressing these issues necessitates the creation of transparent and objective systems for fiscal transfers, ensuring that allocations are determined by necessity and performance metrics rather than political affiliations. Enhancing the role of institutions like the Finance Commission and exploring the establishment of an Inter-State Fiscal Council could offer a more equitable framework for resource distribution. Additionally, re-evaluating borrowing regulations to grant states greater fiscal independence, while still maintaining overall economic stability, is crucial. Such measures would not only promote fiscal responsibility but also empower states to tailor their financial strategies to local needs, fostering more effective governance.

In essence, promoting a model of cooperative federalism, where the Centre and states work together transparently and fairly, is vital for India's comprehensive growth. By aligning fiscal strategies with principles of fairness and efficiency, India can ensure that all its states advance together, strengthening the nation's unity and integrity. This collaborative approach would

[11] Fiscal Federalism, Drishti IAS, https://www.drishtiias.com/daily-updates/daily-news-editorials/fiscal-federalism-amidst-coalition-politics, Last Visited on 3rd April, 2025.

[12] Supra Note 12.

help bridge regional disparities, enhance trust among stakeholders, and pave the way for a more resilient and inclusive economic future.[13]

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[13] Article 293 of the Indian Constitution, Test book, https://testbook.com/constitutional-articles/article-293-of-indian-constitution, Last Visited on 5th April, 2025.