

# TOWARDS A MORE FEDERAL STRUCTURE

Relevant for: Indian Polity | Topic: Issues and Challenges Pertaining to the Federal Structure, Dispute Redressal Mechanisms, and the Centre-State Relations

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Preserving the unity of India was a great concern at the time of independence. The rulers of Travancore, Hyderabad, Jodhpur, Bhopal and Junagadh wanted their own separate countries. In October 1947, Kashmir was invaded with the backing of a very young Pakistan government. Goa was liberated from the Portuguese only in 1961. It was natural that India opted to be a Union unlike the U.S. and many other countries which have federal governments. The essential difference is that the Central government has more authority and power in a Union government.

Direct taxes are income tax and corporate tax. In the U.S., both the federal and State governments collect such taxes from individuals and corporations. This is true in Switzerland and some other countries as well. However, in India, direct taxes go entirely to the Central government. The Central government is supposed to distribute 41% of its gross tax revenues (reduced from 42% after the formation of new Union Territories in Jammu and Kashmir) to the State governments. In the U.S., the federal government distributes about 15% of its revenues.

State governments get funds from the Central government according to the Finance Commission's recommendations. Though this is based on some formula, often politics intervenes and some States get less and some more. Usually the Central government does not meet the 41% target. We see various States either petitioning or coming into conflict with the Central government on this issue. Meanwhile, the Central government has added cess on various items which adds up to over 3.5 lakh crore. This is not shared with the State governments.

State governments also raise their own funds largely through taxes on liquor, property, road and vehicles. At an all-India level, the States get 26% of their total revenue from the Central government. Some of the so-called poorer States get up to 50% of their total revenue from the Central government, making them even more dependent. This gives more economic power to the Central government and allows ruling parties at the Centre to use these funds to their advantage.

Another issue is regional disparity. Maharashtra, Delhi and Karnataka contribute the lion's share of taxes to the government. These three regions along with Tamil Nadu and Gujarat contribute 72% of the tax revenue. Uttar Pradesh, which has the largest population in India, contributes only 3.12% but gets over 17% of the revenue distributed by the Central government. Revenue distribution is based on complex considerations including population and poverty levels. For every 100 contributed, southern States get about 51% from the Central government, whereas Bihar gets about 200%. The population growth rates in the south have come down to near zero, whereas the population in central and north India continues to grow. The cross subsidy from the south to the north will therefore grow. Meanwhile, job seekers and those looking for higher quality education are flocking to the south.

On the other hand, political power is concentrated in the north because there are more Lok Sabha seats. The number of seats in each State will be revised in 2026 perhaps based on population and other factors. This has already created apprehension in the southern States that they will be further politically marginalised. The periodic attempts to declare Hindi a national language fuels widespread resentment.

Some experts support cross subsidy and others oppose it. Suggestions usually work within the current framework. Making the fund allocation fairer is almost impossible because of politics. We need to look beyond this framework. One step could be to provide greater economic power to the States so that they can directly collect more taxes and be less dependent on the Central government. This would improve Centre-State relations. For poorer States, a period of transition is perhaps required.

Unfortunately, politics does not depend on expert opinion. On top of an extended pandemic, negative economic growth and loss of crores of jobs, the situation is becoming ripe for rabble-rousing politicians to ask why we should subsidise those people who disrespect our language and do not give us political power. Regional differences led to violence in Yugoslavia, Sri Lanka and between East and West Pakistan. Hopefully, we may not see that kind of violence.

India's hard-won independence and unity needs to be preserved. Today there are threats from China. There may be threats from Afghanistan after the U.S. withdraws its troops. A transition to a more federal structure will allow the Centre to focus on external threats instead of internal dissensions. Our internal divisions helped invaders from West Asia and the British. Hopefully, we will learn from our history.

Trilochan Sastry is Professor, IIM Bangalore

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To reassure Indian Muslims, the PM needs to state that the govt. will not conduct an exercise like NRC

**END**

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