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FISCAL FEDERALISM FROM PYRAMID TO MATRIX: An Analysis of the Supreme Court Judgment in *Mineral Area Development Authority* v. *Steel Authority of India* (2024 S.C.C. OnLine S.C. 1796)

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FISCAL FEDERALISM FROM PYRAMID TO MATRIX: An Analysis of the Supreme Court Judgment in *Mineral Area Development Authority* v. *Steel Authority of India* (2024 S.C.C. OnLine S.C. 1796)

Arya Kumari*

[Abstract: India has always followed a system of hierarchy or pyramid of power, where power trickles down from the centre to the state, rather than a matrix or co-sharing of power, where power flows between the centre and the state. This friction between the centre and the state has given rise to tension, especially evident in the fiscal structures governing natural resource management within the nation. This friction was revisited in the case of Mineral Area Development Authority v. Steel Authority of India (2024). This paper focuses on the recalibration of the scope of fiscal federalism and the paradigm shift in the interpretation of powers in the Seventh Schedule, following the verdict, and how it will further affect the fiscal relationship between the centre and the states, whether it will bridge the vertical fiscal imbalance between them or will create another layer of political friction between the centre and the state. The paper also addresses whether the judgment will prove to be a milestone in addressing the phenomenon of the resource curse or whether this will merely create another layer of political friction between the centre and the state.]

I

Introduction

The path of the modern nation-state has traditionally been driven by a centripetal force, an attraction toward consolidating power, resources, and sovereignty into a single, indivisible core. This modernist view, rooted in the Westphalian framework and reinforced through the 19th and 20th centuries, sees political integration as equivalent to centralisation, implying that for a nation to be strong, its components must be subordinate to the central authority. However, this unified vision of the state is beginning to fracture. It is giving way to an understanding of complexity, where the durability of a continental system relies not on hierarchy but on a network of non-centralised relationships.[1] This

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1 *See generally*, Jürgen Habermas, *The European Nation State. Its Achievements and its Limitations. On the Past and Future of Sovereignty and Citizenship* 9 RATIO JURIS 125 (1996).

tension is especially evident in the fiscal structures governing natural resource management within federal unions.

If we take a look at the Constituent Assembly debate, Dr. B.R. Ambedkar advocated for a system of federalism tilted towards the Union instead of equal division of power for the same reason, to prevent states from seceding from the union, and to promote the unity and integrity of India[2], which was the need of the time and a legitimate concern for a nation that had suffered from its partition. Thus, resulting in a model of federalism that creates a hierarchy of powers to ensure the strong Union in comparison to the states. Fiscal conflict in India is not a malfunction of the system, it is the system institutionalised from the beginning of Indian Republic. The Constitution allocates powers asymmetrically[3] which creates a structure where the Union controls the major sources of revenue, while the States bear most of the expenditures. The outcome is the state dependence over the Centre. The federal structure enables the perpetual clashes between the two units of the Governments at the Centre and the states. The first section of the essay introduces the theme of exploration. The second section examines the functioning of Fiscal Federalism in India. The third section traces the origin of the conflict over the ownership and control of natural resources between the Centre and the states. The fourth section explores the scheme of distribution of powers between the Centre and the states. The fifth section concludes the essay.

II

Fiscal Federalism and the 'Resource Curse'

Fiscal federalism is concerned with the assignment of functions to different levels of government and the devolution of appropriate fiscal instruments to carry out these functions.[4] In India, these fiscal instruments typically take the form of tax and debt instruments. Similar to the division of constitutional powers and responsibilities, the Constitution has also shared tax-raising responsibilities between the Union and the States.[5] While the centre receives the most lucrative sources of resource accumulation, states have to rely on grants and aid provided by the centre. Daniel Elazar's 'postmodern epoch'[6] suggests that the centralised accumulation of fiscal power, once a tool for nation-building, has become the primary source of federal friction. The idea of decentralisation of fiscal powers to accommodate the autonomy of states and reduce friction between the state and the centre argues that a nation like India, which is functioning in the post-modern era on the modernist model, might be the central

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2 *State of West Bengal* v. *Union of India*, A.I.R. 1963 S.C. 1241 (India).

3 The Constitution of India, 1950, Art. 246.

4 Wallace E. Oates, *An Essay on Fiscal Federalism* 37 J. OF ECON. LIT. 1120, 1121 (1999).

5 *Id.*

6 *See generally*, Daniel J. Elazar, EXPLORING FEDERALISM (1987).

core of the conflict. If we agree with Elazar, in the postmodern era, as various states strive to reach fiscal autonomy, the post-colonialist mindset of centralisation of power to preserve the fragile sense of unity may be the core of the friction. But it is not so simple. The federalism in 'mono-national' and multinational federations differs, and as one of the most diverse nations, India has adopted the idea of holding together rather than the coming together federalism, which has proven to be a significant success in maintaining relatively lasting ethnic peace and political stability.[7] However, India has employed "asymmetrical federal arrangements" to accommodate its diversity. It is also to be noted that the rise of coalition politics and economic liberalisation has increased the power of some states while rendering others "structurally dependent"[8]. The post-1991 liberalisation era saw industrialised states grow rapidly, while resource-rich states lagged behind,[9] trapped in a model where they exported raw materials at centrally controlled prices.[10] This has trapped these states in what is popularly known as the "resource curse", a phenomenon in which economies with abundant natural resources tend to grow more slowly than those with limited resources.[11] It is apparent in the Indian economy that states with a majority of mineral-rich areas have a per capita income lower than the national average. For these states, taxation is the most important source of revenue for their welfare schemes. This economic deprivation, however, is merely the material manifestation of a deeper intellectual conflict, when the colonised minds continue to operate within the framework imposed by the coloniser, even when they are no longer colonised, it leads to the slavery of the spirit, It is described as the state where "one's traditional cast of ideas and sentiments is superseded without comparison or competition by a new cast representing an alien culture which possesses one like a ghost".[12]

The centralisation of mineral rights can be viewed as a remnant of the colonial administrative state, specifically the Government of India Act, 1935,[13] which prioritised imperial resource extraction over local welfare. For decades, the Indian legal establishment accepted the Western, unitary definition of "Sovereignty", where the power of taxation must ultimately reside with the Centre, treating State rights as subservient anomalies. It is essential to note that despite over 70 years of Independence, this centralised notion of fiscal power persists as if the ghost of disintegration lingers. But while we do cater to it, we conveniently ignore the fact that the political discourse of the region

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7 *See generally*, Katharine Adeney & Harihar Bhattacharyya, *Current Challenges to Multinational Federalism in India* 28 REGIONAL FEDERAL STUDIES 409 (2018).

8 *Id.*

9 *See*, Ligia Noronha *et. al.*, *Resource Federalism in India: The Case of Minerals* 44 ECON. & POL. WKLY. 51, 53 (2009).

10 The Essential Commodities Act, 1955, S. 3.

11 Jeffrey D. Sachs & Andrew M. Warner, *Natural Resource Abundance and Economic Growth*, NBER WORKING PAPER 5398 (1995).

12 *See generally*, Krishnachandra Bhattacharya, *Swaraj in Ideas* in INDIAN PHILOSOPHY IN ENGLISH: FROM RENAISSANCE TO INDEPENDENCE 101 (2011).

13 The Government of India Act, 1935, S. 100.

becomes hollow if the State lacks the fiscal capacity to implement its own vision of development.[14] Thus, the denial of mineral taxation rights was not just an economic constraint; it was a suppression of the region's intellectual and political Swaraj.

III

Origin of the Conflict

This case arose from an act enacted by parliament, Mines and Minerals (Development and Regulation) Act, 1957,[15] under the powers provided to it by Article 246[16] of the Constitution. Section 9[17] of the Act provides that the holder of a mining lease shall pay royalty in respect of any mineral removed or consumed from the leased area at the specified rates. The Supreme Court of India in *India Cement Ltd.* v. *State of Tamil Nadu*[18] held that royalty is a tax and that state legislatures lack competence to levy taxes on mineral rights because the subject matter is covered by the MMDR Act. And that royalty cannot be used by the State legislature as a measure of tax on mineral-bearing lands under Entry 49 of List II. The fundamental error was a failure to distinguish between a sovereign tax power and a statutory contractual levy. A tax is a compulsory exaction imposed by a public authority for public purposes, whereas a royalty is defined by the court as a contractual consideration paid to the lessor for the privilege of extracting minerals. By classifying royalty as a tax, India Cement allowed the non-taxing regulatory power of the Union (Entry 54) to implicitly extinguish the State's separate, enumerated taxing power (Entry 50). A few years later, in the case of *State of West Bengal* v. *Kesoram Industries Ltd.*[19] A constitution bench of the Supreme Court held that the decision in India Cement stemmed from a typographical error and clarified that royalty is not a tax and should have read "cess on royalty is a tax". The Court upheld India Cement's ultimate conclusion that a State could not impose a cess on royalty. The resulting situation was a jurisprudential muddle: Royalty was technically not considered a tax; however, the law prohibited State levies based on it. The High Courts relied on conflicting precedents. As a result, state legislatures imposed taxes on mineral-bearing land, as per entry 49 of List II, by applying the mineral value or royalty as the measure of the tax.[20] States such as Rajasthan[21] and

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[14] *Supra* note 13.

[15] The Mines and Minerals (Development and Regulation) Act, 1957.

[16] The Constitution of India, 1950, Art. 246.

[17] The Mines and Minerals (Development and Regulation) Act, 1957, S. 9.

[18] *India Cement Ltd.* v. *State of Tamil Nadu*, (1990) 1 S.C.C. 12, 34 (India).

[19] *State of West Bengal* v. *Kesoram Industries Ltd.*, (2004) 10 S.C.C. 201, 71 (India).

[20] *Mineral Area Development Authority* v. *Steel Authority of India*, Civil Appeal No. 4056-64 of 1999 (S.C.). *See also, Sanghi Infrastructures MP Ltd*. v. *Union of India*, Writ Petition (C) No. 512 of 2018 (S.C.).

[21] *See*, *Ambuja Cement* v. *State of Rajasthan*, Diary No. 21291 of 2023 (S.C.). *See also, Wolkem Industries* v. *State of Rajasthan*, Civil Appeal No. 8273 of 2013 (S.C.); *Wonder Cement Ltd.* v. *State of Rajasthan*, Civil Appeal No. 4588 of 2017 (S.C.).

Uttar Pradesh[22] sought to impose environmental and health cess and fees for transporting coal and coal dust collected from mines. Which were attacked on the basis of being violative of the India Cement judgment. Similarly, in the Civil Appeal No. 4056-64 of 1999, the high court allowed the petition challenging the validity of the Bihar Coal Mining Area Development Authority (Amendment) Act 1992 and the Bihar Mineral Area Development Authority (Land Use Tax) Rules 1994, which levied tax[23] on land being used for mining. The decision was further challenged before the Supreme Court of India. By overturning the decades-old precedent from *India Cement Ltd.* v. *State of Tamil Nadu* and affirming the decision in *State of West Bengal* v. *Kesoram Industries Ltd*., the Supreme Court of India in *Mineral Area Development Authority* v. *Steel Authority of India Ltd*.,[24] the nine-judge bench[25] ruled that the royalty levied on mineral extraction under Section 9 of the Mines and Minerals (Development and Regulation) Act, 1957 (MMDR Act), is different from a tax; instead, it is a contractual consideration paid to the resource proprietor. Also states possess independent and concurrent powers to legislate for taxes on mineral rights and taxes on mineral-bearing land. and most consequentially, the existing MMDR Act does not constitute the requisite explicit limitation mandated by Entry 50, thereby effectively removing the federal check on state taxing power over mineral rights.[26] The Court reasoned that a restriction on the State's specific taxing authority (Entry 50) cannot be inferred from the Union's broader regulatory power (Entry 54). For the Union to override state taxation, Parliament must pass a law that explicitly forbids such taxation, which the current MMDR Act does not do.[27]

IV

Scheme of Distribution of Powers

The seventh schedule of the Constitution categorises the field of power between the central and state governments, including their powers to tax. The scheme of distribution of legislative powers between the Union and States under the Indian Constitution is a deliberate, hierarchical structure designed to balance federalism with national unity. Following an express pattern to delineate legislative procedures' competence. The subjects in respect of which the framers of the Constitution desired that there should be uniformity of law throughout the country have been enumerated under the Union List, while matters which may require laws to be made having regard

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[22] *Kanoria Chemicals* v. *State of UP*, Civil Appeal No. 1295 of 2008 (S.C.). *See also, Hindalco Industries Ltd.* v. *State of UP, Civil Appeal No. 3869 of 2014 (S.C.).*

[23] The Bihar Coal Mining Area Development Authority Act, 1986, S. 89.

[24] *Mineral Area Development Authority* v. *Steel Authority of India Ltd.*, 2024 S.C.C. OnLine S.C. 1796 (India).

[25] Before Dr. D.Y. Chandrachud, C.J., Justices Hrishikesh Roy, Abhay S. Oka, B.V. Nagarathna, J.B. Pardiwala, Manoj Misra, Ujjal Bhuyan, Satish Chandra Sharma, and Augustine George Masih.

[26] *Mineral Area Development Authority* v. *Steel Authority of India Ltd.*, 2024 S.C.C. OnLine S.C. 1796.

[27] *Supra* note 25.

to the particular needs and peculiar problems of each State have been placed under the State List.[28] The early Supreme Court cases, notably *Hingir-Rampur Coal Co. Ltd.* v. *State of Orissa (1961)*[29] and *M.A. Tulloch & Co.* (1964),[30] dealt with the regulatory aspect. They established that once Parliament issues a declaration under Entry 54 (as done in Section 2 of the MMDR Act), the State's power to regulate under Entry 23 is eclipsed. However, these cases did not conclusively settle the issue of whether this eclipse extended to the taxing power under Entry 50. The ongoing debate over mineral taxation reflects a conflict between two aspects of India's constitutional framework: regulatory sovereignty and fiscal sovereignty. The Union depends on Entry 54 of List I, which authorises Parliament to regulate mines and mineral development when deemed "expedient in the public interest". This authority allows the Union to create a uniform national mining system. In contrast, the States' fiscal sovereignty, based on Entry 50 and Entry 49 of List II, remains intact. Mineral-rich States like Jharkhand, Odisha, and Chhattisgarh consider mining revenues as crucial, non-shareable assets needed to fund development and address significant vertical fiscal imbalances. For decades, the central dispute has been whether the Union's exercise of regulatory power under Entry 54 implicitly restricted the States' separate, explicit power to tax under Entry 50. The core conflict centres on which tier of government truly controls the proprietary benefits derived from the extraction of subsoil mineral resources, which traditionally belong to the States.[31]

V

Conclusion

States have historically suffered from a profound vertical fiscal imbalance, accounting for approximately 61% of total revenue expenditures while raising less than 40% of their own receipts, making them heavily reliant on Union transfers.[32] This judgment is especially important in the era of the Goods and Services Tax (GST), which has largely strengthened the 'pyramid of power' by centralising indirect taxes. While the GST regime aimed for uniformity in indirect taxation, it arguably increased the 'structural dependence' of States on the Union, leaving them with fewer tools to manage their economies. The Mineral Area Development Authority verdict acts as a key counterbalance to this centralisation. By clarifying that mineral taxes are separate from the Centre's regulatory authority, the Court has created a 'fiscal sanctuary' for States. This restores some 'proprietary dignity' and offers a practical way to address the 'vertical fiscal imbalance', ensuring that the 'matrix' of

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[28] *Khazan Chand* v. *State of Jammu and Kashmir*, (1984) 2 S.C.C. 456, 14 (India).

[29] *Hingir-Rampur Coal Co. Ltd.* v. *State of Orissa*, (1961) 2 S.C.R. 537 (India).

[30] *State of Orissa* v. *M.A. Tulloch and Co.*, A.I.R. 1964 S.C. 1284 (India).

[31] *Amritlal Nathubhai Shah* v. *Union Govt. of India*, (1976) 4 SCC 108. *See also, Mineral Area Development Authority* v. *Steel Authority of India Ltd.*, 2024 SCC OnLine SC 1796.

[32] *See*, Finance Commission, REPORT OF THE FIFTEENTH FINANCE COMMISSION FOR 2021-26 50 (2021).

shared power remains a real thing rather than just an idea concept.[33] Even though minerals belong constitutionally to the States, central regulation and taxation policies have channelled most of the proprietary benefits through central laws and royalties into the Consolidated Fund of India. This judgment alters the dynamic by clearing the path for States to retain and enhance mining taxes, thereby providing a powerful revenue tool to address this imbalance. For mineral-rich states like Jharkhand, Odisha, and Chhattisgarh, these taxes provide an alternate means to achieve fiscal stability, reducing their dependency on central transfers and allowing them to align spending more closely with local priorities, such as infrastructure, social programs, and welfare. For instance, Jharkhand's Chief Minister, Hemant Soren, described the Supreme Court's decision as a significant victory. He wrote in a post on the social media platform X (formerly Twitter), "Now Jharkhand will get Rs. 1,36,000 crores of its dues from the centre. With this, along with securing the rights of the people of the state, this money will be used for public welfare, and every Jharkhandi will get their full benefit". However, it is important to note that in a subsequent order dated August 14, 2024, the Supreme Court clarified that while states can collect past dues, this right is not absolute. The Court limited the retrospective effect to April 1, 2005, waived all interest and penalties on these arrears, and allowed companies a staggered payment period of 12 years. This judicial safeguard significantly reduces the immediate fiscal windfall that states like Jharkhand might anticipate.[34]

This is of significant importance, as on one hand, the Constitution has entrusted the Union and the States with the responsibility to regulate mines and mineral development in accordance with the principles of the public trust doctrine and the sustainable development of mineral resources. The principle of public trust doctrine, that the Union and State Governments act as public trustees of mineral resources,[35] but it simultaneously acknowledges the imbalance in the revenue collection via the seventh schedule of the Constitution.[36] Attempts have been made by the Central Government to bridge this imbalance, for instance, a 2011 report by the Ministry of Mines, Government of India, noted that the Central Government had steeply increased the rate of royalty payable since February 1992.[37] As an aftermath of the India Cement judgment.[38] The attempt to address the vertical fiscal imbalance is helpful but doesn't fully empower states as per their constitutional role. Declaring royalties as distinct from taxes will enable states to use mineral wealth to address regional inequalities, especially in marginalised areas affected by mining. Mining operations often generate considerable environmental degradation and social disruption in mineral-rich, economically backward areas, allowing them to earmark funds directly for local welfare, infrastructure, health, and education. This fiscal

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33 *Union of India* v. *Mohit Minerals Pvt. Ltd.*, (2022) 10 SCC 700.

34 2024 INSC 607.

35 *M.C. Mehta* v. *Kamal Nath*, (1997) 1 S.C.C. 388, 34 (India).

36 *Supra* note 25.

37 Ministry of Mines, Report of the Working Group on Mineral Exploration and Development (Other than Coal & Lignite) for the Twelfth Five Year Plan (2012-17) (Oct. 2011).

38 *India Cement Ltd.* v. *State of Tamil Nadu*, (1990) 1 S.C.C. 12, (India).

empowerment is crucial for creating targeted interventions that address the disproportionate burden borne by marginalised communities in mining zones. this fiscal autonomy enables States to earmark mineral revenues for local projects like education, healthcare, and infrastructure, fulfilling constitutional fiscal rights and promoting resource-sharing and decentralised welfare. It also allows funding for environmental safeguards in mining areas, balancing resource governance with constitutional duties and obligations under Article 48A.[39] The judgment signals India's shift from a modern pyramid structure to a postmodern matrix in its Interpretation.[40] For many years, Indian mineral law followed a view: since minerals are vital for national defence and industry, which falls under the Central government's authority, the Centre must have full control, including over revenue. This was exemplified in the India Cement (1990) ruling, which centralised authority. The 2024 judgment[41], by separating the Union's regulatory power from the States' proprietary and taxing rights, rejects the modernist "pyramid", where the Centre commands and the States obey. Instead, it embraces the "matrix", system affirming that constituent polities possess genuine integrity and independent fiscal capacity. It corrects the historical error of India Cement and restores the proprietary dignity of the States. However, the judgment is not a panacea. It exposes the "inner conflict" of the Indian state: the clash between autonomy and integration. By validating the States' power to levy royalty without establishing judicial guardrails against excessive taxation, the Court has kicked the ball into the political court. The judgment has established a balance by supporting states' fiscal independence while maintaining central regulatory power. This enhances the model of cooperative federalism, enabling States to tailor their tax policies to align revenue needs with attracting investment. This concern was forcefully articulated by Justice B.V. Nagarathna in her dissenting opinion. She cautioned that granting states unbridled taxing power over minerals could lead to a 'race to the bottom' and uneven mineral costs across the nation, potentially fracturing the national market and harming industrial cohesion.[42] The freedom to tax brings the risk of market fragmentation. The challenge ahead is to prevent this new covenant of shared rule from becoming a chaos of conflicting taxes. The path forward lies in institutionalising this cooperation, moving from the courtroom to the council room, ensuring that the Post-Modern Epoch of Indian federalism is marked not by conflict, but by cooperative federalism[43]. The judgment is not the end of the story, it is merely the opening sentence of a new, complex chapter in India's Constitutional destiny. The ruling leaves an open, but now judicially constrained, trajectory for future conflict. The core question remains: Can a future Parliament utilise its legislative power under Entry 54, List I, to impose the now-mandated explicit limitation on State taxing power under Entry 50, List II?

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39 The Constitution of India, 1950, Art. 48 A.

40 *Supra* note 7.

41 *Supra* note 25.

42 *Id.*

43 *Supra note* 7.