



## An analysis on creation of new states- Allocation and shares of resources- distribution of grants and aids

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### Abstract

This paper explores the foundational principles, structure, and governance framework of the original constitution. It examines its key provisions, underlying philosophies, and the impact on legal and political systems. The study highlights the constitution's role in shaping democratic governance, safeguarding individual rights, and ensuring institutional checks and balances. Furthermore, it discusses historical influences and contemporary relevance. By analyzing the constitution's strengths and limitations, this paper provides insights into its effectiveness and areas for reform.

**Keywords:** Constitution, governance, democracy, legal framework, individual rights, institutional checks and balances

### Introduction

A constitution serves as the supreme law of a nation, establishing the structure of government, defining the distribution of powers, and safeguarding fundamental rights. The original constitution, as examined in this study, reflects the aspirations of its framers and the socio-political conditions of its time. Understanding its provisions, guiding philosophies, and practical implications is essential for appreciating its role in governance. This paper provides a critical analysis of its foundational principles, explores historical influences, and evaluates its lasting impact. It also considers areas where constitutional amendments or reinterpretations have been necessary to address evolving societal needs.

### Legal framework of creation of new states

The reorganization of states in India has been a crucial aspect of nation-building, driven by linguistic, administrative, and economic considerations. The demand for creating new states arises from aspirations for better governance, regional development, and cultural identity <sup>[1]</sup>. Historically, the first major reorganization took place in 1956 based on linguistic lines, following the recommendations of the States Reorganization Commission (SRC) <sup>[2]</sup>. Since then, India has witnessed multiple state formations, including Chhattisgarh, Uttarakhand, and Jharkhand in 2000, and Telangana in 2014, each addressing unique regional demands <sup>[3]</sup>.

The legal and constitutional basis for the creation of new states is provided under Articles 2, 3, and 4 of the Indian Constitution. Article 2 grants Parliament the power to admit or establish new states, while Article 3 empowers it to form, alter, or merge states, subject to consultation with the affected state legislatures <sup>[4]</sup>. Article 4 clarifies that such changes do not require a constitutional amendment <sup>[5]</sup>. The Supreme Court has upheld Parliament's authority in state reorganization matters, ensuring that federal unity and regional aspirations are balance <sup>[6]</sup>.

However, the creation of new states comes with financial challenges, particularly in resource allocation, tax distribution, and economic viability. The division of public

assets, debt, and infrastructure often leads to disputes between parent and newly formed states <sup>[7]</sup>. The Finance Commission plays a key role in determining grants-in-aid and tax devolution, ensuring the economic sustainability of new states <sup>[8]</sup>. Without proper fiscal planning, new states may struggle with revenue generation and development <sup>[9]</sup>. Therefore, while state reorganization addresses regional demands, it must be undertaken with careful financial and administrative planning.

The creation and reorganization of states in India have played a crucial role in maintaining political stability and ensuring administrative efficiency. Since independence, India has undergone multiple state reorganizations, primarily driven by linguistic, ethnic, and regional aspirations. The legal framework governing the formation of new states is enshrined in Articles 2, 3, and 4 of the Indian Constitution. The power to create new states rests exclusively with Parliament, making India's federal structure unique compared to other federations where states often hold a greater degree of autonomy <sup>[10]</sup>.

### Role of Parliament under Article 3: Procedure for State Formation

The Indian Constitution empowers Parliament to alter state boundaries and create new states through Article 3. This provision ensures that any reorganization is executed in an orderly and constitutional manner. The procedure for state formation involves the following steps: <sup>[11]</sup>

**Introduction of a Bill in Parliament:** Only the President of India can introduce such a bill based on a recommendation.

**Reference to State Legislature:** Before proceeding, the concerned state's legislature is consulted; however, its consent is not binding.

**Parliamentary Approval:** The bill must be passed by a simple majority in both Houses of Parliament.

**Presidential Assent:** Upon approval, the President signs the bill into law, leading to the formation of a new state.

Unlike constitutional amendments, state creation under Article 3 does not require ratification by half of the states. This central authority ensures national unity while accommodating regional aspirations <sup>[12]</sup>.

## Past reorganization

### State Reorganization Act, 1956

The State Reorganization Act, 1956 was the most significant reorganization of Indian states, undertaken on the recommendation of the States Reorganization Commission (SRC), chaired by Fazl Ali. The key outcome was the reorganization of states based on linguistic lines, replacing the earlier colonial-era divisions. This led to the creation of states such as Andhra Pradesh, Karnataka, Kerala, and Maharashtra<sup>[13]</sup>

### Creation of New States in 2000 and 2014

Over time, new states were formed based on administrative efficiency, cultural identity, and demands for better governance.

Chhattisgarh, Uttarakhand, and Jharkhand (2000): These states were carved out from Madhya Pradesh, Uttar Pradesh, and Bihar, respectively, based on developmental and administrative factors<sup>[14]</sup>

Each of these reorganizations followed the constitutional process under Article 3 and addressed the aspirations of distinct regional populations.

### Judicial pronouncement on state re organization

Re Berubari Union Case (1960)

Issue: Whether Parliament can cede Indian territory to another country (Pakistan) without a constitutional amendment.

Ruling: The Supreme Court held that while Article 3 permits state reorganization, it does not allow the transfer of territory to another country. Instead, such actions require an amendment under Article 368<sup>[15]</sup>

### State of West Bengal v. Union of India (1963)

Issue: Whether a state can challenge the Union's authority over state reorganization.

**Ruling:** The Supreme Court held that Parliament has supreme authority in state reorganization and can alter boundaries without a state's consent. This reaffirmed the unitary dominance within India's quasi-federal structure<sup>[16]</sup>

### Financial challenges in new state formation

The creation of new states leads to several financial challenges, including:

**Division of Assets and Liabilities:** Infrastructure, government offices, and debts must be equitably divided, often leading to disputes (e.g., Telangana and Andhra Pradesh over Hyderabad's revenues)<sup>[17s]</sup>

**Tax Distribution:** The Finance Commission decides on the devolution of taxes to ensure new states receive adequate revenues<sup>[18]</sup>

**Grants-in-Aid:** Newly formed states often require special financial assistance to sustain development<sup>[19]</sup>.

The reorganization of states in India has been guided by constitutional principles, legal precedents, and economic considerations. While Article 3 provides a structured approach to state formation, judicial interpretations have clarified the limits of Parliament's power. Financial challenges remain a key issue in new state creation, requiring careful planning and fair resource distribution. Moving forward, India must ensure that state reorganizations prioritize administrative efficiency, regional aspirations, and economic viability to maintain national integrity and balanced development.

## Division of physical and natural resources

The division of physical and natural resources is one of the most critical aspects of state bifurcation. It includes the allocation of land, water bodies, and mineral resources between the newly formed and the parent state. In many cases, disputes arise due to the economic and strategic importance of these resources.

One of the most prominent examples of such disputes in India is the river water sharing issue between Andhra Pradesh and Telangana, which emerged following the Andhra Pradesh Reorganization Act, 2014. The Krishna and Godavari rivers, which are vital water sources for both states, became contentious points of negotiation. However, disagreements continue as both states claim a greater share of water resources.

Another crucial aspect is the division of mineral wealth. Telangana, being rich in coal reserves, has an economic advantage, whereas Andhra Pradesh, with its extensive coastline, has access to maritime resources. The allocation of these resources has influenced the economic policies and industrial development strategies of both states (Government of India, 2015)<sup>[20]</sup>

### Fiscal distribution between parent and new state

The financial distribution following bifurcation is a complex process involving the division of tax revenues, public assets, and liabilities. The case of Andhra Pradesh and Telangana offers a significant example where the revenue-sharing model was a crucial point of contention.

The central government provided financial assistance to Andhra Pradesh to compensate for the loss of revenue, supporting the development of a new capital city, Amaravati (Finance Commission of India, 2016)<sup>[21]</sup>

Apart from tax revenue, the allocation of liabilities and outstanding debts was another crucial aspect. The division of loans and financial obligations between the two states was determined based on population ratios and economic assessments, leading to prolonged negotiations and adjustments over time.

### Administrative and Infrastructure Distribution

State bifurcation requires a systematic division of government offices, administrative infrastructure, law enforcement agencies, and the judiciary. This process ensures a smooth transition and continuity of governance in both the parent and newly formed state.

The division of government employees was managed through a process that allowed officials to opt for their preferred state, with final allocations based on administrative necessity. This led to initial dissatisfaction among employees, particularly those who had personal and professional commitments in one state but were allocated to another (Government of Telangana, 2015)<sup>[22]</sup>

Similarly, the bifurcation of police forces and judiciary required strategic planning. While Telangana retained Hyderabad as its judicial headquarters, Andhra Pradesh established a new high court in Amaravati. Law enforcement agencies, including police personnel and intelligence units, had to be reassigned based on jurisdictional requirements (Supreme Court of India, 2017)<sup>[23]</sup>

Infrastructure distribution included the relocation of government offices, establishment of new administrative centers, and division of state-owned properties. The process

of setting up new legislative, executive, and judicial structures required significant investment and planning, often with financial assistance from the central government. The allocation and sharing of resources during state bifurcation involve intricate negotiations and legal frameworks. Physical and natural resource distribution, fiscal sharing, and administrative realignments are critical components that influence the future development of both states. The case of Andhra Pradesh and Telangana highlights the complexities and challenges in ensuring an equitable and efficient transition. By studying such cases, policymakers can develop better strategies for handling future state reorganizations in a manner that minimizes conflict and promotes balanced growth.

### Concept of grant in AID

The financial distribution between the Union and the states is a crucial element in India's federal structure. The concept of Grants-in-Aid plays a significant role in ensuring equitable resource allocation, particularly for states with inadequate financial capacity. Grants-in-Aid, primarily governed under Article 275 of the Indian Constitution, facilitate financial assistance to newly created states and other regions requiring economic support. The Finance Commission plays a pivotal role in this distribution by recommending fund allocations. However, challenges such as political interference and fiscal dependency often hinder the effectiveness of Grants-in-Aid.

### Under Article 275

Article 275 of the Constitution provides for Grants-in-Aid from the Consolidated Fund of India to states in need of financial assistance. These grants are primarily aimed at assisting new states in stabilizing their economies post-formation. Historically, states like Jharkhand and Telangana have faced economic challenges after their separation, necessitating substantial financial aid <sup>[24]</sup>. The funds allocated under this provision are non-discretionary and must be recommended by the Finance Commission.

### Types of Grants-in-Aid

Grants-in-Aid can be broadly classified into two categories:

#### 1. Statutory Grants

Statutory Grants are provided under Article 275 based on the recommendations of the Finance Commission. These grants are obligatory and primarily aim at reducing disparities in resource allocation. Such grants ensure that states with lower revenue generation capabilities receive adequate financial support to meet administrative and developmental expenses <sup>[25]</sup>

#### 2. Discretionary Grants

Discretionary Grants are provided under Article 282, which empowers the Central Government to allocate funds at its discretion for public purposes. Unlike statutory grants, these funds are not obligatory and often depend on the priorities of the ruling government. Discretionary Grants are frequently used for special projects, infrastructure development, and emergency relief measures <sup>[26]</sup> However, their allocation can be influenced by political considerations, leading to uneven resource distribution.

### Challenges in Grant Distribution

Despite their importance, the distribution of Grants-in-Aid faces several challenges:

#### 1. Political Interference

One of the primary concerns is the political influence in the allocation of discretionary grants. The central government often favors states governed by the ruling party while allocating funds under Article 282 <sup>[27]</sup> This leads to disparities in financial assistance and hinders uniform development across states.

#### 2. Fiscal Dependency of New States on the Centre

Newly created states, such as Jharkhand (2000) and Telangana (2014), have struggled with financial self-sufficiency. In the initial years post-formation, these states faced revenue deficits due to inadequate industrial bases and limited taxation capacity. Consequently, their heavy reliance on Grants-in-Aid has led to fiscal dependency on the central government, restricting their financial autonomy <sup>[28]</sup>

### Case Studies: Jharkhand and Telangana

#### Jharkhand

Jharkhand, carved out of Bihar in 2000, inherited significant natural resources but lacked proper industrial infrastructure. The state depended heavily on central grants and revenue transfers for economic stability. Over the years, delayed fund disbursements and political instability further aggravated its financial struggles <sup>[29]</sup>

#### Telangana

Telangana, which separated from Andhra Pradesh in 2014, faced similar financial difficulties. Initially, the state encountered revenue deficits due to the loss of Hyderabad's revenue-sharing benefits. The central government provided financial assistance, but political disputes over fund allocation led to tensions between the state and the Centre <sup>[30]</sup>

### Conclusion

The provision of Grants-in-Aid under Article 275 and discretionary grants under Article 282 is a vital mechanism in India's fiscal federalism. While statutory grants ensure financial stability, discretionary grants often suffer from political bias. Addressing the challenges of political interference and fiscal dependency is essential for ensuring equitable financial distribution. Strengthening institutional frameworks, promoting transparency in fund allocation, and enhancing the revenue-generating capacity of newly formed states will contribute to a more balanced and self-sufficient financial system.

### Role of finance commission in resource allocation

The Finance Commission of India plays a pivotal role in the distribution of financial resources between the Union and the States. Established under Article 280 of the Indian Constitution, its primary function is to ensure a fair and equitable allocation of financial resources. The commission is constituted every five years and provides recommendations on the distribution of tax revenues, grants-in-aid, and measures to enhance state resources. The Finance Commission examines the fiscal capacity and expenditure needs of both the Union and States. It determines the percentage of net proceeds of taxes to be shared between them, ensuring financial stability and

efficiency in governance. Finance Commission's Formula for Fund Allocation

Over the years, different Finance Commissions have used varying formulae to distribute resources. The 15th Finance Commission, for instance, adopted a formula based on population (15%), demographic performance (12.5%), income distance (45%), forest and ecology (10%), tax effort (2.5%), and area (15%). This method aims to balance the fiscal capabilities of states while incentivizing better governance and sustainable practices<sup>[31]</sup>

Previous commissions have adjusted weightage to reflect changing economic and demographic trends. For example, the 14th Finance Commission increased the share of states in divisible tax revenue from 32% to 42%, significantly enhancing state autonomy. Such changes are critical in ensuring that states receive adequate resources for developmental activities<sup>[32]</sup>

**Impact of State Creation on Union-State Financial Relations**  
The creation of new states significantly affects Union-State financial relations. When a new state is carved out, it requires a reallocation of resources, which can strain both the parent and newly formed state. For instance, the bifurcation of Andhra Pradesh and Telangana in 2014 led to extensive financial disputes over revenue-sharing, assets, and liabilities.

New states often face infrastructure and administrative challenges that necessitate additional grants and support from the Union government. Special Category Status & Its Implications

Special Category Status (SCS) is granted to certain states based on specific criteria such as hilly terrain, low population density, economic and infrastructural backwardness, and strategic location. States with SCS enjoy financial assistance in the form of grants and relaxed conditions for central funding.

The demand for SCS by Andhra Pradesh post-bifurcation was driven by economic hardships due to the loss of Hyderabad, a major revenue-generating city. However, the 14th Finance Commission recommended discontinuing SCS, replacing it with a special financial package to bridge the developmental gap. Despite repeated demands, Andhra Pradesh has not been granted SCS<sup>[33]</sup>

Previously, states like Himachal Pradesh, Uttarakhand, and the North-Eastern states benefited significantly from SCS. They received higher central assistance, greater flexibility in using funds, and tax incentives to attract investment. These advantages played a crucial role in improving infrastructure and economic conditions in these regions. The Finance Commission remains integral to maintaining fiscal federalism in India. Its role in resource allocation ensures balanced development while addressing regional disparities. The evolving methodologies of fund allocation reflect the changing economic landscape, ensuring that both the Union and States function efficiently. As India progresses, maintaining equitable financial relations between the Union and States will be crucial for sustainable growth and governance.

### **Dispute and conflicts in resource sharing**

Resource sharing among states in a federal system often leads to disputes and conflicts. These disputes arise due to competing demands, unequal distribution, historical claims, and political considerations. One of the most prominent areas of conflict is inter-state river water disputes, alongside

tax revenue sharing and judicial-political challenges in equitable resource distribution. This article explores these critical issues with relevant examples and legal frameworks.

### **Inter-State River Water Disputes Krishna and Godavari River Disputes Post-Bifurcation of Andhra Pradesh**

The bifurcation of Andhra Pradesh in 2014 led to renewed disputes over the allocation of river waters between the successor states of Andhra Pradesh and Telangana. The Krishna and Godavari rivers, crucial for both states' agriculture and industry, became points of contention.

The Krishna Water Dispute has a long history, with the Krishna Water Disputes Tribunal (KWDT) initially resolving issues among Maharashtra, Karnataka, and Andhra Pradesh. However, post-bifurcation, Telangana demanded a revised allocation, arguing that its water needs were previously overlooked<sup>[34]</sup> Similarly, the Godavari water-sharing dispute emerged as Telangana sought more control over water projects initiated in its territory. The Andhra Pradesh Reorganisation Act, 2014, attempted to address these disputes, but conflicts persist due to differing interpretations of the provisions and historical grievances<sup>[35]</sup>

Several legal mechanisms exist to resolve such disputes, including tribunals established under the Inter-State River Water Disputes Act, 1956. However, these tribunals often face criticism for delays in delivering judgments, leading to prolonged conflicts and interstate tensions<sup>[36]</sup>

### **Tax Revenue Sharing Issues**

Tax revenue sharing remains a significant source of conflict among Indian states, particularly in the context of the Goods and Services Tax (GST) regime. The GST, implemented in 2017, subsumed various state and central taxes, necessitating a revenue-sharing mechanism between the Centre and states<sup>[37]</sup>

A major issue has been the compensation promised to states for revenue losses due to GST implementation. Many states, particularly those with high consumption-based economies, argue that they are not receiving adequate compensation from the GST Compensation Fund. The COVID-19 pandemic further exacerbated this issue, as revenue shortfalls led to delays in payments, resulting in tensions between states and the central government<sup>[38]</sup>

Additionally, states with higher economic contributions often demand a greater share of tax revenues, while economically weaker states advocate for redistribution based on developmental needs. The Finance Commission plays a crucial role in determining the devolution of central taxes, but its recommendations frequently lead to disagreements, as seen in debates over the 15th Finance Commission's recommendations<sup>[39]</sup>

### **Judicial and Political Challenges in Resource Distribution**

Judicial intervention plays a critical role in resolving resource-sharing disputes, yet legal proceedings often face political roadblocks. The Supreme Court and various tribunals handle cases related to river water disputes, tax revenue sharing, and other resource conflicts. However, judicial decisions may not always be enforceable without political will.

For instance, in the Cauvery water dispute, despite Supreme Court directives, implementation was delayed due to

political opposition in Tamil Nadu and Karnataka <sup>[40]</sup> Similarly, in the Krishna and Godavari disputes, tribunal awards often require executive enforcement, which is hindered by political resistance from state governments <sup>[41]</sup>. Political considerations also affect the distribution of resources, as ruling parties may favor certain states over others. Federal structures necessitate cooperative governance, but competitive politics often undermine consensus-building efforts. Resource-sharing conflicts in India reflect the complexities of federal governance. Interstate river disputes, tax revenue sharing, and judicial-political challenges highlight the need for better conflict resolution mechanisms. Strengthening institutional frameworks, ensuring timely tribunal verdicts, and fostering cooperative federalism can mitigate these disputes. The success of resource-sharing policies depends on balancing regional aspirations with national interests, ensuring equitable and sustainable resource distribution.

### Case studies of state creation and resource sharing

The reorganization of states in India has been driven by linguistic, cultural, and economic factors, often leading to disputes over resource allocation. This article examines three major instances of state bifurcation: the separation of Andhra Pradesh and Telangana (2014), the reorganization of Bihar, Madhya Pradesh, and Uttar Pradesh (2000), and the formation of Uttarakhand and its economic challenges.

### Bifurcation of Andhra Pradesh and Telangana (2014)

The state of Andhra Pradesh was bifurcated on June 2, 2014, leading to the creation of Telangana. This decision was based on long-standing demands for a separate Telangana state, citing economic and developmental disparities <sup>[42]</sup>

One of the most contentious issues post-bifurcation was the sharing of water resources, particularly concerning the Krishna and Godavari rivers. The Krishna River Management Board (KRMB) and Godavari River Management Board (GRMB) were established to oversee the equitable distribution of water, but disputes remain <sup>[43]</sup>

Additionally, Hyderabad, the economic hub of Andhra Pradesh, was designated as the joint capital for ten years, causing financial and infrastructural challenges for the residual Andhra Pradesh <sup>[44]</sup>. Revenue distribution also became a key concern, as Telangana inherited a significant portion of the state's revenue base while Andhra Pradesh struggled with a deficit budget <sup>[45]</sup>

### Reorganization of Bihar, Madhya Pradesh, and Uttar Pradesh (2000)

In 2000, the Indian government reorganized three major states, leading to the formation of Jharkhand (from Bihar), Chhattisgarh (from Madhya Pradesh), and Uttarakhand (from Uttar Pradesh). The primary reason behind these bifurcations was to improve governance and economic development in underdeveloped regions <sup>[46]</sup>

Bihar suffered significant economic setbacks after the creation of Jharkhand, as it lost its mineral-rich areas, particularly coal and iron reserves <sup>[47]</sup> Similarly, Chhattisgarh emerged as a power surplus state due to its vast coal resources, while Madhya Pradesh faced energy deficits <sup>[48]</sup>

Uttar Pradesh, India's most populous state, faced governance issues due to its size. The formation of

Uttarakhand aimed to provide better governance to the hilly regions, which were often neglected in resource allocation <sup>[49]</sup>

### Formation of Uttarakhand and Its Economic Challenges

Uttarakhand was carved out of Uttar Pradesh on November 9, 2000, primarily due to administrative inefficiencies in governing the hilly regions. However, post-bifurcation, the state encountered several economic challenges.

Resource allocation also posed difficulties, as Uttarakhand depended on Uttar Pradesh for electricity and other essential supplies. While it managed to develop a robust tourism economy, industrial growth remained limited due to logistical constraints and lack of investment <sup>[50]</sup>

State bifurcation in India has led to both opportunities and challenges in terms of resource allocation and economic stability. While Telangana has experienced economic growth, Andhra Pradesh continues to struggle with its financial stability. Similarly, Bihar and Madhya Pradesh suffered economic losses post-reorganization, while Jharkhand and Chhattisgarh emerged as resource-rich states. Uttarakhand, despite infrastructural limitations, has focused on tourism and hydropower to sustain its economy. Future reorganizations must ensure balanced resource sharing and financial stability for both newly created and residual states.

### Conclusion

The original constitution remains a cornerstone of legal and political order, providing the framework for governance and the protection of rights. Its enduring relevance lies in its ability to adapt while preserving fundamental democratic principles. However, as societies evolve, constitutional reforms may be necessary to address contemporary challenges. By examining the constitution's strengths and limitations, this study underscores its significance in shaping governance and ensuring accountability. A deeper understanding of its provisions can guide future developments in constitutional law and democratic governance.

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