

What sort of federalism do we want?

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A balance between competition and cooperation is called for, with some States balking at an excess of the former

Ever since the Modi government assumed office, the chant of 'cooperative federalism' has grown louder. First, the Cabinet resolution on the creation of the National Institution for Transforming India (NITI) Aayog spelt it out and 40 days later the e-book on the new body reiterated the same. The sudden entry of competitive federalism in the government document seems like a crucial afterthought.

The Modi government has been talking about competitive federalism, but without saying so in as many words. The NITI Aayog e-book talks of competitive federalism as a force multiplier to achieve the objective of cooperative federalism.

It explains that competitive federalism will manifest in the Centre competing with the States and vice-versa, and the States competing with each other in the joint pursuit of national development.

But to a layman, cooperation and competition are seemingly antithetical elements and it's not clear how they can coexist.

Perhaps it is time to open the discussion on what actually these two forms of federalism may entail and if at all they can be steered together effectively by the NITI Aayog.

A disciplinary force

As a concept, competitive federalism is more suited to countries such as the US. Over 30 premier think tanks in the US endorse it. Its proponents claim that it's woven into the DNA of the American constitution and America's greatness. The meaning of competitive federalism as espoused by the Liberty Foundation in the US would entail a system that allows States to compete with each other over a broad range of issues to provide citizens with the best value goods and services at the lowest cost.

It serves as a barrier to centralisation and requires States to reform their programmes and provide goods and services that they can self-fund.

In other words, one-size-fit-all policies render meaningful competition amongst States to a few issues, going against the very grain of competitive federalism. Other experts elsewhere seem to concur. For instance, Judge Carlos Bea of the United States Court of Appeals feels competitive federalism indeed disciplines the States.

A good bargain

The Modi government seems to be conveying the same thing. In fact, two lines in the Prime Minister's letter to State chief ministers after accepting the recommendations of the 14th Finance Commission puts it all in perspective: "...we also believe that States should be allowed to chalk out their programmes and schemes with greater financial strength and autonomy, while observing financial prudence and discipline".

The wholehearted acceptance of the recommendation of the 14th Finance Commission made it possible for the Prime Minister to say so with authority.

According to the recommendations, the Centre will now devolve 42 per cent from the divisible pool to States — a jump of 10 percentage points.

The bargain seems set with the Prime Minister seeking competitive federalism in lieu of cooperative federalism.

The demand for increased devolution and freedom to modify centrally sponsored schemes according to the needs of individual States is something States have been emphasising for some time now.

Many sides of competition

The recent meeting of the NITI Aayog further facilitated this discussion. The Centre following the Finance Commission's recommendations is the biggest tangible proof that the government can offer of its seriousness in creating a cooperative framework of development.

Whereas more funds are likely to make States happier, it will be far from true to assume that the ball is entirely in the court of States to exercise competitive federalism.

This is because there are varied economic patterns in different States.

According to the Institute of Competitiveness in New Delhi, the economies of States in India are ranked across categories such as factor-driven economies, evolving economies, investment-driven transition economies and innovation-driven economies.

In other words, it means that while some States may have specialised factor conditions such as skilled labour, capital and infrastructure, others may not. Moreover, there is disparity within each category that the States need to address before they can aim to climb up to the next level.

Therefore, to expect all States to catch up uniformly in the process of growth and development would be a fallacy. Many States still need the help of the Centre and it is not clear how much extra funding they may need before they can imagine competing.

Speaking to a television channel recently, the Uttarakhand chief minister indicated this quite clearly. Assam too shared this view in the recently held NITI Aayog meeting.

Bihar has already decided to lodge a protest fearing that it will lose due to the decision to withdraw funds for existing centrally-sponsored schemes as well as the Backward Region Grant Fund (BRGF) from the next financial year.

West Bengal too has expressed concern on implementing railway projects through joint ventures between the Centre and the State, as being a debt-ridden State it is not sure if it can pay afford to fund a joint venture.

The proposed GST law may help some of the less productive States raise the revenue as the tax will be a destination-based levy. But the task cut out for the NITI Aayog will remain onerous — to balance cooperative and competitive federalism.

And to make matters difficult, the Constitution provides for a more cooperative than a competitive framework — the distribution of powers is evidence of that.

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