

Opinion | Interstate development and the federalism question

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Reviving the Inter-States Council is the only real way to address conflicts of state interests

Topics: Interstate Development / Federalism / Inter-States Council

In a [paper published a few years ago](#), my colleagues and I drew attention to the vast interstate differences in various development indicators. Our main purpose was to assess and rank the service delivery performance of state governments. As social and economic outcome indicators are highly correlated with per capita income, we ranked the states after controlling for differences in per capita state domestic product. The results were quite remarkable. After controlling for income differences, some poorer states moved significantly up the rank order: Madhya Pradesh, Bihar, Chhattisgarh, Uttar Pradesh, and Rajasthan. Collaterally, better-off states such as Gujarat, Tamil Nadu, Andhra Pradesh, Kerala and Punjab moved down several notches. Clearly, centrifugal economic forces are distancing rich and poor states economically but there are other centripetal forces containing interstate differences in the levels of economic and social service delivery. Most of these centripetal forces emanate from the Constitution, in particular, the constitutional articulation of central and state-level institutions of the legislature, judiciary and executive. Also, successive finance commissions have attempted to ensure to the extent possible that citizens across all states, are provided the same level of public services, given that they belong to the same tax jurisdiction.

This equalizing role of the government also speaks to the issue of federalism. States claim that successive union governments have encroached upon their constitutional space. The 14th Finance Commission attempted to contain this encroachment. However, it recognized that, for public goods or merit goods and services with large externalities, the Centre has an overarching responsibility. So, what is the way forward?

I will address this issue through the lens of education services, education being the key to many of our major challenges, including employment. Note that all schemes, in education or in any other field, are implemented by state administrations, regardless of whether these are state schemes or central schemes (CSs) or centrally-sponsored schemes (CSSs). States design and finance their own schemes and implement the CSs and CSSs as agents of the centre. The latter does not have its own implementation machinery. So the difference is that a state scheme is designed and financed by the state, while a CS or CSS is designed and wholly or partly financed by the Centre.

Basic education is a state responsibility but a merit good with large externalities. The [Right to Education Act](#) (RTE) of 2009 made eight years of basic education an entitlement for all children. However, [Sarva Shiksha Abhiyan](#) (SSA), a CSS for implementing the RTE, focussed on enrolment and creation of physical infrastructure in its design, not on learning outcomes.

Madhav Chavan observes in the Annual Status of Education Report (ASER) 2018 that soon after RTE was enacted, learning outcomes declined. However, after the Planning Commission recognized the problem of deteriorating learning outcomes, implementation emphasis started shifting, and now the Act itself has been amended.

Both Chavan and Rukmini Banerji in the report point out that private schools have better learning outcomes compared to government schools, and their enrolment share has now risen to about 30%—an important factor behind the change. But government schools still account for 70% of enrolment and even private schools are subject to regulation by the government. So the centripetal force of the government I mentioned earlier is writ large over this turnaround.

The modest improvement in learning outcomes notwithstanding, there are large interstate variations in learning outcomes. Dr. Wilima Wadhwa (Director, ASER) points out that the scale of these variations has persisted. From the perspective of the weaker states, two points need emphasis. In the absence of SSA, these states

would have been much worse off for resources. These states have clearly benefited the most from SSA. But a major disadvantage of any CSS is the long delay before funds reach implementing agencies. Accountability Initiative, which tracks government expenditure flows, has shown that by the time SSA funds reach schools, much of the financial year is already over and they have barely a few months to hurriedly spend the entire annual budget.

This discussion points to a conflict of interest between strong and weak states on the question of federalism. The former have the capacity to design their own schemes and are better off with greater autonomy and untied transfers. But weaker states lack the capacity to design their own schemes, or raise enough resources. They need the help of CSs and CSSs. How do we address this conflict? The Goods and Services Tax Council, which faces similar conflicts of state interests, has shown states can effectively cooperate despite these conflicts. Based on this experience, the next government will hopefully revive and empower the moribund Inter-States Council as the principal vehicle for cooperative federalism, as was its original mandate.

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