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POLICY MATTERS

Will Bihar results drive cooperative federalism?

EXPERT VIEW

SUDIPTO MUNDLE

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The Bihar election has been diagnosed ad infinitum: the arithmetic of alliances, backward vs forward castes, the divisive campaign, Nitish Kumar's record, the future of the Janata Dal (United)-Rashtriya Janata Dal-Congress alliance, the implications for governance, etc. But the possibly far reaching implications of the election outcome for cooperative federalism have not received much attention.

When proposed by the 14th Finance Commission (FFC) in December last year, the concept of cooperative federalism immediately gained great traction in policy discourse. It sat well with the Prime Minister's announcement early in his tenure that he and the chief ministers would together constitute the 'A' team, the 'Board of Directors' as it were, that would take India forward. But cooperative federalism possibly meant different things to different people. Except in one important respect, discussed further below, the concept largely remained an attractive sound bite.

Successive finance commissions had referred to the imbalance between the powers of state governments to raise revenues and their spending responsibilities. They had also pointed to the imbalance between the inter-governmental division of responsibilities in the Constitution and ground realities. A major thrust of the FFC award was to address these imbalances. However, the FFC was also mindful of the Union government's own expenditure obligations, including projects (or programmes) of national importance.

These projects are located in different states, with varying conditions, and they may also overlap with state subjects. So, the states have to have a role in the design and implementation of such national projects. Moreover, these projects are actually implemented by state governments as agents of the Union government. Clearly, the collective wisdom, experience, and expertise of 29 state governments plus the Union government for designing and implementing such projects is much greater than that of a single department in the Union government. Hence the need for cooperative federalism.

The FFC report devoted a whole chapter to cooperative federalism and outlined a framework for it, leaving it to the Union and state governments to collectively work out the detailed architecture of the institution. The FFC also pointed to an existing institution, the inter-states council, that could serve as an ideal platform for such cooperation if suitably empowered as a permanent body under article 263 of the Constitution. A council of chief ministers, chaired by the Prime Minister, with a secretariat consisting of officers from the states and the Union as well as domain experts could be a very powerful and effective body. Especially so if the institution is enshrined in law and placed outside the Union home ministry, where it is currently located as a toothless entity that rarely meets.

Unfortunately, this is one aspect of the FFC recommendations that has not yet been implemented. A curious omission, considering that in his earlier avatar as chief minister of Gujarat, Narendra Modi was an outspoken critic of the imperious attitude of the Union government. Or may be it is not so curious after all under the present circumstances. While there is much talk of cooperative federalism, the concept has been given little practical content except in the specific context of the NITI Aayog.

> The current political scene is such that the centre will have to work in tandem with the states for major economic policy initiatives

In many ways, NITI Aayog rose like a phoenix from the ashes of the Planning Commission, which it superseded. It was located on the premises of the Planning Commission. The assets and budget of the Planning Commission were transferred to it. The officers and employees holding office under the Planning Commission continue to hold office under the NITI Aayog. And the NITI Aayog was declared the successor in interest of the Planning Commission. But there are two key differences between the Planning Commission and the NITI Aayog.

First, the Commission was primarily an instrument of the Union Government. In contrast, the NITI Aayog comprises a governing council, chaired by the Prime Minister, in which all the chief ministers and lieutenant governors of Union territories are members. Also, its mandate explicitly requires the NITI Aayog "to evolve a shared vision of national development priorities, sectors and strategies with the active involvement of states..." and "to foster cooperative federalism through structured support initiatives and mechanisms with the states on a continuing basis, recognising that strong states make a strong Union." Clearly, NITI Aayog is the platform chosen by the Union government to promote cooperative federalism.

However, this platform has no role in the transfer and allocation of Union resources or 'Plan funds' to the states. That function has been taken over by the ministry of finance. This is the second key difference compared to the Planning Commission. In fact, the executive order that established the Aayog on 1 January 2015 clearly states that it will be "an institution that serves as a think tank of the government." In other words, cooperative federalism has been limited to the sphere of an institution that has no operational or resource allocation role.

Post-Bihar elections, this situation could change radically. There is now an arc of contiguous opposition-ruled states, with a vast population, stretching from Delhi through Uttar Pradesh and Bihar to West Bengal. Several states in the Northeast and South are also ruled by opposition parties. Even state governments friendly with the Union government, or equidistant between National Democratic Alliance (NDA) and the opposition, such as in Andhra Pradesh, Tamil Nadu and Odisha, are likely to join the opposition-ruled states in matters of relationship between the centre and the states.

Hence, the Union government will perforce have to work in close cooperation with the states for any major economic policy initiative. This applies to land and labour, which are state subjects. It also applies to any national-level reform that requires legislation, and hence depends on an opposition-dominated Rajya Sabha. It even applies to national programmes or policies that do not require legislation but will have to be implemented by the states, for example, power, roads, education or health.

Reforms and public investment are urgent now to revive the private investment cycle. The global growth scenario stays depressed, the collapse of commodity prices being a mixed blessing. Domestically, the growth estimate of 7.4%, based on the new gross domestic product numbers, continues to confound everyone. Virtually all other indicators, barring indirect tax collections, suggest an anaemic economic outlook. Downside risks include virtual stagnation in both exports and imports, high non-performing assets and slow growth of bank credit, weak first quarter corporate performance, low industrial growth and the slowdown in agriculture due to a deficient monsoon. To revive the private investment cycle despite these downside risks, significant reforms, including goods and services tax and a public investment boost are essential. As explained above, that can only happen in the present political environment through close cooperation between the Union government and the states.

Thus, there are strong political economic currents pulling us towards cooperative federalism. The Modi government has two choices. It can fight the currents, and risk floundering in continuous confrontation with the states. Alternatively, it can ride the currents, institutionalise a system of genuine cooperative federalism, and use the system in partnership with the states to push through significant reforms and public investments programs. With just over three years remaining for the general election in 2019, it is high time to take a call.

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