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## Two Years on, Some Pluses and Many Misses on Cooperative Federalism

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Chief Minister of West Bengal, Mamata Banerjee, with Chief Minister of Delhi, Arvind Kejriwal, at the Chief Ministers' conclave on 'Cooperative Federalism and Centre-State Relations', in New Delhi on September 30, 2015. Photo: Ramesh Sharma

*Back in May 2014, Prime Minister Narendra Modi promised to reboot Union-State relations with new initiatives aimed at supporting the aspirations of the States and recognising them as equal partners in India's growth and development. While the Modi Government has fulfilled the promise in some measure, it has also damaged the delicate fabric of Union-State relationship with its insensitivity and aggression towards Opposition-run States. **Tridivesh Singh Maini**, Senior Research Associate, The Jindal School of International Affairs, points out the divergences between intent and delivery.*

The rise of strong and dynamic regional leaders, as a consequence of coalition politics and the economic reforms of post-1991, has ensured that States have become key stakeholders not just on domestic issues, but also in matters pertaining to foreign policy – especially those concerning economic issues.

Regional leaders like Andhra Pradesh's Chandrababu Naidu left no stone unturned in attracting Foreign Direct Investment (FDI). Over the years, by virtue of their political strength, State governments became key stakeholders in negotiations with the World Bank and the World Trade Organisation (WTO) . <sup>1</sup> The previous National Democratic Alliance (NDA) Government led by Atal Bihari Vajpayee had organised a Chief Ministers' conference to examine the possible ramifications of WTO on the Indian States. <sup>2</sup> Yet even in the post-1991 era, a number of Chief Ministers have often complained about organisations such as the erstwhile Planning Commission, and National Development Council failing to enhance centre-State cooperation, with neither being sufficiently sensitive to the financial needs and aspirations of States.

Tamil Nadu Chief Minister Jayalalithaa in fact stormed out of the 57<sup>th</sup> NDC meeting in 2012, complaining that such meetings were pointless, as Chief Ministers did not get enough time to express their views on important issues. The Tamil Nadu Chief Minister was given 10 minutes to speak, after which a bell rang signalling her to end her speech. Jayalalithaa called this 'humiliating'.

With the election of Narendra Modi as Prime Minister in 2014, it was expected that there would be a significant shift in centre-State relations. Firstly, Modi as Chief Minister had spoken on more than one occasion in favour of a more harmonious and meaningful relationship between New Delhi and the States, often lambasting the Planning Commission for being out of sync with India's federal needs. The Bharatiya Janata Party's (BJP) Manifesto also laid emphasis on closer coordination between the Union and States, especially with regard to fiscal autonomy.

Apart from this, Modi's right-of-centre persuasion also led many to believe that he would follow a more laissez-faire approach towards the States in the economic sphere. Indeed, analysts compared Modi to former U.S. President Ronald Reagan, expecting that just as Reagan had altered the nature of centre-State relations in the US <sup>3</sup> , he too would do the same in India.

Said Reagan: 'It is my intention to curb the size and influence of the Federal [Central] establishment and to demand recognition of the distinction between the powers granted to the Federal Government and those reserved to the States or to the people. All of us need to be reminded that the Federal Government did not create the States; the States created the Federal Government'.

This article will seek to analyse some of the important changes in centre-State relations since the Modi Government came to power and highlight aspects that have not been in consonance with Modi's slogan of cooperative federalism (a more harmonious relationship between the centre and the State).

The first significant step which Prime Minister Modi took in the context of revamping the centre-State relationship was in setting up the NITI Aayog (National Institution for Transforming India) . If one were to look at the functions of the organisation, there is a clear emphasis on greater consultation with the States as well as with outside experts. The key functions, as mentioned in the constitution of the NITI Aayog, which refer to 'Cooperative Federalism and emphasise greater inputs from outside experts are <sup>4</sup> :

(1) To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States in the light of national objectives

(2) To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognising that strong States make a strong nation

(3) To provide advice and encourage partnerships between key stakeholders and national and international like-minded Think tanks, as well as educational and policy research institutions.

(4) To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.

While chairing the first meeting of Niti Aayog, Prime Minister Modi laid strong emphasis on the urgent need for shedding a one size fits all approach <sup>5</sup>. In a series of tweets, he said:

"State CMs gave many insightful views during the meeting. This spirit of cooperative federalism will enhance India's progress and prosperity. Emphasised on the need to expedite growth, investment, job creation, elimination of poverty and moving away from 'one size fits all' approach,"

The other important decision, the Modi Government took in the context of centre-State relations was to accept the key recommendations of the 14th Finance Commission. The most significant recommendation which it accepted was a 10 percentage point increase in gross revenue devolved to the States –in other words, 42 per cent of gross tax revenue would be devolved to States, as opposed to the previous 32 per cent <sup>6</sup>. The Union government reduced its allocation to the State plan, while also ending certain centrally sponsored schemes.

Since then, the Modi government has encouraged States to compete for foreign direct investment (FDI), and the Prime Minister has urged all States to set up their own export councils with view to ensuring, not just on cooperative but also 'competitive federalism'. <sup>7</sup> While 15 States have come up with an export policy/strategy, 21 States have already appointed export commissioners. A trade facilitation council has also been set up where representatives from the centre and States will work together. <sup>8</sup>

The last two years have witnessed a number of visits by Chief Ministers to Singapore, China and Japan Investors Summits too have become a common State-level feature. Modi was also accompanied by Chief Ministers from Gujarat and Maharashtra during his China visit. During this visit, a regional dialogue between Chief Ministers of Indian States and the Chinese Provinces was also inaugurated. <sup>9</sup> While Modi cannot claim all credit for this, the government's focus on attracting FDI and its push to the States to compete for the same has played some role.

And yet, while the Modi Government has taken some important steps towards granting financial autonomy to the States, it has not gone far enough to fulfil expectations generated by its stated commitment to substantially alter centre-State relations.

Consider the following:

The Prime Minister has flagged the relevance of eastern India and northeastern India and the need to address regional disparities. Currently, if one were to look at FDI over the past 15 years, 70 per cent of it has been received by seven States (Delhi, Haryana, Maharashtra, Karnataka, Tamil Nadu, Gujarat, and Andhra Pradesh) . <sup>10</sup> According to fDi Intelligence a division of Financial Times, while in 2015, India received a whopping \$63 billion in FDI, surpassing China, the top beneficiary was Gujarat (\$12.4 billion). <sup>11</sup> Though the government has made efforts to improve infrastructure in States bordering Myanmar with an eye to strengthening the Act East Policy <sup>12</sup>,

and extended a measure of support to Tripura Chief Minister Manik Sarkar's overtures towards strengthening economic ties with Bangladesh <sup>13</sup>, its policy initiatives have not gone far enough. Most northeastern Chief Ministers have complained of being the biggest losers of the 14<sup>th</sup> Finance Commission recommendation, as they have lost their special category status. Consequently, though they have got more money, they will tend to lose especially since there will be a revision to the pattern of funding with regard to centrally sponsored schemes, which was earlier (90-10) <sup>14</sup>

Undoubtedly, eastern and northeastern India need a big boost in terms of infrastructure so that they too are able to attract more FDI and bridge the gap with other States. The Prime Minister will also do well to showcase opposition States overseas and include Opposition Chief Ministers on his foreign visits. The only instance of him being accompanied abroad by an opposition Chief Minister was when West Bengal Chief Minister Mamata Banerjee went with him to Bangladesh. <sup>15</sup> The Karnataka Chief Minister, Siddaramiah, took strong umbrage for not being invited to an Indo-German Summit organised by NASSCOM, at Bengaluru, during German Chancellor Angela Merkel's visit in October 2015. Prime Minister Modi and the German Chancellor were present and according to the State government, the PM should have ensured the presence of the Chief Minister. <sup>16</sup>

Second, relations with a number of Chief Ministers have soured due to bitter election campaigns. Mr. Modi has a personalised-style of campaigning that often rubs his opponents the wrong way. The 2014 Haryana and Maharashtra State elections saw the Prime Minister at his combative best. Yet, this strategy backfired in the February 2015 Delhi Assembly election which saw the fledgling Aam Aadmi Party (AAP) rout the Modi-led BJP. Even after this, the party ran a highly negative campaign in Bihar where again it lost. The same aggression has been visible at the Prime Minister's recent election tours, with him mounting personal attacks on the Chief Ministers and hurting local sentiments as happened recently in Kerala. <sup>17</sup>

But it is not merely the bitter election campaigns, which, some would argue, are a feature of electoral democracy, that have threatened cooperative federalism. In Delhi, for instance, the AAP has shared an especially strained relationship with the Union government over a number of issues, especially transfers of officials. It all began with Delhi's Lieutenant Governor, Najeeb Jung, appointing Shakuntla Gamlin, as acting Chief Secretary in the absence of K.K. Sharma who was on leave. <sup>18</sup> It would be fair to point out that Delhi Chief Minister Arvind Kejriwal too has used intemperate language on occasions, which has further soured the relationship.

In addition to the Delhi standoff, the Centre's decision to impose Article 356 in Uttarakhand, where nine Congress rebels voted against the government, has also sent wrong signals. Ultimately, a floor test was carried out by the Supreme Court and the nine MLA's were not allowed to vote. Dislodging a duly elected government, and doing so without even the mandatory floor test, is the diametric opposite of the spirit of cooperative federalism that Modi promised on assuming office.

Third, it is important for the Centre to give greater importance to the Inter-State Council (Article 263) for enhancing coordination amongst States. While the Modi Government has made some changes with regard to the composition of 'Permanent Invitees', as well as the 'Standing Committee', what is more important is that the Council will now take inputs from outside experts. According to a notification, "The Standing Committee may, if necessary, invite experts and persons eminent in specific fields to have the benefit of their views while deliberating upon the related subjects".

It is important that experts are from diverse backgrounds, and that their inputs are taken seriously. New Delhi should also lay greater emphasis on the States learning from one another's successes in the policy sphere.

Currently, States do seek to learn from best practices of other countries, but seldom are there efforts to learn from each other . <sup>19</sup> For this, it will be necessary for a more 'bi-partisan' approach to policy issues something which to be fair has never been existent, recent campaigns and acrimony have only worsened it.

In conclusion, it would be fair to say that India cannot make substantial economic progress, without the willing and active participation of the States – both in the implementation of welfare schemes and programmes and in carrying out economic reforms. And yet, it would be unrealistic to expect States that are lagging behind to suddenly turn around. The laissez-faire approach may work in States that have achieved a reasonable degree of development, but will not work in far-flung regions, especially the northeast, which have immense potential but are ignored due to the fact that they do not have sufficient political representation. Apart from this, the true spirit of 'Team India', would be where the Union government genuinely appreciates the achievements of non-BJP Governments, and also realises that not every State should be measured only in terms of its industrial growth as healthy progress in Human Development Indicators (HDI) is vital for any State to truly progress.

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