

**TOWARDS A MODERN FEDERAL CONSTRUCT
IN INDIA:
THE URGENCY OF AN INSTITUTIONAL
RESPONSE TO THE IDEATIONAL TURN**

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***Abstract:** Institutions serve to concretize and formalize dominant ideas of a social base. Since ideas evolve, institutions must also evolve to prevent institutional decay. In India, the federal idea is evolving in exciting ways. Federal institutions as embodiment of the community's idea of federalism must reflect this evolution. The idea of 'new federalism' in India is being expressed through an increased urge for more interactions by the stakeholders. India's federal democratic governance also needs institutional mechanisms to respond to the increased federalization of the Indian Party System and fraternalization of the Centre-State relations. The existing institutional mechanisms are inadequate to respond to this change, because they were conceived to accommodate a centrally managed cooperative federalism. The time has come to supplement these institutions with a highly interactive architecture of collaborative federalism. This interactive architecture will provide channels for 'infinite' interactions among the stakeholders (governmental as well as non-governmental). The interacting parties will tolerate mutual differences and allow the partners of the federation to experiment with their own variants of a national policy. This approach will (a) build aggregate capabilities; (b) induce the States to launch "race to the top" policies; (c) strengthen the spirit of laboratory federalism; (d) build vertical and horizontal linkages; and (e) spawn non-hierarchical policy coordination.*

Keywords: federalism, cooperative federalism, collaborative federalism, India, intergovernmental relations, federal democratization

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Introduction

Institutions – including constitutional provisions governing relations between the two levels of the government and degrees of decentralization – are contingent and susceptible to revision. Federal institutions are no exception. A nation’s federal structure cannot be built upon a ‘fixed’ distribution of authority between governments, because “there is, and can be, no final solution to the allocation of financial resources in a federal system. There can only be adjustments and reallocations in the light of changing conditions”.¹ In the words of J. Rodden, “Federalism is a process, structured by a set of institutions, through which authority is distributed and redistributed”².

According to the “new institutional economics”³ the motivations and incentives of economic agents are influenced in a fundamental sense by the “incompleteness of contracts”.⁴ This

¹ K.C. Wheare, *Federal Government*, (London: Oxford University Press, 1963), p.117

² J. Rodden, *Hamilton’s Paradox: The Promise and Peril of Fiscal Federalism*, (New York: Cambridge University Press, 2006), p. 31

³ The New Institutional Economics (NIE) puts a considerable weight on coordination between the parties for realization of the potential gains from transactions between them. But transactions involve costs. These costs are of two types: coordination costs and motivation costs. See, P. R. Milgrom, and J. Roberts, *Economics, Organization, and Management*, (New Jersey: Prentice Hall, 1992). The transaction costs arise because actors behave opportunistically under uncertainty. See, Oliver. E. Williamson, *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*, (New York: Free Press, 1985). The NIE focuses on minimizing these costs by building institutions through which rules are specified and enforced. See, D.C. North, *Institutions, Institutional Change and Economic Performance*, (Cambridge: Cambridge University Press, 1990)

⁴ For the concept of incomplete contracts, see, Oliver E. Williamson, *Mechanisms of Governance*, (New York: Oxford University Press, 1996); O. D. Hart, “Incomplete Contracts and the Theory of the Firm”, in, *Journal of Law, Economics, and Organization*, Vol. 4, No.1 (1988), pp. 119-139; and P. Seabright, “Accountability and

insight is applicable to the study of historical evolutions of federations across the world, because federations also tend to evolve as ongoing contracts; and remain, by their very nature, under constant renegotiation.⁵ Assuming that federations are incomplete contracts, this article argues that in the changing scenario, a more responsive set of institutional mechanisms are required to facilitate greater interactions between the Central and State governments as equal partners. Other stakeholders such as non-government organizations, civil society and private sector must also be involved through mechanisms such as ‘policy networks’, and due recognition should be given to differences, particularities, contexts, and emotions of various stakeholders.

When institutions (rules) are the product of ‘constructive’ and ‘non-coercive’ interactions, their substantive content tends to embody the motivations underlying those non-hierarchical interactions. Thus they no longer remain susceptible to decay. In fact, such a process of ‘collaborative interaction’ reveals the dominant ideas of the society, and helps in the alignment of formal rules with the informal rules.⁶ When the formal rules are designed to represent the ‘discursive formations’ of the society they command its respect and obedience.

The process of collaborative interaction involves: *dialogue*, *negotiation*, and *action*. In the dialogue stage, all the stakeholders

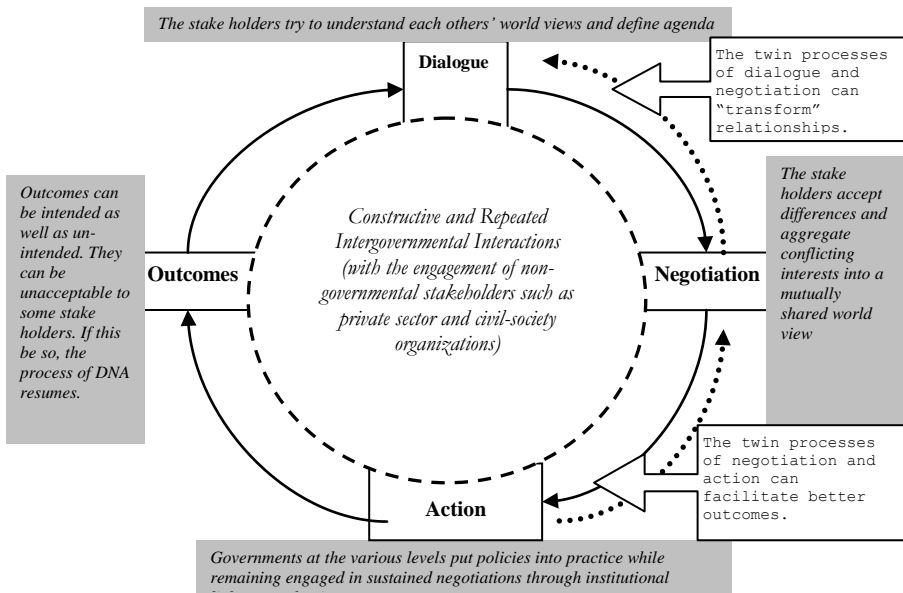
Decentralization in Government: An Incomplete Contracts Model”, in, *European Economic Review*, Vol. 40, No. 1 (1996), pp. 61-89

⁵ See, Bhajan Grewal and Peter Sheehan, “The Evolution of Constitutional Federalism in Australia: An Incomplete Contracts Approach”, in, CSES Working Paper, No. 22, (Melbourne: Victoria University, 2003)

⁶ Douglass C. North and Hernando De Soto articulated the theoretical premises that the formal rules have to align with the informal rules, not the other way around. The institutions must be designed to match the dominant ideas of society. See, Douglass C. North, *Institutions, Institutional Challenge and Economic Performance*, (Cambridge: Cambridge University Press, 1990); and, Hernando De Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, (New York: Bantam Press, 2000)

(governments at all levels, private sector, NGOs, and civil society groups) get the opportunity to let their respective world-views known to each other. The agenda is defined and the process remains open ended. In the negotiation stage, the differences are resolved through a series of compromises. The twin processes of dialogue and negotiation continue till a mutually agreed solution to a contentious issue is identified. The last stage is action; but negotiations continue even in this stage as a ‘feedback mechanism’. The lessons learnt by understanding the outcomes, some of which can be unintended, re-enter the interactive processes, leading to more refined outcomes in the future. Thus, *dialogue, negotiation, and action* are the three interrelated aspects of a collaborative interaction. Let us call this approach to interaction a ‘DNA approach’ (Figure 1). Such an approach produces a mutually agreed set of rules and a robust institutional design that is dynamic enough to continually adjust and re-adjust itself to the changing realities of the times.

Figure 1: The DNA approach (dialogue—negotiation—action) to collaborative interactions.



The DNA approach is all about creative engagement in the welfare enhancing strategic behavior. It is a process where actors act in close, collaborative-type relation with each other, and aim at working jointly for the attainment of mutually beneficial goals. This approach puts a premium on ‘collaboration’ rather than ‘cooperation’ (see section VI for the difference between the two).

I. The Contemporary Relevance of the Idea of Collaborative Federalism for India

Discussion on a shift from intergovernmental cooperation to intergovernmental collaboration in India has become indispensable in the wake of growing political and economic decentralization. The emergence of state based and regional parties and their success in elections to the national legislature (House of People) along with the emergence of a new economic paradigm for economic policy making – focusing on liberalization, privatization, and globalization – has drastically changed the operating environment. Add to this the increased political mobilization of the marginalized groups; increased assertiveness of the civil society groups; and the constitutional recognition of local bodies as the third tier of government.

Thus, a shift is required not only from a coercive (centrally managed) cooperation to a more creative and constructive cooperation (in the spirit of collaboration between equal partners), but also, more fundamentally, from our traditional construct of federalism, working exclusively with governments (national and subnational), to a modern federal construct giving due recognition to all players relevant for governance. This includes local bodies and various non-governmental actors. “Governing”, as Andrew Gamble observes, “is not an exclusive preserve of government; there are other agencies and institutions that are involved in governing a social order”.⁷

⁷ Andrew Gamble, “Economic Governance”, in, Jon Pierre (ed.), *Debating Governance Authority, Steering, and Democracy*, (Oxford: Oxford University Press, 2000), pp. 110-137

Note that the federal relations are explained by the levels of development of the bargaining powers of various stakeholders (who can affect the stability of the federal order). Thus, it is sometimes the sheer quantity of power, sometimes its qualitative embodiment, and sometimes both, in which the explanation for a change resides. Therefore, the structural form of federal institutions must correspond to the state of development of bargaining powers of various players.

With the acquisition of more bargaining powers by subnational actors vis-à-vis the central government, and noticeable negotiating space garnered by the non-governmental and private actors, the players have begun to reshape their behaviors and their economic and political relations with one another. Thus, the new institutions should be so designed (or old institutions should be so reformed) that they should be able to accommodate and respond to the increased urge for more dialogue, deliberation, negotiation, and action on part of the actors which hitherto were either too powerless or too irrelevant.

It must be realized that Indian federalism is now entering a new stage of evolution with increased federalization of the Indian Party System⁸ and fraternalization of Centre-State relations⁹. The institutions must reflect these changes. The need is to go beyond the concept of cooperative federalism. In the changing scenario, it is the notion of collaborative federalism that deserves a more serious consideration than has generally been granted in the literature on Indian federalism. In fact, new policies in the new operating environment cannot originate from the old institutional stasis. Thus, the latter is under immense pressure for change. The need is to build additional collaborative institutions, if *incentive compatible interactions* between stakeholders are to be facilitated.

⁸ Balveer Arora, "Federalization of India's Party System", in, Ajay K. Mehra, et al., (eds.), *Political Parties and Party Systems*, (New Delhi: Sage, 2003), pp. 83-99

⁹ R. J. Chelliah, *Towards Sustainable Growth: Essays in Fiscal and Financial Sector Reforms in India*, (New Delhi: Oxford University Press, 1996)

II. The Context: Readiness to Embrace Change

Recent actions of the national government relating to public policy have signaled its interest in working collaboratively with subnational levels (state and local), as well as nongovernmental stakeholders, affording them much greater access to the policy making process. It is in the context of this receptivity to the ‘idea of collaboration’ that the country is ready to endorse and embrace a new era of collaborative federalism. Following events bear a testimony to the fact that such a situation is now prevailing in the country.

(a) A panel, headed by C. Rangarajan, set up by the Planning Commission has recommended certain reforms that will do away with the current practice where Chief Ministers visit Yojana Bhawan every year for Plan Panel’s approval for annual plan outlays. In fact, the institution of Planning Commission has come under tremendous pressure for restructuring, especially in terms of its devolution to state and local levels. This is because in the current political climate (the demise of one party dominance and the rise of different governments in different States), there has been a growing disconnect between the plan priorities at the state level and the central planning process.

(b) In context of the growing need being felt in the policy circles to adjust to a coalition-driven political environment, the Planning Commission’s interactions with the States have become much more serious. Furthermore, the consultative process adopted by the Commission in preparing the Approach Paper to the 12th Five Year Plan was a demonstration of its urge to duly recognize the rising relevance of other actors apart from the State governments, such as urban and rural local bodies and the non-governmental actors like civil society groups, non-government organizations, trade unions, and state-level business associations.

(c) Many States have initiated Public-Private Partnership (PPP) mechanism for infrastructure development. Some like Andhra Pradesh, Gujarat, and Tamil Nadu have also developed institutional framework for PPP projects. In fact, the Government of India is now formalizing the concept of PPP as the basic model to meet its policy

objectives and to complement other public procurement and public service delivery means for infrastructure projects (e.g., railways, telecommunication, roads, and power), common resource management, health care, and education. Furthermore, in order to ensure transparency in PPP projects, the Planning Commission has asked the Finance Minister to disclose project-wise, ministry-wise, and sector-wise information about such ventures in the supplements to the budget proposals.

(d) In India, the concept of Public-Private-People Partnership (PPPP) is also getting matured, especially in the implementation of development projects. It is also being tried in agriculture and rural development. PPPP is a more collaborative approach in which all the stakeholders have a major role to play. The local communities themselves define their needs. The private sector delivers the services. The government facilitates the matching of a community's need with the appropriate service providers and creates an enabling environment for the implementation of the project.

(e) The Government of India in its appreciation of the current political climate is demonstrating no intention to force the States to implement the Union Cabinet's decision. For instance, in order to resolve intergovernmental disagreement over the government's controversial policy decision to allow 51 per cent Foreign Direct Investment (FDI) in the multi-brand retail sector, the central government decided to let the individual States make the final decision. West Bengal, Uttar Pradesh, Tamil Nadu, Bihar, Orissa, Madhya Pradesh, Gujarat, Himachal Pradesh, and Kerala have decided not to implement the decision. On the other hand, Punjab, Haryana, Maharashtra, Andhra Pradesh, Rajasthan, Assam, and Delhi have welcomed the policy decision. A similar approach to tackling contentious policy issues was witnessed during the implementation of Fiscal Responsibility and Budget Management Act, 2003, when all the States were invited to sign Memoranda of Understandings to avail fiscal reform facility without any undue pressure. In a similar move, the central government has decided not to force the central law related to Land Acquisition, Rehabilitation

& Resettlement (LARR)¹⁰ on the States. The central government has allowed the States to frame their own land acquisition laws.

(f) The central government has demonstrated its commitment to obtain provincial agreement before introducing indirect tax reforms (VAT/GST). This feature allows implementation of national policy priorities while protecting jurisdictional autonomy.

(g) In order to ensure that outlays for social sector schemes, such as MANREGA (the central government's expensive flagship programme), translate into the intended outcomes, monitoring has to be an important part of Center-State relations. However, instead of adopting a heavy handed approach, the central government has allowed monitoring to be done by Private Chartered Accountants, Panchayats, and local communities. The experience of social audits in the State of Andhra Pradesh has produced outstanding results. It is important to note that while audit by the CAG (Comptroller and Auditor General) is also a part of monitoring scheme, the audit jurisdiction of CAG with respect to PRI and ULB is quite limited, because audit of local self governance institutions is a state subject. Furthermore, to increase the effectiveness of the social sector schemes, the Government is also considering implementation of the social sector schemes by private corporations through Public Private Partnership. Decentralization of social sector schemes to the States is also on the anvil. This will increase the stake of the States in the proper implementation of such schemes and allow State-specific solutions to emerge.

(h) A recent publication entitled 'Economic Freedom of the States of India 2011' demonstrates that the States are pursuing economic development in their own ways and reaping the rewards accordingly.¹¹ It shows that the States that have had a large fall in

¹⁰ The Land Acquisition, Rehabilitation & Resettlement Bill, 2011 (LARR), sponsored by the Ministry of Rural Development, has received cabinet approval. The Draft Bill is now before a Standing Committee of Parliament.

¹¹ Bibek Debroy, et al., *Economic Freedom of the States of India*, (New Delhi: Academic Foundation, 2011)

economic freedom indices¹² do not have high growth, and the States that have had a large improvement in economic freedom index have had high growth. The report brings home the point that the States in a federal country like India are laboratories of democracy and harbinger of a nation-wide change. Since a nation is an aggregation of its regions, a healthy competition among the States can serve to improve the investment climate of the nation as a whole. Thus, the report demonstrates that the States can reform their economies without an active involvement of the national government and even launch a ‘race to the top’. Such a constructive competition can eventually pave way for intergovernmental collaboration by inducing the States to explore innovative ways to build aggregate capabilities by structuring horizontal linkages with other States.

III. Institutional Contingency Vs Institutional Stasis

Given the substantial constitutional changes in numerous countries in the past few years, an emphasis on institutional contingency seems more plausible today than in earlier decades. Factors such as changes in taxation practice on one hand and a faster growth rate of subnational expenditure vis-à-vis the central government on the other, particularly in context of globalization, are stimulating debates on reassignment of responsibilities and redesigning of intergovernmental transfers.

For instance, several countries have recently moved away from turnover and/or retail sales taxes – formerly the responsibility of SNGs – towards VAT/GST systems managed by central government (Australia, China, India, and Switzerland). On the spending side, SNGs’ share in several countries is increasing, reflecting the new responsibilities assigned to them (e.g., active labor market policies in Canada in 1996; primary education in Hungary, management of the social welfare programmes in Korea, health care and non-university education in Italy, Mexico and

¹² The authors measure economic freedom in 20 biggest states on the basis of three parameters: (a) Size of Government; (b) Legal Structure and Security of Property Rights; and (c) Regulation of Credit, Labour and Business.

Spain). Population aging is also exerting upward pressures on public spending. Such pressures in some countries like Canada are being felt by SNGs, while in other countries like Australia and Switzerland the pressures are being felt by the central government, as it finances a large part of social insurance and assistance schemes. In any case, accommodating these pressures will require changes in the distribution of revenue-raising responsibilities and/or in volume and design of intergovernmental transfers. Policy makers and analysts in countries around the world are grappling with these issues while adjusting to fiscal decentralization. Fiscal consolidation efforts are significantly influencing fiscal relations across government levels.

Central governments are pushing the deficits down either by:

(a) Devolving spending responsibilities to lower levels of government without providing matching financial resources (For instance, in Hungary, the responsibility for welfare expenditures and social safety net was transferred to localities in 1993. In Russia, the central government transferred social expenditures amounting to 6 percent of GDP to localities, and then went on to transfer the responsibility for important national investments to subnational governments).¹³

(b) By reducing transfers to SNGs (For instance, in Canada, the large cuts in social transfers were unilaterally imposed by the Martin Government in 1995. This approach to reduce federal deficits is a trend in several transition economies. For instance, Hungary reduced the share of personal income tax to local governments from 100 percent in 1991 to 30 percent in 1994, and Bulgaria reduced the share of personal income tax to local governments from 100 percent to 70 percent).¹⁴

Thus, the formal institutions are susceptible to change. This implies that we must reduce the ranks of phenomena which can be

¹³ R. Bird, et al., *Decentralization of the Socialist State: Intergovernmental Finance in Transitional Economics*, (Washington, DC: World Bank, 1995)

¹⁴ *Ibid.*

explained by formal institutions.¹⁵ So, credible commitments to preserve federal order must come not from within the formal institutions but outside of them – because for institutions to be the source of credible commitments, actors must perceive them to be substantially sticky.¹⁶

The democratic theory makes two statements about political institutions:¹⁷ (a) they are results of strategic interactions; (b) they provide credible commitments over future policies. But the question is that if institutions are the results of *strategic interaction*, how can they provide predictability or credible commitments over future policies? Krasner¹⁸ solves the puzzle by distinguishing between periods of institutional creation and periods of institutional stasis. In this interpretation, institutions ‘are both a dependent variable, at time t , and an independent variable at time $t + 1$ ’. Thus, Lijphart,¹⁹ Colomer,²⁰ Geddes,²¹ and Elster, et al.,²² compare continuity in institutions, once in place, to the ‘freezing’ of party systems.

¹⁵ G. Alexander, “Institutions, Path Dependence, and Democratic Consolidation”, in *Journal of Theoretical Politics*, Vol. 13, No. 3 (2001), pp. 249-270

¹⁶ *Ibid.*, p. 251

¹⁷ See, A. Przeworski, *Democracy and the Market*, (Cambridge: Cambridge University Press, 1991); and, A. Przeworski, “Some Problems in the Study of the Transition to Democracy”, in, Guillermo O’Donnell, et al., (eds.), *Transitions from Authoritarian Rule*, (Maryland: Johns Hopkins University Press, 1986)

¹⁸ See, S. D. Krasner, “Approaches to the State”, in, *Comparative Politics*, Vol. 16 (1984), pp. 223-246; and, S. D. Krasner, “Sovereignty: An Institutional Perspective”, in, James Caporaso, (ed.) *The Elusive State*, (Newbury Park: Sage, 1989)

¹⁹ A. Lijphart, “Democratization and Constitutional Choices in Czechoslovakia, Hungary, and Poland, 1989–91”, in, *Journal of Theoretical Politics*, Vol. 4 (1992), pp. 207-223

²⁰ J. Colomer, “Strategies and Outcomes in Eastern Europe”, in, *Journal of Democracy*, Vol. 6 (1995), pp. 74–85

²¹ B. Geddes, “Initiation of New Democratic Institutions in Eastern Europe and Latin America”, in, Arend Lijphart and Carlos Waisma, (eds.), *Institutional Design in New Democracies*, (Boulder: Westview, 1996)

But how to reconcile these theoretical assumptions with the Indian experience, where she is still engaging in what Elster terms ‘la politique politisante’ (concerning the formulation of ground rules), long after the country was supposed to be limited to ‘la politique politisée’ (making decisions within accepted ground rules). This requires further qualification of these theoretical statements.

The hypothesis here is that institutions, once established, that is, after becoming independent variable at a particular time (t+1), can again become dependent variable at another time (t+1+1). This, however, does not happen under normal circumstances. It happens when there is an exogenous shock as it happened in European democracies during World War II, when these countries got the opportunity to draft new constitutions; or a drastic change in socio-political and economic environment as it happened in many countries in 1990s²³ including India.

IV. Towards Formation of New Ground Rules

Indian federal system, for four decades since independence, worked within the ground rules pertaining to a centrally managed economic and fiscal system. INC’s adoption of a ‘strong centre’ framework was legitimized by the broad consensus²⁴ of that moment in Indian history. The consensus *against* ‘decentralized federal system’ was product of (a) an anti-British psyche, that led to

²² J. Elster, et al., *Institutional Design in Post-Communist Societies*, (Cambridge: Cambridge University Press, 1998)

²³ Weakening of the central government can potentially trigger the demand for more revenue authority to SNGs. This has happened, for instance, in Indonesia after the historic fall of the Soeharto Regime (1966-1998) in May 1998, and in Russia after ‘August 1998 meltdown’ (economic paralysis and consequent devaluation of Rouble on 17th August 1998).

²⁴ According to liberal and democratic conceptions of government, legitimacy should derive from, and be grounded upon, a societal consensus. By contrast, the problematic of class consciousness focuses on class division instead of consensual unity of society, and its main concern is with political change.

rejection of the British idea of overtly decentralized federal governance which British government suggested for India;²⁵ (b) anti-separatist emotions that led to rejection of idea of more provincial autonomy, which Muslim League and Princely States were demanding.²⁶

Similarly, the consensus in favor of socialism (as against free-marketism) was product of (a) the ideas popularized by the ‘Congress as a movement’ during freedom struggle; and (b) bitter experience with pre-World War II ‘open economic policies’. Thus a broad consensus or the discursive dominance of the centrally planned economy paradigm and a centralized federal system was historically determined.

By 1990, however, a range of events had occurred that made sustenance of a centralized federal regime a difficult venture. The fiscal and balance of payment crisis implied challenges to the centralized fiscal regime’s developmental goals and its self-enforcing logic. In response to the debt crisis, IMF style stabilization was combined with World Bank style structural adjustment and

²⁵ The Montague-Chelmsford Report (1918) stated: “Our conception of the eventual future of India is a sisterhood of states, self-governing in all matters of purely local or provincial interest. Over this congeries of States would preside the Central Government”. K. A. Ramasubramaniam, “Historical Development and Essential Features of the Federal System”, in, Nirmal Mukarji and Balveer Arora, (eds.), *Federalism in India: Origins and Development*, (New Delhi: Vikas Publishing, 1992), pp. 105-124. The Simon Commission Report (1929) stated: “The ultimate Constitution of India must be federal, for it is only in a federal constitution that units differing so widely can be brought together while retaining internal autonomy”. *Ibid.* Further, on the basis of the three Round Table Conferences and British Government’s own deliberations, the framers of 1935 Act accepted the logic of the Princely States and denied that of the Congress. See, A. Banerjee, “Federalism and Nationalism”, in, Nirmal Mukarji and Balveer Arora, (eds.), *op. cit.*

²⁶ Balveer Arora, “Adapting Federalism to India: Multilevel and Asymmetrical Innovations”, in, Balveer Arora and Douglas Verney, (eds.), *Multiple Identities in a Single State: Indian Federalism in Comparative Perspective*, (New Delhi: Konark, 1995), pp. 71-104

reforms. The marketising reforms imposed new restrictions on ‘centralized management’ of the economy.

An important point to note here is that in 1990s the “state interventionism” lost its “discursive dominance”.²⁷ In fact, the dominant position of Nehruvian socialism in Indian development discourse had already weakened to a considerable extent since economic liberalization of Rajiv Gandhi in 1985. The state interventionism and Nehruvian socialism came to be squarely blamed for India’s BOP crisis of 1990. Developments in the USSR, China, and Eastern Europe also contributed to this view. One test of discursive dominance on a particular issue is its acceptability across the political spectrum encompassing major political parties and marginalization of any party that advocates a contrary vision. In 1960s, 70s through 80s, for instance, socialism and command economy model enjoyed discursive dominance. For Indians, Nehruvian socialism was a kind of sacred creed and a political dogma. In 1990s, all political parties came to accept the logic of liberalization policies²⁸. BJP activists complained in 1991, after Manmohan Singh initiated the policies of economic liberalization, that the new Congress (I) government had ‘hijacked’ its economic agenda²⁹ and that the Congress, by liberalizing the economy, had “stolen their issue”.³⁰ Many regional states – most notably those that were previously opposed to any private sector reforms – declared pro-liberalization policies in post-1991 era. CPI (M), AIADMK, DMK, BSP, SP, TDP all “welcomed” private investment, foreign investment, and technology.

With this began India’s engagement with re-formulation of ground rules – what has been called *la politique politisante*. The

²⁷ Chanchal Kumar Sharma, “A Discursive Dominance Theory of Economic Reform Sustainability”, in *India Review*, Vol. 10, No. 2 (2011), pp. 126-84

²⁸ *Ibid.*

²⁹ P. G. Thakurta and S. Raghuraman, *Divided We Stand: India in Time of Coalitions*, (New Delhi: Sage, 2007), p. 467

³⁰ P. Chhibber, “Who Voted for the Bharatiya Janata Party?”, in *British Journal of Political Science*, Vol. 27 (1997), pp. 619-659

new reform agenda calls for new rules of the game in many areas impinging upon Center-State relations such as fiscal reforms, tax reforms, administrative reforms, democratic decentralization etc.

V. Stating the Puzzle of Implementation Failure

The problem of federal coordination becomes serious when it comes to reforming the fiscal structure that determines the ‘viability of a federal polity’.³¹ For instance, the Economic Survey of India, 2003 noted: “Fiscal consolidation, a key element in the package of economic reforms remains an unfinished task. Of all the components of economic reforms, inadequate progress has been made in consolidating the fiscal deficit.”

The problem here is that the line of causality does not simply start from declaration of fiscal rules, ending with a change in fiscal behavior of the political officials at Central and State levels. This line of causality is tempered by politics. The political officials always have the ability to distance themselves from the economic analysis and experts’ recommendations. Risk-averse political officials can avoid making hard decisions by taking the experts’ opinions as a “take it or leave it” proposition.

The politicians are neither maximizer of social welfare nor maximizer of revenues; they are simply the rational maximizer of their election prospects. Thus, for any mechanism or process to change the behavior of political actors, it must appeal to their incentives and their pursuit of self-interest. Furthermore, to ensure a stable and sustainable fiscal federalism, beliefs and strategies of the political officials at the two levels must be coordinated.

³¹ See, Amaresh Bagchi, “Tax Assignment in the Indian Federation: A Critique”, in, I. J. Ahluwalia and I. M. D. Little, (eds.) *India’s Economic Reform: Essays for Manmohan Singh*, (New Delhi: Oxford University Press, 1998), pp. 313-343; J. E. Lane and S. Ersson, *Government and the Economy: A Global Perspective*, (London: Continuum Books, 2002); and, Chanchal Kumar Sharma, “The Federal Approach to Fiscal Decentralization: Conceptual Contours for Policy Makers”, in, *Loyola Journal of Social Sciences*, Vol. XIX, No. 2 (2005), pp. 169-188

This is important because federalism essentially involves a political conflict between the two levels of government with different interests regarding the principles of federal organization and design of federal institutions. The process of Center-State federal bargaining determines whose version of federalism (National government's version, rich States' version or poor States' version) would prevail. Finance being the life blood of a federal system, the intergovernmental conflicts become serious when we consider financial aspects of federal bargaining. The wealthier States perceive equalization grants as expropriation of their wealth by the poor ones. Poor States, however, favor equalization transfers over tax sharing arrangements, because latter cannot be targeted to help poor States. Central government favors schematic transfers and grants of conditional nature as its 'spending power'.

With India's transition towards multiparty coalition system, the coordination of beliefs and strategies of the political officials at the two levels have become more problematic than ever. It has been suggested that 'complex monitoring' may be required to ensure compliance to the 'federative constraints'.³²

The complex monitoring, however, cannot be pushed forward as an efficient form of a 'collaborative-federal' solution, because for a solution to be collaboratively federal, it must be self-enforcing³³. Thus, the new federal dilemma involves the problem of building incentive-compatible and self-enforcing institutions for intergovernmental fiscal coordination. Public Economics scholars try to find solutions by incorporating the element of cooperation in the fiscal structure itself. Suggestion, quite often, is for a system where both levels jointly tax, in the spirit of cooperative federalism. This, it is generally believed, minimizes the effects of tax disharmony (associated with tax separation). Boadway and

³² Mikhail Filippov, et al., *Designing Federalism: A Theory of Self-Sustainable Institutions*, (Cambridge: Cambridge University Press, 2004)

³³ Rui J. P. de Figueiredo Jr. and Barry R. Weingast, "Self-Enforcing Federalism", in, *Journal of Law, Economics, and Organization*, Vol. 21, No. 1 (2005), pp. 103-135

Tremblay, however, explicitly model ‘lack of intergovernmental cooperation’ even in case of joint taxation.³⁴ Rodden and Wibbels show that intergovernmental non-cooperation leads to ‘vertical war of attrition’, that is, attempts by provincial and central officials to shift their fiscal burdens onto one another instead of taking painful adjustment measures.³⁵

This implies that for a solution to be effective and federative at the same time, it must cater to the self-interests of the political incumbents at the two levels. The important point here is that politicians, despite being strategic, might fail to calculate their own self-interest in isolation. Elster³⁶ and Pierson³⁷ do argue that actors often find it difficult to know what benefits would accrue from major political change. So all that is required to change their behavior is to show them what their self-interest actually is (which may be different from what they think it to be). But how this can be done?

The answer lies in intergovernmental interactions. Building or strengthening mechanisms for intergovernmental interactions is an imperative. But this is only one part of the answer. The other and more important part is the degree, character, and quality of intergovernmental interactions. For this we need to move from cooperative federalism to collaborative federalism.

³⁴ R. Boadway and J. Tremblay, “A Theory of Fiscal Imbalance”, in, *FinanzArchiv Public Finance Analysis*, Vol. 62, No.1 (2006), pp. 1-27

³⁵ J. Rodden and E. Wibbels, “Beyond the Fiction of Federalism: Macroeconomic Management in Multitiered Systems”, in, *World Politics*, Vol. 54, No. 4 (2002), pp. 494-531

³⁶ J. Elster, et al., *Institutional Design in Post-Communist Societies*, (Cambridge: Cambridge University Press, 1998)

³⁷ P. Pierson, “Increasing Returns, Path Dependence, and the Study of Politics”, in, *American Political Science Review*, Vol. 94 (2000), pp. 251-267

VI. The Logic of Collaborative Federalism: From Parenting to Partnering

It may be noted that cooperative federalism envisions a leadership role for the federal government in relation to the subnational governments – both in terms of setting national priorities and providing financial support. The collaborative federalism, in contrast, is based on the notion of equality among the governments at national and subnational levels. Collaborative federalism is grounded in the idea that the federal government and the federating units should work together in developing and implementing regional and national public policies and programs. This approach further advocates a collaborative type of interaction (Figure 1), with each level of government acting as an equal partner in relation to the other. Accordingly, no level of government is to be considered ‘more important’ or ‘superior’ to any other in the development and implementation of policies and programs.

The concept of collaborative federalism is based on a profound value system of a robust federal system whereby both the Union and the States work as equal partners. Defining in Canadian context, Cameron and Simeon describe collaborative federalism as “the process by which national goals are achieved, not by the federal government acting alone or by the federal government shaping provincial behavior through the exercise of its spending power, but by some or all of the 11 (Canadian) governments and the territories acting collectively”.³⁸ Thus, the collaborative framework embraces non-centralization as a key feature of the federal organization as opposed to the dualist decentralization and the cooperative centralization ones.

Furthermore, Chris Ansell and Alison Gash define collaborative governance as, “A governing arrangement where one or more public agencies directly engage non-state stakeholders in a collective decision-making process that is formal, consensus-

³⁸ D. Cameron and R. Simeon, “Intergovernmental Relations in Canada: The Emergence of Collaborative Federalism”, in, *Publius*, Vol. 32, No. 2 (2002), pp. 49–72

oriented, and deliberative and that aims to make or implement public policy or manage public programs or assets”.³⁹ Indeed, as the dividing line between public and private is getting blurred, the government at all levels (central, regional, and local) is increasingly becoming a co-producer of policies together with the private sector and other non-governmental stakeholders. Thus, the changed context has made the creation of ‘interactive networks of stakeholders’ an interesting policy option. Important to note is the fact that such networks can help in arriving consensus even on the nature and extent of interventions by a particular level of government. For instance, EU social policy regime, an outcome of collective efforts by a social policy network, has created a favorable environment for EU interventions.⁴⁰

Arora et al. have drawn attention to the need for greater ‘interactions in federal systems’. “Interaction involves a greater degree of interdependence between spheres than the simple model of distribution of powers suggests.”⁴¹ This idea supplements the insights from the literature on ‘policy networks’—an idea rooted in political science literature on intergovernmental relations.⁴² These ideas can be useful in modeling vertical and horizontal interactions and linkage mechanisms among the stakeholders.⁴³ These

³⁹ Chris Ansell and Alison Gash, “Collaborative Governance in Theory and Practice”, in, *Journal of Public Administration Research and Theory*, Vol. 18, No. 4 (2007), pp. 543-571

⁴⁰ S. Leibfried and P. Pierson, *European social policy: Between fragmentation and integration*, (Washington, DC: Brookings Institution, 1995)

⁴¹ Balveer Arora, et al., “Interactions in Federal Systems”, in, J. Kinciad and R. Chattopadhyay, (eds.), *Unity in Diversity: Learning from Each Other*, (New Delhi: Viva Books, 2008), pp. 3-24

⁴² R. A. W. Rhodes, *Control and power in Central-Local Government Relationships*, (Aldershot: Ashgate, 1999); and, R. A. W. Rhodes, “Different Roads to Unfamiliar Places: UK Experience in Comparative Perspective”, in, *Australian Journal of Public Administration*, Vol. 57 (1998), pp. 19-31

⁴³ For analytical conceptualization of Public Private Partnerships, see, J. Johnston and S. P. Gudergan, “Governance of Public-Private

partnerships are based on trust and diplomacy. While Prisoners dilemma situation will make any voluntary co-operation implausible, ‘policy networks’ can facilitate ‘infinite interactions’, thereby revealing interdependencies and inducing cooperative behavior.

It can be observed that during the era of Congress’ dominance, the policy coordination was sought to be achieved without an element of interaction. In any case, the conditions for ‘genuine’ interactions, especially during Indira years, did not exist. Indira Gandhi made sure that all policies flowed directly from her office. In the present scenario – of regionalization of national politics and nationalization of regional politics – the problem of lack of policy coordination has become insurmountable, despite the fact that an element of interaction is clearly conspicuous. One inference that can be drawn from this is that ‘inadequate’ interaction is even worse than ‘no’ interaction. The solution does seem to lie in formalizing infinite interactions by building appropriate institutional mechanisms. Thus, the need is to achieve policy coordination (primarily horizontal but also vertical) through multi-level interactive mechanisms. It may be noted that the policy coordination in latter case will be qualitatively much superior to the one achieved without interactions (e.g., the hierarchical coordination in the one party dominance scenario).

The Nobel laureate Thomas Schelling noted that if the parties take a long perspective and do in fact ‘interact repeatedly’, their common interests may be sufficiently strong to sustain cooperation. In fact, Schelling went further and stated that people can structure their relationships, by extending interaction over time, in such a way as to reduce the incentive to behave opportunistically at each point in time.⁴⁴ Fourçans and Thierry show in their game theoretic model that ‘infinite interactions’ prevent strategic

Partnerships: Lessons Learnt from an Australian Case?”, in, *International Review of Administrative Sciences*, Vol. 73, No. 4 (2007), pp. 569-582

⁴⁴ T. C. Schelling, “An Essay on Bargaining”, in, *American Economic Review*, Vol. 46 (1956), pp. 281-306

behaviors like ‘race to the bottom’. Providing a Game Theory model in the context of European tax situation, they argue, “It is of a paramount importance for a country to be able to give a strong signal to the other country that a war of attrition is possible. For that, countries must have sound public finances”.⁴⁵

India, in present context, requires institutional mechanisms for continuous interactions. Intensive interactions can, in fact, reveal to the governments that having sound public finances is in their ‘best self-interest’. Putting in place the collaborative intergovernmental processes is perhaps the best way out of governments’ welfare reducing strategic behavior. Thus, the need is to develop mechanisms to respond to the upsurge of the federal democratization, and the new dispensation of the non-central actors to engage in collaborative interactions. The way forward is to institute mechanisms for facilitating what may be called ‘infinite interactions’.

Successful implementation of any policy requires interaction, especially during the process of implementation (when real action is being taken to realize perceived policy outcomes). A policy may be theoretically sound, but would require streamlining keeping in view ground realities that will emerge only during the process of implementation. This possibility can be realized if there are elaborate mechanisms for continued interactions. According to Chris Ansell and Alison Gash, “Collaborative governance is based on the assumption that antagonistic stakeholders may be able to transcend intractable disputes and achieve mutual gains through face-to-face deliberation”.⁴⁶

Thus, policy success is not a linear process, moving from formulation to implementation, where implementation will take care of itself if formulated design is sound enough. Policy success requires an environment, where the experience generated during

⁴⁵ A. Fourçans and W. Thierry, “Tax Harmonization versus Tax Competition in Europe: Game Theoretical Approach”, CREFE Working Paper No.132, (Montreal, Canada: Université du Québec à Montréal, 2001)

⁴⁶ Chris Ansell and Alison Gash, *op. cit.*, pp. 543-571

implementation immediately enters into interactions (with no time lag) and is applied for streamlining the policy. Allowing for interactions is like moving from library to laboratory, from theory to practice, with the aim of supplementing not supplanting theory or library. Thus, the idea is to supplement formal intergovernmental fiscal relations with informal fiscal relations.

It may be noted that there are no examples of such mixing, thus no examples of combining advantages of both – formalism and informalism – in intergovernmental relations. International experience suggests that the fiscal relations are either formal or informal. For instance, relations in Australia are formal, while in Canada and USA they are informal.⁴⁷ Though India has elements of both types, yet they have been functioning in a way that leaves much scope for reforms.

Like Commonwealth Grants Commission (CGC) of Canada, India has a Finance Commission (FC) to determine tax-sharing between the Centre and the States, but unlike CGC it is not a permanent body. Thus, the basic advantage of having a formal mechanism to determine intergovernmental relations viz. the possibility of carrying out extensive research on a continuous basis has eluded Indian fiscal federalism. The position of the Finance Commission is such that it goes into oblivion after submitting the report. Ad hoc nature of the periodic awards of Finance Commissions has created the problem of the lack of requisite information and data material. This has constrained successive FCs to appropriate grants on an ad hoc basis.

Like Canada and USA, there are political forums for consultations such as NDC, ISC, ministerial and secretarial meetings, zonal meetings of Chief Ministers with Prime Minister and Union Ministers, meeting of Governors under chairmanship of the President etc., but their modus operandi leaves much to be desired. They have neither functioned as architect of fiscal arrangements or equalization programmes, as has been the case in

⁴⁷ See, Chapter 2, B. P. R. Vithal and M. L. Shastri, *Fiscal Federalism In India*, (New Delhi: Oxford University Press, 2000)

Canada, nor they have functioned as effective forums to solve intergovernmental fiscal problems, as has been the case in USA.

VII. Federal Democratization: A Double Edged Sword

This section argues that increased federal democratization in era of marketising reforms and coalition politics is a double edged sword. It has created coordination problem; but it is in this very problem that the opportunity for moving on to next phase of federal evolution lies. Democratic decentralization, after decades of overt centralization, creates a ‘now it is my turn’ attitude among subnational governments. Thus, the process can degenerate into narrow local politics, inhibiting democratic consolidation. This ultimately, in long run, makes their own economies too fragile to alleviate sufferings of their own people.

When suffering becomes too much, it imposes a total sincerity. Indeed, there has emerged a branch of literature in Economics that advocates allowing things to become ‘really harrowing’ before launching reforms.⁴⁸ But one must not try this policy prescription. It is bad. It is bad because it destroys many things. It wastes much energy. But if one cannot do otherwise, well, in intensity of suffering or crisis, one can find ‘political will’ for a change or reform. Then one finds the will to consciously design collaborative mechanisms for intergovernmental interactions and make them work too, hence promoting democratic consolidation.

There is a reason to believe that the prevailing circumstances in India have increased the probability of success of collaborative mechanisms (see sections II and III). Political conditions today are conducive for such a shift of attitude. This is because the operating environment of Indian federalism today stands in sharp contrast to one that prevailed when Sarkaria Commission was constituted in

⁴⁸ A. Drazen and V. Grilli, “The American Economic Review”, in *The American Economic Review*, Vol. 83, No. 3 (1993), pp. 598-607; and, M. Tommasi and A. Velasco, “Where Are We in the Political Economy of Reform”, in *Journal of Policy Reform*, Vol. 1 (1996), pp. 187-238

1983⁴⁹. In 1980s, interests of the national parties and the State parties were in conflict with each other. So, cooperative federalism with Centre playing a leading role was the only available option.⁵⁰ But today, the regionalized multi-party coalitions are ruling at the Centre, and the State parties are calling the shots. In this scenario, the earlier obsession with the principle of a ‘strong Centre *vis-a-vis* the States’ is gone.

Now, one can optimistically begin to work out mechanisms for intergovernmental collaboration. Such mechanisms will be supported by the hitherto disfavored sectors (regional political elites) who have gained tremendous political relevance in the present circumstances. Not surprisingly, the second Commission on Centre-State Relations⁵¹ has explicitly upheld the ‘collaborative governance model’ as an innovative way of implementing public policies.

In fact, the theory tells us that for a revision to be successful, a majority of politically relevant actors must find it worthwhile to launch a new process of bargaining and political change.⁵² Such a condition now exists.

⁴⁹ The Sarkaria Commission was constituted on June 9, 1983, under the Chairmanship of Justice R. S. Sarkaria with Shri B. Sivaraman and Dr. S. R. Sen as its members. The Commission submitted its report in January 1988. The report contains 247 recommendations spreading over 19 Chapters.

⁵⁰ Note that though the framing fathers of the Indian Constitution had decidedly abandoned a purely centralized unitary structure, yet they considered a strong centre, an imperative necessity to keep the country together. As late as 1988, the first Commission on Centre-State Relations (Sarkaria Commission, 1988) reiterated the paramountcy of the Centre to co-ordinate policy and action between the Union and the States on basic issues of national concern.

⁵¹ The second Commission on Centre-State relations was set up in 2007, under Justice (retired) M. M. Punchhi, to look into new issues of Centre-State relations in view of the paradigmatic changes in Indian economy and polity after 1990s.

⁵² J. Colomer, “Strategies and Outcomes in Eastern Europe”, in, *Journal of Democracy*, Vol. 6 (1995), pp. 74–85

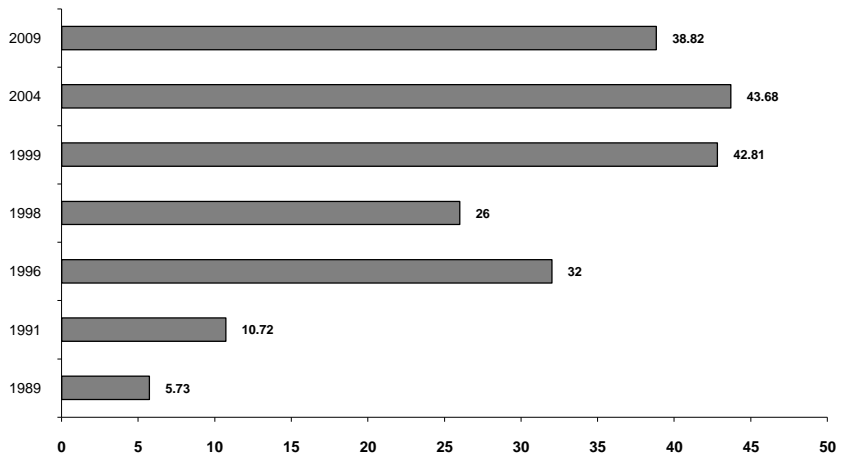
Thus, collaborative federalism is an idea whose time has come for a country like India. The better part is that the outcomes of new bargaining processes and collaborative mechanisms are not expected to remain path dependent, because power is no longer monopolized by the status quo's beneficiaries; instead the disfavored groups of past now share power at the national level. The political process in the post-reform era has increased the bargaining elbow room for regional players and the States vis-à-vis the Centre. In fact, the problems with party aggregation increased after 1991. As Yogendra Yadav notes, after 1991 the party system "cannot be aggregated at the national level".⁵³

It requires no great calculation or insight to note that the representation of the regional parties in the national legislature in post-reform era is exhibiting an increasing trend (Figure 2). Important to note, however, are its consequences, especially in terms of providing mechanisms to the regional actors to launch a new process of bargaining and political change, especially by restraining the federal level. Thus, conditions are ripe for a structural shift from cooperative bargaining to collaborative bargaining, that is, from Centre led bargaining to a bargaining process where both are at par.

A direct consequence of the above change has been that the parties seeking to form a governing coalition necessarily have to bargain with the regional parties. This has dramatically increased the bargaining powers of the latter. This naturally unleashed de facto decentralization and transformed India's fiscal regime to a much more decentralized one. One can witness dramatic changes in the fiscal relationship between centre and periphery.

⁵³ Yogendra Yadav, "Reconfiguration in Indian Politics: State Assembly Elections 1993-1995", in, *Economic and Political Weekly*, Vol. 31, No. 2 & 3 (1996), pp. 95-104

Figure 2: State Parties as % of National Parties in Lok Sabha (number of seats) 1989-2009

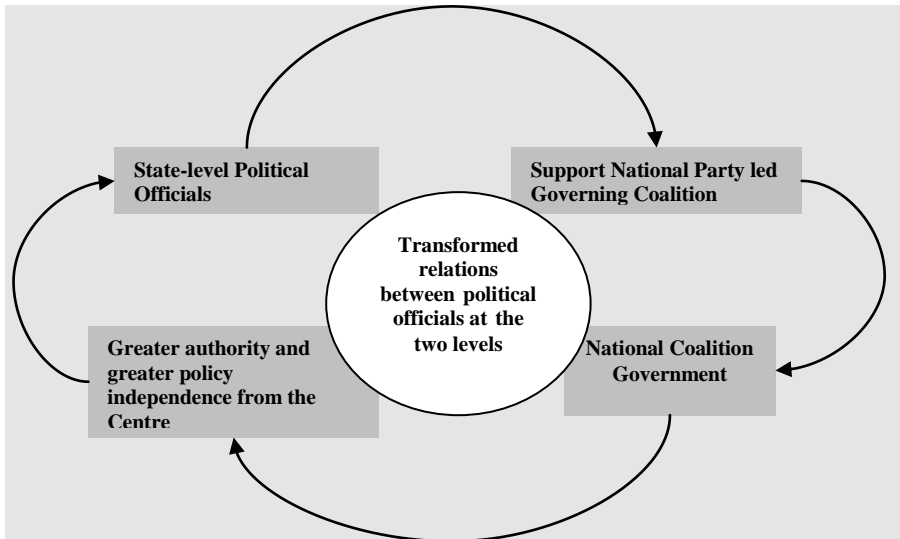


Source: Data from Statistical Report on General Elections, Various Years, Election Commission of India, New Delhi.

The central government is now willing to cede greater fiscal independence, power, resources, and policy making space to various actors such as state governments, private sector, NGOs, and civil society organizations. The willingness to compromise is noticeable in case of central government's interactions with the States. In fact, in post-reform era, the subnational officials have begun to seek greater fiscal independence from the Center. The political leaders at the Center have followed their Rikerian incentives and created more policy independence and authority for subnational officials in exchange for their support at the national level (Figure 3).

A constructive dialogue and debate among the stakeholders is required to find ways and means to harness the potential inherent in this change. This will create an initial set of mutually consistent set of beliefs regarding the long term strategy. Unless this happens, there is no guarantee that the equilibrium that will emerge will be beneficial for any of the stakeholders. In fact, many State politicians are using their new freedom to pursue economic populism for narrow political gains.

Figure 3: Post-Reform Centre-State Bargaining



The incentives facing a weak centre, needing support of subnational officials and constituents, imply it cannot prevent these officials from indulging in spending profligacy. The increased federal-democratization and a consequent spurt to regional politics, in wake of decline of the centralizing party and centralizing economic paradigm in post-1991 period, has given rise to narrow local politics with economic consequences. Mancur Olson in his book ‘The Rise and Decline of Nations’⁵⁴, made the point that the democratic societies foster collusive lobbies that make their

⁵⁴ Mancur Olson compared the experiences of post-war Britain with Germany and Japan. While in case of Germany and Japan, the war destroyed narrow interest groups, in Britain such special interest groups were still calling the shots. The result was that Germany and Japan witnessed economic miracles in the post-war decade, while trade unions and professional associations in Britain dragged down British economy. Over time the British voters realized the ill effects of special interest groups in terms of high taxes and over-regulation and cast their lot with Margaret Thatcher to free economy from stranglehold of trade unionism. See, M. Olson, *The Rise and Decline of Nations*, (New Haven: Yale University Press, 1982)

economies less dynamic and more inefficient and their politics less governable⁵⁵.

More research is required to identify the precise mechanisms through which co-decision making and collaboration among governments might be made self-enforcing, so that our federal system moves closer a market preserving federalism,⁵⁶ rather than acquiring features consistent with Centre-constraining federation,⁵⁷ if not a demos constraining federation.⁵⁸

By way of Conclusion

In order to make the collaborative federalism work, the civic society organisations and an independent arbitrating agency including professionals and practitioners, should work in concert with collaborative intergovernmental processes and institutions. It has been suggested that civil society, legal-institutional and political-bargaining approaches should be combined to eliminate the possibility of distortion of federal and fiscal outcomes by ad hoc political bargaining or by welfare-reducing strategic behavior by the

⁵⁵ It is interesting to note that some Indian state leaders seem to have invented an innovative formula that combines economic populism with economic liberalism so as to have the best of both worlds. For instance, Andhra Pradesh's acceleration of economic growth between 2005 and 2009 coexisted with the populist handouts offered by its Chief Minister Y. S. Rajashekhara Reddy. The secret formula lied in his dexterity at expanding economic liberalization by stealth. YSR was an astute fiscal reformer in disguise, who vigorously pursued reforms to make AP a business friendly state behind the veil of his image as a spendthrift populist. He also focused on those areas of reform which could qualify the State for more central funds.

⁵⁶ B. R. Weingast, "The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Development", in, *Journal of Law, Economics, and Organization*, Vol. 11 (1995), pp. 1-31

⁵⁷ C. Souza, "Brazil: The Prospects of a Center-Constraining Federation in a Fragmented Polity", in, *Publius: The Journal of Federalism*, Vol. 32, No. 2 (2002), pp. 23-48

⁵⁸ A. Stepan, "Federalism and Democracy: Beyond the U.S. Model", in, *Journal of Democracy*, Vol. 10 (1999), pp. 19-34

governments at different levels.⁵⁹ To be consistent with a political economy approach, the proposed solution is based on incentives and self-interest and has five features noted below. A simultaneous application of these five solutions can potentially strengthen the institutional framework for collaborative federalism; discourage welfare-reducing strategic behaviors; create incentives for self-imposed fiscal ethics; and weaken the incentives for mutual blame-shifting:

(i) Establish collaborative intergovernmental processes and institutions for continued interaction to reveal the shared long-term interests of political actors at both levels of government.

(ii) Combine the transfer system and tax separation into a macro framework to create disincentives for the strategic behavior associated with them.

(iii) Appoint an independent arbitrating agency to perform research and to assist in intergovernmental interactions and negotiations.

(iv) Establish civic society organizations to generate and disseminate information about service delivery, with the specific purpose of verifying political promises and mobilizing voters in the area of public service provision.

(v) Create legislated fiscal rules or Fiscal Councils for rule-based fiscal discipline.

The bottom-line is that intergovernmental fiscal arrangements must result from equal negotiations between the levels of government; the negotiating process must engage non-government stakeholders (private sector and civil society organizations); and must always aim at achieving maximum public welfare.

⁵⁹ See, Chanchal Kumar Sharma, "Multilevel Fiscal Governance in a Balanced Policy Environment", in, *The India Economy Review*, Vol. 8, No. 1 (2011), pp. 90-97

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