

## **A Dangerous Course\***

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Despite repeated demands by the states the Centre still has not released what is their legitimate due, namely the compensation for their revenue loss owing to the introduction of GST; this has not been paid since August. Meanwhile the Covid-19 pandemic, while adding to the responsibilities of the state governments, has dried up their revenues owing to the lockdown. The main sources of revenue now left to them, leaving aside GST, are taxes on petro-products and alcohol, and stamp duty. Since petro-product sales have plummeted during the lockdown, they can hardly hope to get anything from this source; likewise with all alcohol shops closed during the lockdown, the revenue from this source too has dried up completely. And since this period of social distancing is hardly the time for people to be buying or selling property, the revenue from stamp duty has vanished.

At the same time state governments are being called upon not just to meet their normal expenditure but also the additional expenditure needed to meet the coronavirus crisis, such as for instance in equipping hospitals, in testing and in quarantining large numbers of people. An obvious immediate way to meet this emergency situation would be to increase the borrowing limits of state governments. But this requires the permission of the Centre which again has refused to give any such permission. The plight of the state governments in other words is nothing short of desperate.

Even an increase in states' borrowing limits will not be enough. When they would go to the market to raise loans, the interest rate they would have to pay will be exorbitant, which will push them into a debt-trap, especially considering the fact that in the foreseeable future, even after the Covid-19 crisis gets over, the economy will continue to experience sluggish growth. (The possibility of a debt-trap arises when the interest rate on borrowing exceeds the growth rate of income). It is not only important that state governments' borrowing limits be raised, but that they also have access to low-cost borrowing which means outside of the market. (This is exactly, in a different context, what the Italian government has been demanding of the European Union, while mooted the idea of Eurobonds). A simple and obvious solution here would be if state governments are allowed to borrow from the Reserve Bank of India at some pre-fixed interest rate, such as the Repo rate, that is the rate at which banks borrow from the RBI.

But this again would require the permission of the Central government. While state governments are given Ways and Means Advances by the RBI to overcome their liquidity problems, these advances are only temporary accommodations; they are not loans. They are very short-term and cannot be rolled over ad infinitum, for if they were then they would become loans. As regards loans, the state governments are simply not allowed to borrow from the RBI. What is required in the current situation, which is an unprecedented one, is a waiver of this rule; and the Centre can do this. But a Centre that has not even given the GST compensation to states to which they are legally entitled, and has not budged an iota on the question of raising the borrowing limit of state governments, can scarcely be expected to allow them to borrow from the Reserve Bank of India.

It may well be asked: if the state governments are under acute financial stress then so too is the Centre. How then can it be expected to come to the state governments' rescue? The answer to this question lies in the fact that within our overall financial arrangement which has become extremely conservative in the effort to appease globalized finance capital, there is also an asymmetry: the Centre has far greater freedom than the state governments. The Centre can violate its fiscal deficit limit when it feels like: its only constraint within the neo-liberal setting is the attitude of globalized finance (which in turn is guided by the credit-rating agencies); it can get the Reserve Bank of India, within limits, to monetize its deficit. And it can even commandeer resources, without taking anyone's permission, from public sector units, from the railways, from universities, and from the entire private corporate sector, through schemes like PM CARES for purposes which remain unspecified and unclear. The state governments by contrast have to adhere strictly to borrowing limits, have no access to the Reserve Bank of India for loans, and can get hauled up before the Centre if they try anything similar to PM CARES. Given this asymmetry, it is the Centre which has to help the states in an emergency, which the BJP government is refusing to do.

This has been the most centralizing government in India since Independence. True, Indira Gandhi during the Emergency had acquired absolute power and rode roughshod over the states, but that was after all the infamous "Emergency", not the "normal". Besides, the states' taxation powers were still intact then; but now they have been largely surrendered because of the GST, under which the GST Council, and not the state government as earlier, which fixes the tax-rate that can be charged on any commodity. And having enticed the states to accept the GST, the BJP government now reneges on the promise of compensation on the basis of which it had enticed the states.

Besides, during Indira Gandhi's time an extremely powerful movement had got built up, led by the Left Front government of West Bengal, against centralization, of which the various Chief Ministers' conclaves, culminating with the one in Srinagar, were the milestones. But the BJP government's centralizing tendency has taken the form of breaking any such move through a mixture of carrot and stick methods against Chief Ministers, to a point where even the abrogation of Article 370, and the utterly un-Constitutional step of getting a centrally-appointed governor of that state to substitute himself for the elected Legislative Assembly and agree to a bifurcation of the state and its reduction to the status of two Union Territories, were approved by several opposition Chief Ministers.

Since it is the state governments that have to bear the brunt of providing relief to the distressed working people in these days of the pandemic, denying resources to them amounts ipso facto to a denial of succour to the distressed people. The abridgement of federalism in other words also has an important class angle. But it also dangerous for an additional reason.

Federalism in India is not just an administrative arrangement. It is an expression of the fact that a dual national consciousness pervades the thinking of every Indian, a pan-Indian consciousness, together with the consciousness of being a Bengali or a Gujarati or a Tamil or a Kannadiga or a Maharashtrian or a Punjabi, i.e. the consciousness of belonging to a regional-linguistic group. An effort must always be made to maintain the right balance between these two kinds of consciousness. India's

federal arrangement must be based on such a right balance. Excessive centralization such as was being attempted in Indira Gandhi's time, or is being attempted now with a certain degree of success, weakens not just the states but the totality of this structure. It makes the totality of India fragile.

This is not a situation in other words of what is called a "zero-sum game", where the centralization of resources and powers makes the states weak and correspondingly strengthens the Centre; in the process of doing so it actually makes the totality, i.e. the entire arrangement, weak and vulnerable, a point which Comrade Jyoti Basu never tired of emphasizing during the early 1980s when he was leading the struggle against Indira Gandhi's centralizing efforts.

Given the banality of its thinking the BJP is incapable of comprehending this. It believes on the contrary that the country can be held together and strengthened only by having a strong Centre; but that is authoritarian thinking, which does not understand the formation of modern India, and its project of building a democratic, secular, inclusive and egalitarian society. BJP-type thinking must necessarily apotheosize brute force and would end up weakening the very foundations of modern India by encouraging fissiparous tendencies.

The centre's attitude towards the financial needs of the states during this pandemic is symptomatic of this thinking. It represents a dangerous course.

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