

India needs a federal green agency

The thick smog that has enveloped north India over the past few days is a public health emergency. The callous response by various government agencies to what has become an annual affair is nothing short of scandalous. There is a deeper problem here. As every state blames the other, the weak policy response is also an indication of an institutional vacuum to deal with public goods issues in a federal political system.

The story so far is well known. Citizens living in the National Capital Region are among the millions who have been left gasping as farmers in neighbouring states burn stubble on their farms, before preparing them for the winter sowing cycle. The immediate responses include calls for a ban on such biomass burning. However, as Mridula Ramesh of the Sundaram Climate Institute has written in Firstpost, a far better alternative to a unilateral ban is to examine solutions based on an understanding of why farmers burn stubble in the first place. Any viable policy response should take into account the needs of the farmers as well as city dwellers.

A key principle of policy design is that the intervention should focus on the root of the problem—stubble burning, in this case. The distortion should be dealt with directly. In this case, is it possible to change the incentives for farmers who burn biomass?

The standard economic solution is to impose a Pigouvian tax on farmers to ensure the polluter pays for his actions. Such a tax would change incentives by increasing the cost of stubble burning. However, the Pigouvian solution is neither politically practical nor just. A far better way to deal with the effects of stubble burning comes from the work of Ronald Coase.

Coase argued, in a landmark paper published in 1960, that the solution to externalities such as pollution is not unilateral action but complex bargaining between different interest groups. The bargaining will be based on how much farmers value stubble burning on the one hand and how much city dwellers value clean air on the other.

One example of the use of the Coasean method is the landmark New York City Watershed Agreement of 1997. New York had been asked by government regulators to build an expensive water filtration plant to improve the quality of water it supplied citizens. To reduce costs, the city negotiated with upstream farmers who were polluting the watershed area to either buy out their land or pay them to change farming methods.

In the case of the smog in north India, it could mean that farmers should be paid to invest in better technologies to deal with the stubble left over from the previous harvest. A subsidy will change their incentives. Such a Coasean bargain is premised on two preconditions. First, property rights need to be assigned. Second, there needs to be a credible agency to manage the negotiation. India has neither right now.

The assignment of property rights in this case is devilishly difficult. The more practical solution is that the state governments of Delhi, Punjab and Haryana be considered the representative agencies for their respective citizens. They should negotiate on how the cost of changing farming practices will be shared. A first step will be to estimate the amount to be paid for every hectare of farmland that is shifted away from stubble burning.

The second problem is the lack of an institutional structure to deal with such federal negotiations, especially when the three state governments are run by three different political parties. This is where the Union government needs to step in as a coordinating agency. It can also offer to bear half the fiscal costs of any green bargain between the three states.

However, a better solution over the long term is to set up a federal agency like the Environmental Protection Agency in the US, with powers to get states to the bargaining table. The exact contours of such an agency will need to be debated by climate change scientists, economists, environmental activists and political parties. The current institutional vacuum needs to be filled.

There is also a broader lesson here. The ongoing fiscal decentralization is welcome, but India still needs an effective Union government to hold a complex country together. One challenge that needs central coordination is the provision of national public goods—be it national defence or monetary stability or environmental quality.

The winter smog that chokes millions of people every year needs to be dealt with through a long-term institutional strategy rather than hasty administrative responses each time citizens choke.

Does India need a new institutional architecture to deal with multi-state problems such as air pollution? Tell us at views@livemint.com

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