

Catalonia's lessons for India

The ongoing crisis in the Catalonia region of Spain, where an attempt at secession was ruthlessly put down by central authorities, is a salutary reminder to us in India of what can go wrong when regional grievances in a federal political and economic union are allowed to fester.

One of the roots of the putative independence movement is a sense of Catalan identity distinct from that of much of the rest of Spain—an identity rooted in language, culture and history. Yet, it should not be overlooked that a growing dissatisfaction with fiscal transfers within the kingdom of Spain, which many Catalonians believe hurt their region disproportionately, was, and remains, an equally important driver of the desire for independence.

Like most federal unions, the Spanish central government engages in fiscal redistribution among regions, which, effectively, transfers resources from “have” regions to “have-not” regions. A 2012 research paper, by economist Núria Bosch of the Institut d’Economia di Barcelona, finds that Catalonia contributes 119% of national fiscal resources compared to the national average, but receives only 102% of the national average after central government redistribution—knocking it from third to ninth in the fiscal league table.

This is not outlandish when compared to other federal unions: for instance, in the US, the wealthy state of New Jersey receives only 57 cents back as federal spending out of every dollar it contributes in taxes to federal coffers, according to a 2011 piece of data analysis by *The Economist*. Similarly, Canada has a system called “equalization” in which have-not provinces in the centre and east of the country receive federal transfers while have provinces of the west do not. At present, Québec is the largest single recipient, accounting for a whopping 60% of total federal equalization payments, while the wealthy, resource-rich provinces of Saskatchewan, Alberta, and British Columbia receive nothing.

What about India? Central statistical authorities do not release such data to the public, but my IDFC Institute colleague, Praveen Chakravarty, has estimated that a sizeable quantum of inter-state fiscal redistribution occurs between have and have-not states through the Centre’s taxing and spending policies. For example, for every Rs100 that the average citizen of Maharashtra contributes to Central coffers, he or she receives Rs15; by contrast, the average citizen of Bihar receives Rs420 for every Rs100 that he or she contributes.

The crux is this: Resentment and separatist zeal in Catalonia have been fuelled by the feeling among many residents that their hard work and thrift are paying for the alleged indolence, welfare dependency culture, and absence of entrepreneurial ethos in lagging regions. Something similar is afoot in Italy, where many in the wealthy north resent large fiscal transfers to the poorer south, the way many in former West Germany bristle at transfers to the poorer former East Germany within the reunified German republic. In Canada, many Albertans and British Columbians complain that their tax dollars go to subsidize Quebec, which as a French-speaking province claims to be culturally distinct as well as having the largest claim on federal coffers. It is perhaps only the US among major federal economic and political unions which has little, if any, of such feeling: but then that country fought a bloody and bitter Civil War in the 19th century and emerged a stronger union from it.

Could India witness a Catalonian-style separatist movement from have states on the back of the potent brew of fiscal and cultural elements?

For a nation that has combatted numerous armed insurgencies, this question is not outlandish. The mix of economic and cultural sources of alienation amongst have states is perhaps strongest

in Tamil Nadu, where there exists a pre-existing vein of pan-Tamilian nationalism that may be tapped by vote-getting politicians.

As recently as 4 June, Dravida Munnetra Kazhagam working president M.K. Stalin tweeted: “Willful erosion of States Rights by Centre which seeks to establish a Monolith will only incite a renewed War of Independence.” Meanwhile, the late All India Anna Dravida Munnetra Kazhagam leader and chief minister, J. Jayalalithaa, argued last year that greater demands for fiscal and other forms of autonomy from the Centre by the states, “should not be seen as centrifugal or fissionary trends that have to be curbed, but as a manifestation of India’s maturing as a nation with diversity and as a democracy”.

It would be short-sighted to dismiss such statements as merely political bravado. Many Spaniards dismissed similar statements coming from Catalanian leaders in the lead-up to the recent independence referendum as political posturing to help strike a more favourable deal, and that nation is now in crisis: lesson learnt.

The lesson for India is clear. The need of the hour is to move away from the over-centralizing tendencies of the Centre—which have characterized all dispensations—and towards a model which takes fiscal and policy devolution to the states seriously.

Prime Minister Narendra Modi often speaks of “competitive/cooperative federalism”. It is time to turn that rhetoric into reality.

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