

## **Address the state of the union**

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The state of the economy is continuously reviewed. So is the working of central ministries. The state of the states however remains neglected. Performance of an individual state is reported, evaluated and at the very least examined during the annual plan discussions in the Planning Commission. There is however no opportunity for a collective discussion on the comparative performance of all states with their differentiating characteristics.

In this sense the Annual India Today Conclave remains unique. Not only chief ministers of many states across the regional and political spectrum engage in interactive discussions, but it is preceded by a well-considered analytical evaluation, ranking the states on various criteria ranging from infrastructure, human resources development and governance quality to improvement factors. This is followed by a ceremony where states which have performed well on various criteria are awarded. This year was no different.

At a function last week 10 chief ministers representing a combination of big and small states, as well as different parties, including regional parties, considered the broader issues of Centre-state relations. This was followed by awards conferred by President Kalam as well as a presentation made by him on various key issues like the provision of urban facilities in rural areas (PURA), fiscal policies, infrastructure, and governance quality. They certainly brought out key concerns, areas of convergence and the enormous implementation obligation on the states.

In the panel discussion of chief ministers, which I moderated, several issues came up for consideration. Given the number of attempts to overhaul the basic framework of Centre-state relations, and the number of these attempts that have ended up gathering dust as governments change and time moves on, it also seems like it is appropriate to identify an incremental path towards a more harmonious federation. What are the small steps we can take to move towards a process for a consensus, and a process for managing the many and diverse voices that make up this country? With the aforesaid background, I suggested five topics for discussions:

a) For many decades there was considerable homogeneity in the political parties in office both at the Centre and the states. This has undergone a major shifting in an era of coalition politics where parties in power in states are different than the configuration of power at the Centre. So how can national politics be made less sensitive to pressures from regional groups? The fact that small regional parties can have a disproportionate influence on policies that affect the nation is not healthy for any democratic set-up. While it might have benefit in protecting minority bases and regional factors, it could make national decisions a hostage to minority blackmail.

b) How can we keep national political rivalries from adversely affecting Centre-state relationships? Perhaps the most important goal here would be to insulate transfers from politics. This is currently not the case in India, and allows the Centre to unduly influence local politics, and to play unfairly.

c) Looking at the devolution system, it seems possible to achieve several improvements—not only in governance and fairness of Centre-state relations, but also efficiency by integrating the myriad forms of transfers that exist today. Right now we have the Finance Commission, which has a general reputation for independence and transparent allocation of funds, but this is a part of the overall amounts transferred. Also, the Finance Commission has to adjust for the

funds transferred through the Planning Commission and through the ministries' Central Sector Schemes, which are less transparent. There is no way to check the overall allocation of funds across states, to consider the allocations for capital and current expenditures and to look at the conditions under which these funds are given. Increasing transparency and coordination would not only protect these funds from the winds of politics but also improve efficiency.

d) Are we satisfied with the present structure of consultations between the Centre and the state? The National Development Council has largely become ceremonial; they meet at best once a year to approve the Plan or its mid-term review. The Centre-State Council has also become dysfunctional. Yet the Centre takes important decisions like setting up the recent Pay Commission, which has serious long-term consequences for the states. What can we do to strengthen, restructure or create a more meaningful framework on Centre-state consultations?

e) Competitive federalism spurs improvement in investment climate and financial management. Competitive populism can be however self-defeating. Political parties in office often pursue populist policies in the belief that these would enable them to get re-elected. Electorates have however become smart and see through these false promises. The parties in opposition generally are willing to accept sensible economic policies, even though they may posture otherwise. Combining the virtue of sensible economics with sensible politics is not easy.

The discussions which followed did not have a coherent pattern. Almost all chief ministers agreed that decisions by the Centre which affect the states must be preceded by prior consultations. While some believe that this requires constitutional amendment, others felt this could be achieved through improved administration and political management. Everyone seemed to agree that the National Development Council had become ceremonial and the Centre-state Council had not met the expectations contained in the Sarkaria Commission report. States have usually felt that the present percentage of devolution from taxes was inadequate and at any rate royalties on minerals should be based on a more transparent formula.

There was overwhelming support that 50 years had created new rights and obligations and consultative process need be revisited. The India Today Conclave had a core consensus. The states would be increasingly responsible for the next steps of liberalisation. The additional obligations needed added empowerment and expanded resource base. The success of the XIth Plan would also depend on a more interactive and cooperative relationship among the states and between the Centre and the states. The sooner this is done the better is the prospect for a faster growth movement. The present federal model needs to be refixed.