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From the ringside

Centre and the states — A New Compact

Last week, I wrote about the Central Government focusing on their achievements and inadequacies. This week I want to focus on the states. It is now almost a cliché, that action lies with the states. An 8 per cent growth requires much greater engagement of states—be it in power, roads, VAT, education, health, agriculture and rural development to name a few. We have talked about these issues for long, some individual Chief Ministers have excelled but concerted action is missing. It is to the credit of India Today that they recognised this some time ago and for the third successive year hosted the ‘India Today Conclave of Chief Ministers’ last week. As a backdrop to these discussions, rigorous work undertaken by Bibek Debroy and Leevesh Bhandari assessed, evaluated and ranked the states based on key growth parameters. Notwithstanding disappointment, even protests or exuberance by winners and losers, the event creates a strive for betterment.

Losers are nudged to improve, winners are challenged to sustain. This year 15 CMs came, the absence of the Southern states was somewhat disappointing. Discussion centered on seven issues namely, matching outlays with outcomes; need for smaller states; choice between free or fair power to farmers; implementation of VAT; future of privatisation; and inter-twinning of good economics with good politics; All at the core of our growth strategy. Aroon Purie got the conference to a good start. Both Prabhu Chawla and Jairam Ramesh moderated well; Prabhu in his inimitable Seedhi Baat style, while Jairam was provocative but non-partisan.

Many issues eluded consensus. Smaller states may have advantages of better supervision but was contentious, lacking in scale externalities with reduced political clout. On power, most of the states were not in favour of free power, although Amarinder Singh with impending elections argued that inadequacy of Minimum Support Price to reflect rising costs entitle farmers to this extra compensation.

Narendra Modi’s suggestion was cleverly divisionary on his priority on water instead of power. On VAT, given the political divide, a new White Paper on VAT based on the recent experience with a firmer time table on phase-out on CST was favoured.

Non-conforming states need a face saving formula. There was consensus on one issue. Vasundhara Raje credibly argued the case for an improved institutional mechanism for Centre-state dialogue. Explaining that the Sarkaria Commission Report was submitted in the 1980s and the new economic challenges need fresh thinking. In fact, the National Common Minimum Programme has suggested the creation of a new commission on Centre-state relations. When constituted, it will be a while before they recommend and even longer before they are implemented. What are the existing institutions for this dialogue?

First and foremost the National Development Council (NDC) which was constituted in August, 1952 following the formation of the Planning Commission on March 15, 1950. Initially, its functions were “to strengthen and mobilise the efforts of the nation in support of Five Year Plans and to promote economic policies and to ensure a balanced and rapid development in all parts of the country.”

Much later, following the recommendations of the Administrative Reforms Commission, 1967, the functions of the NDC were enlarged to “include preparation of guidelines for the formulation of national plan, including assessment of resources, and to consider the important questions of social and economic policies affecting national development.” The second is Zonal Councils mooted by Pt Nehru in 1956 during the course of the submission of the Report of the States Reorganisation Commission suggesting that states be grouped into 4-5 Zones “and the Council could develop the habit of co-operative working among the states” acting as a forerunner of the need for regional co-operation with shared commonalities of endowments. The third is the Inter-State Council formed on May 28, 1990 based on the recommendations of the Sarkaria Commission. This has been set up under Article 263 of the Constitution which lays down its functions “of inquiring and advising on disputes which may have arisen between states, discussing subjects in which some or all the states or the Union have common interest and to make recommendations for better co-ordination on such subjects.”

It is surprising that although as early as 1950s, the Second Finance Commission had recommended the constitution of this Council, it had to await the Sarkaria Commission Report in 1987 to be constituted a few years later. Clearly, times were different. A more homogenous government at the Centre and the states, settled paradigms on development, absence of major irritants did not necessitate acting on this enabling provision of the Constitution for 43 years.

Last but not the least is the Finance Commission which every five years deals with devolution to states. Of late, it has also suggested to the states a wider gamut of changes on economic policies. However, this is not a continuing body for interactive dialogue.

Over time, regrettably, the NDC has degenerated into a mechanical affair where bored CMs listen to long written speeches of their colleagues with no interaction between themselves and at the end triumphantly adopt either a Five Year Plan or its Medium Term Review. The structure of the meeting hardly fosters any worthwhile dialogue among the participants. CMs troop out to get photographed, which are published prominently in regional newspapers, suggesting huge achievements by the state! Everybody goes back to sleep till the next meeting is held. Clearly, the NDC is hardly fulfilling its mandate “of considering issues of economic and social policies affecting national development.”

The Zonal Councils have also lost focus. Inter-State Councils meet with periodicity depending on the initiative of the Home Minister with a flurry of activity on pending regional projects prior to a meeting with tardy follow up action. India has out-grown either these institutions or at least the way in which they are run. If the India Today Conclave generates so much interaction why not these bodies of long standing? Economic policy making in key areas needs the concert of states.

We have repeated ad-nauseum that the next generation of reforms lie in the domain of the states. The consensus on agriculture, health, education and emerging fiscal issues need their active consent and support on implementation. It is time to reinvent the NDC. It is time to refocus the Inter State Council on key policy issues. It is time to re-energise Zonal Councils on harmonisation of regional resource endowments within the national priorities. These need not await the wisdom of the yet to be constituted Centre-State Commission. Planning Commission runs the NDC while the Home Ministry runs the other two. The Prime Minister would need to synthesise their approaches to impart greater purpose and content in the dialogue with the states. The heterogeneity of regional parties, their ideological nuances and the coalition structure of the Central government create fresh challenges in forging a national approach. Only an innovative approach can promote meaningful dialogue. The need for a new Centre-state compact makes this inescapable.

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