

## Engaging the states—the Stanford way

N K Singh

*Posted online: Sunday, April 02, 2006 at 0000 hrs IST*

Six years ago the Stanford Center for International Development, with the support of the Indian diaspora in the Silicon Valley, began hosting an annual conference on India's economic reforms. It brought together a wide range of American and Indian scholars, policy-makers, TiE entrepreneurs and corporates. However, three years ago, it became evident that the next generation of reforms must engage the state governments.

The big agenda of reforms by the Centre on trade, industry, tax policies, telecommunications were substantially over. On the daunting unfinished agenda like foreign investment, banking and finance, labour or subsidy rationalisation, securing political consensus would be time consuming. State sector reforms, however, in agriculture, education, health, infrastructure—particularly roads and power—hold the key to our growth strategy. For enabling states to get engaged, a process called the 'Stanford Mirror Conference' was initiated, which brought together state-level political, official functionaries and others to undertake a dialogue on their economic challenges.

Such mirror conferences have been held in West Bengal, Punjab, Kerala, Andhra Pradesh, Maharashtra and Karnataka. In the current series, these mirror conferences have re-engaged Punjab and come to Rajasthan. Vasundhara Raje had participated in the annual Stanford conference last June and this meet is a logical follow-up. The Jaipur conference brought academics from Stanford to interact with senior political functionaries of the state, academic institutions in Rajasthan, and senior officials and students from some universities.

The discussion spanned macro issues, infrastructure—particularly power, road and transport—in addition to water, agriculture, education and health. Drawing credence from the recent World Bank report entitled 'Rajasthan—Closing the Development Gap', Vasundhara Raje highlighted recent achievements and medium-term policy initiatives which can improve on the momentum of the 1980s and 1990s and approximate a growth rate of 8 per cent.

The paradox of both a decline in growth of per capita income to 2.2 per cent per year compared to 3.4 per cent in the 1990s, and poverty rates of 15 per cent, far below the national average, cannot be explained merely by lower incidence of income inequality and more egalitarian distribution of land-holdings. At any rate, the path forward must involve revival of agricultural growth by reducing the sector's vulnerability to drought and diversifying cropping pattern, making it less water dependent and cereal dominated, coupled with improving infrastructure and regulatory reforms to improve investment climate and increased reliance on innovation for further progress in the human development index.

Rajasthan to its credit has left behind its image and stagnation associated with BIMARU states, but will have to reinvigorate its development efforts to join the ranks of the faster growing western parts of India.

T N Srinivasan, while broadly endorsing the recommendations of the recent World Bank report on Rajasthan, focused on the broader issues of Centre-state relations. The present federal system with well-known strong unitary features had become somewhat dysfunctional given the heterogeneity of political parties who have come to office in various states.

In the broad scheme of devolution, the constitutionally mandated Finance Commission every five years has the core function of recommending sharing of central taxes, and in fairness endeavoured to combine considerations of equity with efficiency, but suffers the handicap of a five-year horizon. The Planning Commission which he described as "an extra-constitutional body" set up by the Resolution of the Central Cabinet in 1950 makes grants to the states in support of the Five Year and annual plans of states. These were not wholly free from discretionary transfers. This was even more true of devolutions from Central ministries on centrally sponsored schemes.

The process of design, selection and initiatives on new schemes, whose consequences are borne by the states, suffer inadequate

consultation. In fact, according to Professor Roger Noll, since money creation was an exclusive privilege of the Central Government, including the benefits accruing from seigniorage and with the nationalisation of insurance companies and commercial banks and the Reserve Bank determining the Cash Reserve Ratio and Liquidity Ratio, "the Central Government had a large (almost disproportionate) say on how should financial resources in the economy be allocated among levels of government and private sector". In short, states have been burdened with enormous responsibility but handicapped with inadequate financial power and participation in key economic decisions.

If T N Srinivasan's logic was to be fully accepted it would involve a substantial rewriting of the Constitution, for which there is neither appetite nor consensus. This does not however mean that the issues raised by him are not contemporary or relevant. Incremental progress can be the best outcome. This means strengthening the consultative mechanism and processes for vastly improved interaction with the states, particularly on policies which substantially affect their economy. It is now well recognised that neither the National Development Council nor the Inter State Council constitutes effective consultative bodies. The Special Empowered Committees on the VAT regime are a one-off example with a mixed experience.

Heterogeneity of governments and regional parties do not enable convergence of opinion for a more reasoned debate. Too often, debates initiated acquire the character of a Centre versus state dispute and scarcely get viewed in a bipartisan spirit. We need to get out of this cycle and constituting another commission may not be the answer. Recommendations of such commissions are never well received by successor governments and so the cycle of setting up another commission begins all over again!

While the complexity of these issues does not have easy answers, the Prime Minister, given his experience and stature, can convene a special meeting of the National Development Council to consider the basic issues relating to Centre-state relations and thereafter follow this up with a special discussion in Parliament. Unfortunately, political parties remain distracted and Parliament does not foster debates on issues of far-reaching importance. A fresh initiative by the Prime Minister can trigger enhanced awareness on the complexity of these challenges and the need to rethink on the accepted paradigms. Engaging state governments in a dialogue on emerging development dynamics is critical to forge consensus. The 'Stanford Way' is a credible step in this direction.

*write to [nk.singh@expressindia.com](mailto:nk.singh@expressindia.com)*