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**Revisiting the Centre-state divide**

The recent India Today Conclave focused on the theme of India tomorrow: Bridging the divide. Over the years, this annual event has forged constructive dialogue on our contemporary challenges. Aroon Purie rightly described these as evolving a commonality of approach “from the clash of ideas.” This year brought together academia and policymakers to deliberate on multiple facets of divisiveness—global, gender, government versus civil society, immigration, infrastructure, and of course, Centre-state relations. Gerhard Schroeder, former chancellor of Germany, was strongly in favour of a multilateral approach on the global challenges of terrorism, energy security, climate change, religious intolerance or the follow-up on trade negotiations. The panels threw up new ideas and innovative approaches on these complex issues.

The session, ‘Politics: The Centre-state divide,’ had Vasundhara Raje and Nitish Kumar as the two panelists. Vasundhara Raje made a forceful presentation on Rajasthan’s achievements and plans for higher education, tourism and power. Nitish Kumar outlined his vision for Bihar; while his first priority was improving overall confidence and security, the neglected developmental agenda would get a push. He seemed resolute and sincere.

The state of Centre-state relations, however, raises at least three distinct issues. While our federal model has served us well, changing development compulsions, heterogeneity of governance, rise of regional parties and growing income divides need new approaches.

First and foremost, the structure of financial devolution. While the constitutionally-mandated Finance Commissions have lent stability while giving emphasis to equity and efficiency, the same cannot be said of other devolutions. The additional central plan flows, though largely formulaic, are not statutorily defined and consultations between states and the Planning Commission are not devoid of quasi-political considerations.

Devolutions through the ministries in respect of central schemes are even less transparent. There is no way to check the allocation of funds across states to evaluate the same for capital and current expenditure or the conditions under which allocations are made. Experts’ studies like Indira Rajaraman’s ‘Is the Indian fiscal federation under threat?’ raise serious concerns. Stuti Khemani, in her paper ‘Partisan politics and intergovernmental transfers in India,’ argues, “a recent surge of empirical studies shows that variations in inter-governmental transfers to sub-national jurisdictions within countries can’t be explained by traditional concerns of equity and efficiency alone and that political variables representing electoral incentives of public agents are additional and significant determinants.”

Looking at the somewhat opaque manner in which ministries allocate funds, it is difficult to collate all funds a state received in a fiscal year, and relate these to principles based on either equity or efficiency. The access to externally aided funds is also a complication, and despite differences in absorptive capacity or efficiency of utilisation, political preference or directional encouragement to lending agencies adds to the distortion.

Looking at the transfer system, several

improvements seem possible—not only governance and fairness, but also efficiency in integrating the myriad forms of transfers that exist today. Higher transparency and coordination would protect these funds from the winds of politics and improve utilisation.

• **Of three distinct Centre-state issues, the foremost is one of financial devolution**

• **Two, the absence of a well-functioning mechanism for Centre-state dialogue**

• **Three, dealing with recalcitrant states on national issues in the states' domain**

Second, the absence of a well-functioning institutional mechanism for Centre-state dialogue. The National Development Council (NDC) was designed to facilitate such a dialogue, but has become a ceremonial body, meeting occasionally to approve five-year plans, mid-term reviews or special reports.

The Inter-State Council, which was to play a central role in dispute resolution, has not served this purpose either. Except for inter-state river disputes independently provided for under the Constitution, the Inter-State Council has not been active in other areas, which can make it a 'Permanent Adjudication Body.' States continue to complain that unilateral decisions by the central government, as on fiscal issues (like cess, whose realisations are not shared) or compelling states to bear 1/4th of the variable cost under the National Rural Employment Guarantee Act or setting up a new Pay Commission when they have barely emerged from the impact of the 5th Pay Commission, underscores the need for an active consultative mechanism.

The NDC needs redefinition of its mandate and the Inter State Council must be re-housed as part of the Prime Minister's Office, (the Prime Minister is chairman of the Council) for making the dialogue with the states an ongoing process. This is particularly so when both coalition politics and regional parties are here to stay in the foreseeable future.

Third, given the pace of change, how to deal with recalcitrant states on issues which are in the domain of states but have national implications? If education or health systems in a state continues to suffer, with thousands of posts of teachers and doctors remaining unfilled, what recourse does the central government have? This raises the larger issue of how to balance devolutions from being performance driven than entitlement outcomes and the need to harmonise considerations of equity with efficiency when the two may lead in the opposite direction.

The Centre-state divide needs a revisit. Both procedures and institutions need restructuring to meet the new developmental challenges. Everyone knows there is a lack of adequate reforms in power, education, health, and agriculture, which lie in the purview of the states. We do not have the luxury of time; archaic approach and institutions are inconsistent with ambitious growth targets. Some things are obvious. These need not await the recommendations of the yet to be constituted Commission on Centre-State Relations. A wake-up call is overdue.