

## Chapter X.

### Conclusion.

#### A. Summary of Findings.

In the closely integrated contemporary federal systems of today, Centre and State spheres defy exact demarcation and they overlap very often. But this current notion of a federal system does not in any way steer clear of the concept of federal balance of power. The basic premise of the balance of power approach to a study like the present one is simple. It presupposes that every society may be viewed as a system involving some sort of balance between different power centres. This balance or equilibrium position could be stable or unstable, static or dynamic. The units in the balance may be assumed to be self-sufficient in some matters but not always of equal powers.

Two easily identifiable aspects of federal balance of power system are horizontal balance and vertical balance. Differences in capabilities among the States in a federation may give rise to horizontal federal imbalance of power. Vertical balance or imbalance of power may be discernible between the Centre and the unit governments in a federal system. In India, the Constitutional structure has evolved a pattern where dominance of the Union Government is clear from the outset. Broadly speaking a number of factors, like the emergency provisions, party system, administrative directions from Centre to the States etc. may account for the

existence or disruption of federal balance of power in India, but, like any other federal system, here also, finance and planning hold the key to the power-relationships. Economic growth of a Country necessitates maintenance of a stable financial system. Thus, economic growth acts as a determining factor so far a federal balance of power is concerned. When, in India, steps are taken for an alround economic growth, it is conceivable that the balance of federal power-structure, which already stands tilted in favour of the Centre, would be set aright in course of time. But the expectations are bound to be plunged into disappointment in viewing the picture in reality. The superior financial resource-position of the Union Government, in the built-in- Centre-oriented federal system of India and the compulsions of planning have caused an acute imbalance between the available capabilities of the States and their growing needs and responsibilities for ever-increasing services of administrative, developmental and welfare activities. The consequence has been a perpetual dependence of the States on Central assistance and growing demand for furtherance of grants. Thus, the significance of the federal grants has increased to a great extent in recent times and at the sametime it has become a vital instrument to mould both horizontal and vertical balance of power in the Indian federal system today.

A grant-in-aid as a sum of money assigned by a superior to an inferior governmental authority either with some strings attached to it or without any condition, should be distinguished from other forms of fiscal transfers like shared-in

taxes or loans. The phenomenon of federal grant is one of the major forms of federal fiscal transfers through which different problems like vertical federal fiscal imbalance and vertical and horizontal federal expenditure-overlappings may be avoided. Both of the two basic forms of grants-in-aid - conditional and unconditional, are being justified for a long period of time as effective measures of reducing vertical and horizontal imbalances of power in a federation. The rationale behind the system of federal grants may be discerned in the fact that paucity of funds in a region should not account for keeping that area perpetually poor and that there are certain services which, though of regional nature and interest, may have importance from the national standpoint and which, therefore, demand attention from the national government. There are criticisms that unconditional grants lead to extravagance and conditional ones may often be such that they give too much arbitrary powers to the grant-giving sectors of the government. But the fact remains that the phenomenon of grant as a stabiliser of the revenues of the unit governments in normal times and as a source of revival in times of economic stringency, has come to stay as a regular feature of the financial arrangements of almost all the federal systems of the world including India.

According to the experts, the experiences of three major political systems of the world - the U.S.A., Canada and Australia are highly instructive for India in respect of the working of the system of federal grants. In the post-war period some important developments have taken place in the three

federations - the U.S.A., Canada and Australia. The institution of variable grants in the U.S.A., Tax Rental Agreements in Canada and the Uniform Tax Plan in Australia have come into being. Other developments in this regard are extension of earlier institution and tendencies. They have come about partly as a consequence of the war itself, partly because the high costs of defence in a period of continuing international tension have put a heavy financial burden on the national governments and partly because of the increased demand for social and economic security. In all the three federal systems, taxation on incomes is now virtually monopolised by the national government. The State governments are considerably more dependent on federal aids than before. In all these countries the federal payments now give a disproportionate amount of aid to the poorer unit governments. In the U.S.A., since the war, the Congress had to accept the view that some of the specific grants for particular services should be weighted to favour the poorer States. In Canada the poorer Provinces gain partly from the fact that their statutory subsidies have been increased, over the years, to a greater extent than those of the wealthier Provinces, and partly from the fact that the grants they receive under the Tax Rental Agreements exceed the revenues they could derive from the source of Income Tax. In Australia, the poorer States gain partly from the special grants that are determined on a fiscal-need basis, as estimated by the Commonwealth Grants Commission, and partly from the fact that they have secured

more than their share, in terms of population of the arbitrary increased that have been made in the Tax Reimbursement. The schemes of social welfare in these federal systems are now largely controlled by federal legislations and financed out of federal funds.

The most significant development of the system of grants-in-aid has perhaps been taken place in the U.S.A.. Remarkable efforts have been made here in recent times to underline the principles, techniques and modes by means of which allocation of various grants may be made in an equitable manner. The 'Categorical Grants' - the principal tool of fiscal federalism in the U.S.A. - has had a near-explosive growth in recent years in terms of numbers, dollars and effects on federal-unit relationships. Canada has seen the withdrawal of the federal government from a dominant position it held in financial sphere in the Nineteen-Forties and attempts have been made to allow the Provinces more financial autonomy along rather different lines from those suggested by the Rowell-Sirois Commission (1940). In Australia, unconditional grants are provided in the name of special grants to less populous poorer States to enable them to provide a minimum level of certain public services and merit goods to their people.

Before delving deep into the operational aspect of the system of federal grants in India one is to be aware of its historical perspectives. A survey of the historical evolution of this system is helpful to indicate the background

against which grants-phenomenon in India operates today. For this purpose the history of federal financial relations in India may be broadly divided into certain periods, namely, the period of about sixty year before the coming into effect of the Government of India Act, 1919, the period roughly between 1921 to 1937 during which the 1919 Act remained in force and the period covered by the Government of India Act, 1935, that ends with the inauguration of the present Constitution in 1950. The first period witnessed a gradual process of progressive devolution of financial authority from the Central to the then Provincial Governments. Under the scheme of financial arrangements initiated by Lord Mayo, the then Government of India began for the first time to give fixed grants to the Provincial Governments to enable them to administer certain functions of local nature. The Act of 1919 provided for an unusual form of grants which were paid by the Provinces to the Central Government. The Government of India Act of 1935 for the first time made an explicit provision for statutory grants to be provided by the Centre to the Provinces which were in need of assistance. Sections 142 and 150 of the Act made provisions for such grants-in-aid. Sir Otto Niemeyer was appointed by the then Government of India to suggest measures of financial devolutions as per the provisions of the Act and his recommendations had important impact on subsequent arrangements relating to the system of federal grants in India. The Desmukh award is another important landmark which guided the distribution of grants-in-aid in this country between the independence in India in 1947 and introduction of the present Constitution in

1950. In discussing these developments the study also takes into account the debates that took place in the Constituent Assembly on the formulation of the present provisions of the Constitution of India relating to federal grants to the States.

For the purpose of the present study it is also relevant to judge the nature of the Indian federal polity from the standpoint of balance of power. On this sphere, the present study reveals that economic disparities do basically account for inter-governmental imbalances of power in a country like India. Grants-in-aid as an aspect of the measures that may be deployed to remove federal imbalances of power should not be seen in isolation. It is a part of a broad interactional pattern which may be successfully utilised if there is a cooperation between the two sets of authority in a federal system in the task of attaining national objectives. In this context, the present study also shows the existing Constitutional design set for the operation of the system of grants-in-aid in India. The effective operational channels for this design are Articles 275 and 282 of the Constitution of India.

It emerges from the attempt made by the present study to find out the roles played by the Finance Commission and the Planning Commission - the grant-recommending machineries in India and the limitations inherent in their works - that any treatment of the problems inherent in the prevalent system

must involve consideration of measures to rationalise the mechanism of devolution in order to secure a more equitable distribution of resources between the Centre and the units and to streamline the financial arrangements for formulating and implementing plans. This study, however, concentrates on the system of grants-in-aid as an instrument connected with the distribution of resources and lays down that the main problem for the purpose of the present study is to observe the scope and efficacy of Articles 275 and 282 of the Constitution of India in influencing inter-governmental balance of power within the Indian federal system.

The present study also looks into the norms laid down by various Finance Commissions as well as the Planning Commission regarding statutory and plan grants respectively in order to find out the existing criteria governing unconditional and conditional federal grants in India. The discussion in this context reveals some difficulties in assessing non-plan requirements of the States by the Finance Commissions and also indicates the serious fact that the conditional grants given under Article 282 involve ad hoc arrangements and in the absence of statutory assurance for this purpose, the use of Article 282 by the Union Government may easily degenerate to shatter a desired balance of power in the Indian federal system.

In course of showing the operational variety of the Constitutional provisions relating to grants-in-aid

in India, this study enters into its final phase of discussion. After considering the consequences of the transfer of federal grants of statutory, plan and non-statutory non-plan nature to the States alongwith relevant statistical data, it is possible to locate the trend in this connection. The fact which comes out is that the grants of discretionary character given by the Centre under Article 282, far outweigh those of the statutory nature provided under Article 275 of the Constitution. This naturally endows the Union Government with a powerful lever - to be used to perpetuate both vertical and horizontal imbalances of federal power structure. The exercise of Article 282 by the Centre during the last few Plan-periods would probably support this statement. Shortcomings inherent in the mechanism and procedure of distributing grants-in-aid have only enhanced the range of this trend.

#### B. Observation and suggestions.

There is no gainsaying the fact that obsession with unity to the point of denial of autonomy may, in fact, defeat the very purpose of the attempts at strengthening the unity of a country. The satisfactory working of a federal set-up requires that the States shall be free, by and large, from dominance by an ubiquitous and all-powerful centre. Even if the traditional rigidities about territorial distribution of powers are set aside, it seems to be an inescapable reality

that in a federal system the levels of government must be kept in a sort of balance so that they are able to cater to the needs and aspirations of the people of all parts of the land. A principle of partnership rather than paternalism should govern the basic pattern of inter-governmental relations in such a system. It is necessary to realise that the concepts of national unity, homogeneity and integration are not to be treated as sacrosanct and the federal system has to grow along with the changing needs of the people.

The Constitution lays down the foundations of cooperative federalism in India not by a device of a meticulous balance or an approximate equivalence of power between the Centre and the States, but by emphasizing the pre-eminence of the Centre occasionally. However, for the sake of its own existence, any federal set-up today is bound to become collaborative and that collaboration invariably involves a balance among different layers of government. Cooperation in a federal framework depends on the harmonious working of the federal power-structure, in the stability and effectiveness of the Centre, in a just system of resolution of Centre-State and inter-state conflicts and in adequate institutional arrangement for consultation, coordination, interchange and integration. It is necessary, therefore, for the smooth operation of the Indian federal system that the institutional systems and devices are set aright, so that the maladies creating imbalances may be cured on the one hand and a congruence between the national norms and the patterns of

economic, political, social and cultural life of the nation may find a place on the other.

An appraisal of the trends in terms of various aspects of the system of grants-in-aid has already revealed certain basic shortcomings which should be removed as far as practicable for the interest of a desirable inter-governmental balance of power in India.

The abject dependence of the States on Central assistance has undermined the federal traits and reduced the system to what may be called a fiscal unitarism. This trend is markedly in conflict with the aspirations of emerging political forces asserting themselves at the State level. Measures have to be adopted to roll back this unitary slant.

In the sectors of planning and finance, the National Development Council should be given an appropriate status in the Constitution by equipping it with adequate powers of coordination. The mechanism will be a compact enough if both the Finance and the Planning Commissions are placed under the auspices of the N.D.C.. In order to raise the confidence of the States, the Planning Commission may be given a statutory basis like the Finance Commission. The Finance Commission should be made a permanent body with a permanent secretariat. The N.D.C. should play a major role in coordinating the functions of the two Commissions. The strained relationship between the Finance Commission and the Planning Commission especially regarding the estimation of plan and non-plan requirements of

the States should be avoided at any cost.

The main thrust of a restructuring of fiscal federalism (to which the system of grants-in-aid is a part) in India must aim at minimising the financial dependence of the States on the Centre in respect of their revenue and capital requirements - curtailing the discretionary element in the Central transfers and ensuring a degree of equalisation which would progressively reduce inter-state imbalances in development. This should be treated as an absolute necessity for the maintenance of both vertical and horizontal federal balance of power. For this purpose one significant step will be to augment the resource-capabilities of the States in India (1). Some potential tax heads may be shifted from the Union to the State List. Another important step will be to make arrangement for the devolution of more grants of assured and unconditional nature - at least so long as the States are in need of such assistance.

In order to discard the discretionary element involved in the nature of grants given under Art. 282, the Finance Commissions in future may be asked to make recommendations on the principles which should govern the distribution of grants given under Art. 282 of the Constitution and the assessment - work made by the Finance Commission should be so timed that when making its recommendations it will have before it an outline of the next Five-year Plan as prepared by the Planning Commission. In order to secure effective coordination between the Finance Commissions' recommendations and the plan,

an expert member of the Planning Commission may be appointed to the Finance Commission. The Finance Commission should include, among others, two persons, one having experience of financial administration at the Centre and the other having such experience in a State. <sup>(2)</sup> The Planning Commission should be concerned in the main, with the formulation and implementation of the Plans. The tasks relating to grants should be the headache of the Finance Commission. However, the task of application of the principles governing distribution of Plan grants from year to year may be left to the Planning Commission since this flexibility is necessary for the sake of a fair economic planning which itself is a dynamic process. But in any case, the discretionary elements in distributing federal grants in India must be kept under severe control and should be eliminated in course of time.

The criteria for the distribution of grants should be given proper weightage to backwardness. Those criteria may be discussed on the floor of the N.D.C. which may suggest, after due deliberation, which factors should be given weightage in determining the criteria governing grants-in-aid.

Arrangements should be evolved for a periodic review of the expenditure of the Central government to keep the growth of its non-developmental expenditure within limits. The Centrally-sponsored schemes should be discouraged as far as possible. Such schemes should be cases of rare exceptions till they can be eradicated in toto. Only a very few schemes of

basic national importance may involve conditional grants, otherwise grants should be largely unconditional by nature. This point has also been mentioned by the Administrative Reforms Commission in its Report on the Machinery for planning. (3)

Suitable modifications in the language of Article 282 may be made to point out clearly under what circumstances the Union or a State may make a grant for a 'public purpose' and it should be categorically laid down that the authorities concerned would have to abide by the criteria determined by the Finance Commission for this purpose. Even if some allowances are to be made for any particular Unit government regarding grants, that should be done in accordance with some norms prescribed by the Finance Commission.

In making recommendations for the statutory grants, the Finance Commission should not confine itself to the task of filling the financial gaps only, it must find out a more suitable basis which would be adequate enough to comply with the requirements of the States. 'Fiscal need', assessed in a proper manner may be considered. The Finance Commission should have well-acquaintance with the nature of State-budgets and if it is made a permanent body this may not become an impossible task. In that case it would be in a position to verify the required data supplied by the States in making their forecasts about revenue and expenditure. In recommending criteria for Plan grants, the Finance Commission must take into

consideration the different developmental and welfare needs of each State.

The Planning Commission, which also would be a statutory body and would remain responsible for the formulation and implementation of the Plans should estimate the required resources for achieving the Plan targets of different States. After assessing the overall resource position of the Union government, the quantum of financial assistance it can provide for State Plans annually over five-year period should be decided. Then the sum available for Plan assistance should be allocated on the basis of the criteria evolved by the Finance Commission. The entire process may be coordinated and supervised by the N.D.C., which can also offer its suggestions. But so far as the operation of the grant-system is concerned, it should be the Finance Commission - the quasi-judicial expert body - which would play the decisive role. The Central ministries should be divested of all powers in this respect.

All these modifications would necessitate a few suitable amendments to the Constitution, which may not be difficult to perform if there is an air of cooperation and fellowfeeling among the different levels of the government and especially on the part of the Centre. Proper measures for redressing the shortcomings inherent in the system of grants-in-aid and in other spheres of the federal machinery may help restore a desirable equilibrium among the units of federal power-structure in India. The outcome would be an institutional stability which is always a precondition for progress.

However, this must be accompanied by other suitably designed economic policies and instruments and must be substantiated by consensus on national norms at the socio-political as well as cultural levels.

The trends in federal politics in India today suggest a kind of mutually exploitative relationship between the Centre and the States. The growing atomization of political forces and the consequent emergence of region-based politics have taken these trends further, but at the same time, have inverted the relationship. Political sustenance may now be seen moving in the reverse direction in many cases - from the States upwards. The bargaining capacity of the States today seems to be much greater than before while the Central willingness to enforce unpalatable executive discipline may suffer adverse reaction. Politics, thus, has become the chief animating force in the field of Centre-State relations in India today. But this is a potentially dangerous situation and if proper adjustments, at least at the institutional levels, are not made for the minimization of inter-level disequilibrium, serious consequences may crop up. The phenomenon of federal grant in India should be seen from this view point and not as an isolated element of inter-governmental balance of power.

Notes and References.

1. Administrative Reforms Commission, Report of the Study Team on Centre-State Relationships, Vol.I, 1967, Government of India, New Delhi, P.46, para 2.36.
2. Administrative Reforms Commission, Report on Centre-State Relationships, June, 1969, Government of India, New Delhi, p.17, (Recommendation 4).
3. Administrative Reforms Commission, Report on Machinery For Planning, March, 1968, Government of India, New Delhi, PP.23-31.