

CHAPTER - III

FEDERAL GOVERNANCE IN INDIA- NATURE AND COURSE

I

The federal system of India is the parts of a subject of the historical interest. In contemporary India, the final outcome of federal system has unraveled through a long developmental process. A concise survey of different form of government with a monarch as the Supreme ruler or government of state affairs of earlier India had some convinced features which made easy their change into the polity of federalism. It can be observed interestingly that nearly most of the important periods of Indian history were indicated by a three types of frames which are as central, regional and local. But unmixed demarcation of these three types of frames do not form them federal. It may be employed for these types the descent of powers through a series of changes frame the centre to the regions. This devolution of powers is placed on the jurisdiction which are contractually demarcated. Never the less the decentralization may be degrees unfold into a federal decentralization.

For the first time the Mauryan combined into a number of kingdoms and between 321 and 185 B.C. in Magadh. It might be the first great portion of a continent. To Romila Thapar perceived:

"The economic condition of the time and its own requirements gave to the Mauryan Government the form of a centralized bureaucracy. The nuclear of the Mauryan system was the king whose powers had by now increased tremendously."¹ Once more time Romila Thapar has perceived that "the geographical extent of the Mauryan state can be inferred from the fact that Ahsok an inscriptions have been found as far and wide as Kandhar and Shah Bazgarhi in the north west, Kalsi and Nigali Sagar in the north, Mahasthan and Kalinga in the east, Girhar and Sopara in the West and Jatinga Rameshwar in the south. It, therefore, appears that the entire subcontinent, with the sole exception of the Southern Peninsular tip, was ruled by the Mauryan."²

Two renowned British historians, Percival Spear and Wolsely Haig, have made out the elements of federal administration in India as to a great extent behind as the Mughals, starting with the system of land revenue of Sher Shah and picking out the figure with Akbar's process of dividing his empire into 12 Subahs or Provinces.³ They both agreed that Mughal rule changed between local positiveness and stout central dominance, in this manner being located in the way of finally centralized or decentralized administrative frame.

But, V.R. Dikshitar proposed that the idea of federal frame of India was created by Muryan. He observed the state of Mauryan as a federal state⁴ J.C. Heesterman on the basis of Arthashastra discussed, that its writer may have meant to create a preliminary plan for a centralized bureaucratic monarchy, but did not actually followed in this respect, as the considering and official system directed in it exhibits that the king and the mahamattas were co-shares in power.⁵

The development of feudalism in India came through a very complex system. It is witnessed by the part Mauryan period. Viewing Indian feudalism D.D. Kasambi suggested two related aspect a) feudalism from above which refers to a state in which the king collected a tribute from subordinates who independently ruled in their own territories, and b) feudalism from below denotes the second stage where a class of land owners was interposed in the village between the state and the peasants.⁶

A short view of the systems of state in the history of India proposed that the feudalism may be considered as the historical forefather of federalism. The basic distinction between feudalism and federalism is that the former was importantly a traditional pattern of authority whereas the latter implies a structure of democratic authority.⁷ The example of such kind of system was the Mughal Empire in which Mughal administration was indispensably feudal rather than federal. John F. Richards added that "The division of functions

established at the Centre was duplicated in the Provinces. At each Provincial capital a governor, responsible directly to the emperor, shared power with a fiscal officer or diwan reporting to a wazir; military pay master and intelligence officer or bakshi, reporting to the central inspector general of the army; and a Sadr, reporting to the minister for religious and charitable patronage. The governor was responsible for the overall peace, security, and tranquility of his province. In this capacity, he supervised the military intendants or faujdars and the commanders of military check points (thanas) who were deployed with contingents of heavy cavalry and musketeers throughout each province, the provincial diwan managed imperial revenues, expenditures, and the provincial treasuries. The separation of powers between the governor and diwan was especially significant⁸ operating principle of imperial administration.

The last stage of the Mughal Empire has been made in a special way as the stage of a large administrative system; A gradual progress of disintegration began during this period. This sowed the figure of a number of small influences of Sikhs, Marathas and Afghans. All these small states considered almost the administrative pattern of Mughal Empire which is very interesting to note. The administrative system was more feudal in nature than the federal.

Actually this is the time which is known as the turning point of the gradual progress of the federal system in India. The arrival of the British rule fetched a number of alternations with it which provided for reaching results. It must be noted here that the advent of the East India Company in 1600 indicated the starting of the western absolute authority in the administrative system of India. Actually from the political and administrative view point, the 1857 year seems to be most necessary due to the taking over the Indian administration by the British crown under the proclamation by the British Queen. From this time, the British Crown began the direct rule and the British

administrative authority brought all Indian states under its rule. The England political authority became success to form a centralized process of bureaucratic administration. It was controlled by both the British Cabinet and the British Parliament.

The progress of administrative institutions in India with the character of federal system will begin with the spread of British rule after 1857 after taking over the duties and treaty responsibility of the East India Company by the British Crown and adopting sincere obligations for India's protected states.⁹ The Indian intricacy was needed a federal type of government which was realized by the British in 1861. Since 1773 till 1947, India was unitarily ruled. The total Indian administration strongly favoured to the central government.

To white British authority over India, since 1857, this government had received a number of paces, through consecutive Acts. The accumulation of this system can be found in the establishment of the Government of India Act, 1935. It was for the Strengthen of the administrative frame. Ultimately this was transformed into a federal political system. The pursuing notice likes to be presented as:

Sovereignty in Indian history was crystallized in the main but was also partly diffused. Strong states were appreciably centralized but with some decentralising features in parts. This pattern of sovereignty not only allowed appreciably autonomies to groups and regions within the state but also visualized a complex interstate alliance system in the subcontinent in which the allies were the constituents of the sub-continental state. This was true of even strong sub-continental states like the Maurayas, the Mughals and the British. Feudal autonomies of the past as well as the earlier tradition of ganasanghas may be seen as precursors of the autonomy of state governments under the parliamentary federal constitutional system in India to day.¹⁰

In this system, the British Government took an important step which was the passing of the Indian Councils Act, 1861. Through this act, British Government could feel about the necessity of the decentralization policy which seems to be fit for India. Actually the Indian Councils Act of 1861 emphasised on two valuable aspects of any federal governance. Regional differences and local specificities. It can be seemed that by maintaining regional demands along with the sense of national unity, any legislative method becomes to satisfy the aspirations of local area. It was understood that the devolution of the powers of the legislature became the only answer for the better governmental system in India. This Act provided some chance of Indian representatives whom the administration nominated for that purpose. Evidently the rule of nomination unfilled in to any process of election but provided the state, this restrained area of the act of associating of the Indian with the process of administration was seemed very critical. It created a chance of a communicational channel between the people of India and the administration. Although most of the Indian people disliked this nomination system. The Governor General also was provided the authority for creating new provinces and also the power for appointing lieutenant Governors. The Indian Council Act, 1861 was also important because it was done instantly after the Sepoy Mutiny of 1857 which influenced the method of passing this Act.

The implication of the Government of India Act, 1909 which was known as Morley-Minto Reforms became the latter landmark in this process. This act advanced the spreading of the nature of the Councils for the Central as well as the provinces. It also provided some aspects of representation but on the religion based and separate electorate for the Muslims. People in this subject criticized lots. It became an attempt to create a feeling for separating people on the religious basis.

This Act strengthened the legislative councils along with the maximum number of additional members of 60. These members were

from official and non official categories. The nominated officials and the ex-officio members of the councils were the members of the officials. At the same time, the elected and nominated members because of the non official. Then it can be seen that, the general, class and special electorates created by the Act for the first time of the principle of communal electorates for Muslims. For the first time, these made the attempt for official position of separate identity of the Muslim community. Actually this demand was made by Muslims this Act clearly assured the Muslims in both the representation of local bodies or legislative councils as a separate community.

The 1909 Act expanded the functions of the councils. Which took place in three subjects as the discuss of the Annual statement of Finance, on any topic of common public interest and the questioning. But this was not in practically. The decisions of the council were not fastened the government. It failed to provide any constitutional duty for the government. In fact this act did to separate the community of Indian on the basis of communalism. A strong attempt was created separation within the Indian society by the England Government. For this, Nehru observed, "A political barrier was created round them (Muslims) isolating them from the rest of India and amalgamating process which had been going on for centuries".¹¹ This act actually emphasized on a method of concessions. This was accepted by the moderates of congress though they did not like any kind of extremism. Moreover every reform failed to give a responsible government and mainly focused to discourage the devolution policy. The 1909 Act was limited which became visible very quickly for the Indians. Between 1909 to 1917, the repression policy, the Indians disappointment, the Indian National Congress agitation and during the First World War, the political situations gave a chance of a series of important development. The Indian people were inspired by some type of hope at that time. To Indians, British authority would have to come before some crucial

threats. Specially British power had to face the increasing internal and external pressures. Due to what their Divide and Rule policy failed to work in a proper way. As a result British authority had to be compelled to take out another reform. This reform came out through the Government of India Act 1919. Through this act, the 'Diarchy' was introduced in which the subjects of the provinces were separated into Reserved and Transferred categories. The matters which provided great chance for the social service and local knowledge were the part of transferred category. On the other hand the subjects as like finance, law and order, land revenue were included in the reserved category. The public health, education, agriculture, industrial development, local government, medical administration, public works etc also were included in the transferred category. Sir Friedrich Whyte described this type category as reserved and transferred subjects as "Federation in embryo."¹²

The Government of India Act, 1935 was also the result of the Indians demand of further constitutional reforms. This Act provided the space of creation of federal governance in India and demarcated the jurisdictions between the units and centre. M.V. Pylee observed as "The federal system which the Act of 1935 and to establish was perhaps the most complex ever known in the history of federalism."¹³ This act was centralized in nature. It gave the authority to the centre to take over the provincial administration under certain situations. Through this act, the legislative powers were divided into central, provincial and concurrent lists. It assigned to demarcated sources of revenue to the provinces and the centre. Through this act, a federal political system which was highly centralized in nature was likely to form the Indian continual policy. The Governor, the representative of the British crown had given the executive power and power of the federation. He chose the ministers from the federal legislative members who remained in offices until enjoying the Governor General's confidence. He through

this act also was given the extra ordinary powers of legislation. He had the authority to announce the breakdown of the constitutional machinery if he was assured that the federal Government failed to carry on according to this act. He had some discretionary powers. He was compelled to take the suggestion of the council of Ministers. At the same time, the abolition of the autonomy of the provinces was also introduced.

A federal court consisting of chief justice and not more than six other judges were created by the Government of India Act 1935. The Judges could carry on their office till the age of 65.

Then it can be suggested that the Government of Indian Act 1935 considered the federalizing system in India. Though it mainly gave wider scope to the British authority in the central intervention. So Indian people's common hope was not satisfied. Then the Quit India Movement as well as the Cripps Mission provided the sphere of the transformation of power to the Indians through another reform which was known as the Indian Independence Act. 1947.

After this the Constituent Assembly played an important role in the process of making Indian constitution. The objectives Resolution which was moved by Nehru on December 13, 1946 considered a confederation of states. The states in this confederation "shall possess and retain the status of autonomous units, together with residuary power and exercise all powers and functions of government and administration, save and except such powers and functions as are vested in or assigned to the Union, or as are inherent or implied in the Union or resulting there from."¹⁴

Nehru in One of the meetings of the Union Constitution committee on June 6, 1947, announced about the constitutional federal system with highly centralized in nature. Pannikker stated in a different note in May, 1947 to the Union Constitution Committee that

"the Declaration of Union and provincial powers which federalism involves, is, to my mind a dead issue, and the idea which has gained prevalence that the Indian Constitution must be of a federal type is definitely dangerous, to the strength, prosperity and welfare of India. Federalism is a fair weather constitution and in the circumstances of India it is likely to be a dangerous experiment leaving the national government with but limited powers weak and consequently incapable of dealing with national problems.¹⁶ Many members of the Constituent Assembly favoured the greater degree of state autonomy which would accommodate the interests of different regions and communities. It was mainly on the matter of governance and also the federal structure. To them, though India is a vast country comprising diverse interests demands, the federal arrangement was only fit for India to achieve those interest. In that case, Ismail Sahib, being the Prominent Muslims members stated. Ours is a vast country of a great distances and huge population. However much the centre may be anxious to accord uniform treatment to the various parts of the country, still, in the very nature of things, there will be drawbacks and shortcomings. This will naturally lead to content and conflict a federal type of government is more suitable than any things else for such a country as ours.¹⁷

II

India after a long struggle was able to achieve its independence which is known to all. So, a number of historical, economic, socio-cultural and political forces conditioned the drafting of Indian constitution. The debates which happened in the Constituent Assembly disclose the adjustment and compromise that took place in any central discussion. To the members, the constitution which was proposed should provide enough property of suitability and responsiveness to the threats which come from outside. Along this the constitutional framers emphasized on the importance of the disrupting forces which were not

highlighted during the critical process of history. In this matter, Paul Brass stated:

"Indians constitution maker thought that they had good reasons to be fearful of disorder, even chaos, in the subcontinent as a consequence of the actions of a multiplicity of dangerous forces arising out of political movements associated with Muslim communalism, secessionism and revolutionary communism. Moreover, some of those forces were associated with acts of violence, revolutionary insurrection, extensive communal killings and war. The response of India's constitution makers to these threats and dangerous was to use them as a basis for framing a constitution with numerous provisions designed to deal effectively with the threat of disorder through the creation of a strong centralized state".¹⁸ From the starting time, the constitutional framers were busy to provide clear guideline to make India as strong Republican, Generally they emphasized on state and nation building why they felt about the importance of having a federal arrangement, they compelled to keep India as unified and strong. For this, the centre has been given more powers with sharing of powers between the states and the centre. The prevalent political, social and economic circumstances of India right from the Indian independence can be focused too. The political situations were full of suspicious and despondency. The social relations endured vigorous changes. The governing systems of states were fully shattered. To solve of these situation, the constitutional makers emphasized on the creation of the situations of belief, hope, faith and commitment on which the Indian people always are in favour of democratic principles and ethos. Actually it seemed to be same to all the countries who got independent after a long struggle process.

The Indian federal settlement has been framed on the basis of the Government of India Act, 1935. For what in the matter of legislative relations, the states have been made less powerful. The centre on the

other hand has been setup as in the directing place of the sphere of administrative relations. The state's most of the areas always depend on the centre excepting few members of states. The federal arrangement India has also become the witness of qualitative and quantitative changes while, the political aspects undergo changes with the time.

Since the Fourth General Elections, the improvements can be quoted as the starting of a system of additional decentralization of powers which has gone beyond the frame of the India constitution. Like India's constitution, a constitution like to get the features of what Austin has rightly said, "A vehicle for Social Revolution". Whether it is the goal of Indian constitution, then, it has to be flexible along with ready to respond with the changes.

Despite this, the states are becoming very important and playing critical roles immediately after the beginning of coalition Politics in India. For this reason, there seems the important again to restructure the federal relations. The end of one dominant party system "which is described by Rajni Kothari as "Congress System", a new area of power sharing has emerged where the regional and local forces are in a greater position. To demand the resources of the nation.

The India's federal system has come through the different phases of the history. A system of centralized powers can be seen at the earlier time of independence that it was shaped as federal. Till 1966, this phase of dominance by the centre lasted and after that there had been changed in the matters of electoral verdict in some of the states. Then Politics of bargaining emerged between the centre and the States. It is very interesting to note that the phase of coalition politics causes to exist the feeling of co operation between the centre and the States what is known as 'Co-operative federalism'. The present day era provides the regional governments holding the directing power to a large extent.

Again a new area of culmination of powers also in the local level has emerged.

In conclusion, the history of the amount of the process in India presents some important characters of its own. Though Indian federal system based on the pattern of west Minister, it neglect the unitary process of ruling. The federal system of India has been mostly based on the model of Canadian and to some extent of the American System. But it should keep in mind that every country has its own history and on the basis of these historical aspects the government are formed. Taken those stipulations, Indian's federal system is importantly India pacific.

III

A continuous erosion of the federal process in India in the name of national unity and development imperatives has been discernible after the mid-sixties. At the same time countervailing political and constitutional pressures shored up demands for greater decentralization and state autonomy. Dynamic interaction between these two opposite tendencies resulted in a shifting equilibrium which has been extremely unstable, depending upon the unpredictable variables of the balance of power in the political system.

Chief Minister Jyoti Basu of West Bengal in early 1982 stated that the unity of the country could be strengthened only by sharing powers between the centre and the states, and that a strong centre was possible only when states were strong and viable. This called for a change in the existing power balance between the centre and the states.¹⁹ At the meeting of the National development Council in New Delhi held on 14 March 1982, the Chief minister was critical of the central government for bypassing the council in respect of the massive IMF Loan, pointing out that the decision making process in the country was passing into jeopardy.²⁰

Ever since 1978 West Bengal's Left Front government passed through a series of confrontations with the centre over various issues. Two particular situations arose after the assembly elections in 1982 one relating to overdrafts and the other concerning the size of, and the allocations to, the annual plan for 1982. The states overdrafts had reached Rs.403 crores at the middle of the year. Restrictions imposed by the Reserve Bank of India on overdrafts drove the administration to a quandary on resource mobilization. With the present structure of centre-state finances, and the expanding state role in social development, the West Bengal government contended that overdrafts were unavoidable. It also claimed parity with the central government to incur such debts which the Reserve Bank would finance.

Some economists considered the claim to be unrealistic, while conceding that the strain on West Bengal's economy will be severe, and "inflationary forces have emerged ... more from central deficits than from the net total deficits of the states."²¹ The wrangle over the size of the 1982 state plan took a serious turn with the prospect of a total stalemate, and only the prime minister's intervention and grant of additional funds saved the situation from degenerating into an open confrontation. This last minute 'positive attitude' has been appreciated by the chief minister, but the whole episode exposes the near-crisis situation that might further endanger the federal process so delicately poised on the brink. Some way must, therefore, be found for making the federal process work according to the accepted principles and norms as applied to differing political and economic cultures.

Balance of power

Broadly speaking, there are two currents of thought of the delicate but potentially explosive subject of federalism and centre-state relations in India today. One school holds that the issue is more political than legal-institutional, and the solution to the problem raised by the rise of diverse political forces after the 1967 and the 1977

elections lies not merely in constitutional and administrative readjustment and restructuring, but in devising sound and healthy political conventions and practices.

The second line of thinking assumes that many of the persistent maladies within the Indian body politic, especially in the working of the Indian federal policy, can be removed by judicious and conscious rearrangement of the institutional structure by formal alterations or revisions in the governing rules, so that greater legitimacy is brought to bear on those structures which have to respond to the challenges and the systemic crises. The West Bengal government's Memorandum on Centre-State Relations, which sought to initiate a fresh debate on this issue in the changed political climate, is predicated on the second line of reasoning, which adopted the 'institutional' approach. It has pleaded for far-reaching constitutional amendments, albeit within the framework of the existing state structure, in order that the "federal principles" could be "correctly understood and applied".²²

According to the 'political' line of thinking, the strength of the centre was not expected to subvert the federal equation in the normal functioning of the constitutional framework. If the constitutional provisions, supposed to be well meaning, had not been worked according to the intentions of the framers, and the centre and the states had failed in developing a pattern of relationship based on mutual cooperation, broad understanding and satisfactory working arrangement, the fault did not lie with the constitutional system: By an elaborate distribution of legislative, administrative and financial powers, and a systematic institutionalization of inter-governmental cooperation, ground should be prepared for harmonious working. For example, in the sphere of financial relations, it was believed that the provisions of the constitution were designed with great care and circumspection so as to forestall the difficulties in securing closer correspondence between resources and functions,²³ and if there were

signs of dissatisfaction in the actual conduct of financial affairs, these could be traced to the stresses and strains in the national economy and the spirit in which the constitution had been worked, rather than in the “well-conceived provisions” themselves.

Fiscal Federalism

The provision for a Finance Commission under Article 280 was intended to institutionalize federal fiscal harmonization, more specifically to consider the shares of income tax and central excise proceeds that should go to the states, and lay down the principles for giving grants-in-aid of the revenues to states in need of assistance. But the emergence of planning and the nature of the planning process upset the constitutional scheme in a way not really envisaged by the constitution-makers because successful execution of economic development plans necessitated larger financial capacity of the states which involved in its turn a persistent demand for larger allocations, growing use of central loans and grants especially the matching, discretionary, ‘plan’ grants under Article 282 which has become the “backbone of federal planning finance”,²⁴ increasing dependence of the states on central subventions and a substantial modification of the original balance of power.

In the present discussion on centre-state relations, financial relations in general and the mechanism of grants-in-aid in particular, need to be re examined in the light of the changed political context. It has been stated that “basically the working of centre state financial relations can be seen from the overall result of financial operations on state finances.”²⁵ A careful analysis of the various elements of fiscal federalism in the forms of sharing of taxes, statutory and discretionary grants in aid, central loans to the states and performance under Articles 268 and 269 conclusively proves that the dependence of the states on the central resources has been on the increase since the beginning of the first five year plan. Over the first plan period, the

dependence on the centre was nearly 38 percent which became 57 percent during the fourth plan.²⁶

Grants in aid as a fiscal instrument are used “to strengthen the declining resources-base of the constituent units of a federation”.²⁷ The operation of the mechanism of grants-in-aid can be found in all leading federal constitutions of the world, like the USA, Canada and Australia.²⁸ The experiences in the fiscal relations in these countries influenced to a very great extent the framers of our constitution in evolving the mechanism of grants-in-aid.

Finance Commission

With a view to making periodic assessment of the needs of financial help to the states, the framers provided for the establishment of an institution in the form of a Finance Commission which, by its very nature, is “a quasi-judicial body”.²⁹ It has been categorically stated that the functions of the Finance Commission are to make recommendations to the president in respect of:

- (1) The distribution of net proceeds of taxes to be shared between the union and the states and the allocation of shares of such proceeds among the states;
- (2) The principles which should govern the payment of the union grants-in-aid of the revenues of the states;
- (3) Any other matter concerning financial relations between the union and the states.³⁰

Finance commission have worked under different terms of reference which are drafted by the central ministry of finance. So far as the composition of the finance commissions are concerned, it is important to note there is no scope for representation of the states, and the state governments are never consulted on the terms of reference.

The Second Finance Commission was asked to recommend the principles of distributing the net yield from taxes levied under Article 269 such as estate duty the tax on railway fares which are levied and collected by the central government but the proceeds of which would be made over the states.³¹ While the Third Finance Commission was not asked to examine any additional matter, the Fourth Finance Commission was asked to examine the desirability of using the state's share of estate duty for the repayment of the central loans to the states; to estimate any additional burden of debt-servicing expenditure that would devolve on the states; and also to examine the combined incidence of sales tax and union excise duties on production and consumption.³² The Fifth Finance Commission was asked to recommend ways and means for discouraging the states resorting to unauthorized overdrafts.³³ The Sixth Finance Commission was asked to examine the states' debt position vis-à-vis their non plan capital requirement.³⁴ The Seventh Finance Commission advocated a full-fledged Finance Commission and an agency with watching and advisory roles with regard to centre-state financial relations generally and the proper implementation of the accepted recommendations of the commission.³⁵

Of the many problems with which a federal polity like India is confronted, the important one is: How can the country formulate a national development plan which tries to obtain the maximum advantage from having a large area under the government but which, at the same time, is sufficiently firmly rooted in the diverse regions and areas of the country, taking note of both their potentialities and the needs and aspirations of the people belonging to them. In other words, like the problem of reconciling economic growth with reduction in inequalities among different classes of citizens there is also the problem of ensuring a rapid rate of economic growth and at the same time, preventing an accentuation of inequalities among different regions and states.

Constitutional Limits

Planning in India lacks specific constitutional sanction and basis. Matters pertaining to planning can be inferred from a rational and judicious reading of (a) the Preamble (“Justice – Social, Economic and Political” and “Socialist” Republic); (b) Part III dealing with Fundamental Rights (“Equality of Opportunity” and taking away of private property for public purposes in Article 31, abolished in 1979); (c) Part IV dealing with Directive Principles of State Policy, especially Article 38; (d) Part XI dealing with relations between the union and the states, especially Articles 245, 246 and the Seventh Schedule, List I, items 23, 24, 52, 56 and 66, List II, items 6, 9, 11, 14, 17, 18, 19, 21, 23, 24, 26, 27 and List III, item 20 dealing with social and economic planning, and items 21, 22, 23, 24, 27 and 33; Articles 200, 201, 249, 257, 263, 280 and 281; (e) relevant constitutional amendments like, first, fourth, seventeenth, twenty fourth, twenty fifth, forty second and forty fourth; and (f) extra-constitutional efforts like parliament’s adoption of the ‘Socialistic Pattern of Society’. Social and economic planning is included in the concurrent list. Most of the subjects concerned with planning fall either in the union or in the state list. Important in the union list are large industry, railways, national highways, civil aviation, major ports, shipping, communications, banking, all kinds of insurance managed by the centre, overall monetary and credit policy, foreign loans, and inter-state and foreign trade. The principal sources of revenue allotted to the centre include taxes on income other than agricultural income, corporation tax, excise and customs. Subjects appearing in the state list include agriculture, forests, fisheries, irrigation, roads and road transport, minor ports, medium and small industry and social services like education and health. The principal sources of revenue allotted to the states include revenue, agricultural income tax, stamps and registration duties and taxes on commodities, especially the sales tax. Power is a concurrent

subject. So are price control and trade and commerce in the production, supply and distribution of food-stuffs, edible oils, raw cotton and raw jute.

The Constitution authorises the central government to regulate and control certain subjects in the state list such as roads, inland waterways and mines if found expedient in public interest. The union further has the power to coordinate and lay down standards in specified spheres like higher education and research.

Inter-State Council

As already noted, the constitution provides for the establishment of quinquennial Finance Commission to distribute between the union and the states the proceeds of taxes which fall in the divisible pool, to determine the principles which should govern the grants-in-aid to the states out of the Consolidated Fund of India, and advise on any other matter referred to the commission by the president in the interest of sound finance (Articles 270, 272, 275 and 280). In practice, the functions of the Finance Commission have been restricted to ascertaining and covering the revenue gaps of the states. Plan assistance has been kept outside the purview of the successive finance commissions. Such assistance to the states has been provided under Article 282, a miscellaneous financial provision under which the union or a state may make grants for any public purposes. The states are authorized to raise internal loans, except that if any central loan to a state is outstanding, prior permission of the union government is necessary before floating a new loan (Article 293). This, in the financial circumstances prevailing in India means in practice that the centre's approval is necessary for the loan programmes of all states.

The Constitution of India, in Article 263 also provides for the setting up of an Inter-State Council for the purpose of ensuring coordination among the states. The Administrative Reforms

Commission, in its Report on Centre-State Relationship submitted in 1969, recommended such a course of action: The proposed council should have broad terms of reference and should be free to discuss and resolve both inter-state and centre-state differences. While its proceedings are to be treated as secret, the decisions are advisory though these “must be able to carry weight with the centre and the state governments”.³⁶ The Centre State Relations Enquiry Committee, appointed by the Tamil Nadu government in 1969 under the chairmanship of P.V. Rajamannar, recommended the immediate constitution of an Inter-State Council to be consulted on all matters of national importance or those affecting one or more states. Its recommendations were to be binding on both the centre and the states.³⁷ It is regrettable that such a council has not yet been set up by the Government of India.

Planning Commission

Though the subject of social and economic planning figures in the concurrent list, the Government of India decided in 1950 to set up the Planning Commission by an executive order and in that sense made it a body subservient to the central government. The powers, functions, as well as the procedures of the Planning Commission have evolved since 1950 as the result of working conventions, especially regarding the relationship between the commission and the states. The commission has no statutory authority over them.

When the commission was first appointed, the resolution setting it up indicated that in framing recommendations, the commission would act “in close understanding and consultation with the ministries of the central government and the government of the states. The responsibility for taking and implementing decisions will rest with the central and state governments”.³⁸ The resolution expressed the hope that the state would give the fullest measure of help to the commission so as to ensure maximum coordination in policy and unity in effort.

Since Jawaharlal Nehru regarded the Planning Commission's role as critical for India's transformation into an industrially developed, modernized nation, it was idle to expect that this non statutory body would remain content with a merely advisory role that was originally intended. Although lacking any constitutional basis, the commissions virtual transformation into a "super economic cabinet, brushing aside even the authority of the constitutional Finance Commission,"³⁹ was not surprising, because Nehru purposely invested it with tremendous authority, status, powers and prestige. The consequence was startling. The states felt that their autonomy was being unduly frustrated by the national plans, in the shaping of which they had no hand.⁴⁰ "A combination of political influence, superior expertise, and control over formulae for central financial assistance to the states ensured that the economic and social priorities set down by the Planning Commission were adopted in the plans."⁴¹ After Nehru, the influence of the commission and its policy making role gradually declined.

During Prime Minister Shastri's leadership, the balance of power between the Planning Commission and the ministries shifted to the disadvantage of the former. The commission's structure and functioning came in for sharp criticism, and the government asked the Administrative Reforms Commission to make a detailed study of the "planning organization and procedures of the centre and the states and the relationship of the Planning Commission at the centre and planning agencies in the states with other agencies."⁴² In its final report in 1968, the ARC recommended a series of changes that would reduce the mechanisms of central control over allocation of investment outlays at the state level and transfer effective decision making powers over the content of plan programmes from the centre to the states. The commission was to be an expert advisory body, and the membership of cabinet ministers was to end.⁴³

National Development Council

The reconstitution of the commission saw the prime minister continuing as chairman, and the finance minister continuing as member. Some prominent economists were appointed as full time members, but mostly these were political appointments. The trend continued in 1973 and 1977 until Indira Gandhi recently reconstituted it along the old lines, abandoning most of the ARC recommendations, and inducting the ministers of defence, planning and home affairs as ex-officio members. The cycle has now turned a full circle, and as the recent encounter of the West Bengal government with the planning commission reveals, the balance of power has once again swung in favour of the centre. All this calls for a revision of the entire basis of planning, by imparting a constitutional sanction to the Planning Commission along with National Development Council. An extra-constitutional authority cannot be allowed to dictate policies to the states for long.

It was on the suggestion of the Planning Commission itself that the National Development Council (NDC) was constituted in August 1952, to serve as the highest reviewing and advisory body in matters of planning.⁴⁴ The NDC was expected not only to promote common economic policies in vital spheres and ensure balanced and rapid development of all parts of the country, but also to review the working of the national plans from time to time and recommend measures for the achievement of the aims and targets set out in them.

The council's membership included the prime minister, chief ministers of all the states and members of the Planning Commission. Other central and state ministers were invited to attend the Council's meetings when considered necessary. Over the years, a practice developed according to which most of the central cabinet ministers as well as some ministers in the states, especially those holding the finance portfolio, were invited almost invariably to attend NDC

meetings. The council occasionally formed subcommittees to go into questions calling for special attention. The NDC was thus clearly conceived of as a federal body, an experiment in cooperative federalism, though no statutory in character, to give the states a greater sense of participation in the formulation of national plans and in bringing about a national consensus regarding plan policies. The council used to meet frequently at the time of formulating five year plans, and not so often in other years.

Following the recommendations of the Administrative Reforms Commission the NDC was reconstituted to include as members all central cabinet ministers in addition to the prime minister, chief ministers of the states, and members of the Planning Commission. Its functions have also been redefined. The most important change is that the NDC is now definitely charged with the responsibility of laying down guidelines for the formulation of the national plan.⁴⁵

Planning Process

Between 1967 and 1971, after 1977 and especially during the last few years, the NDC served as a platform for ventilating grievances especially of the non-Congress state governments in respect of the planning process, and also as a forum for conflict resolution. In the logic of things, its mediating and policy making roles should be preserved and strengthened. But the pity is that like the Planning Commission, it also lacks a constitutional sanction, and that it has not been frequently utilized. There is a need for constitutional revision along this line, too.

Another instrument created by the Planning Commission for the purpose of developing close liaison with the states was the institution of programme advisers. The programme advisers were expected to function as “the eyes and the ears” of the Planning Commission vis-à-vis the state falling in their jurisdiction. Three senior officers were

appointed in 1952 to these positions. The idea was that they would be persons sufficiently knowledgeable about the problems, prospects and actual developments in the states and therefore, be in a position to advise the commission on the state governments' proposals and at the same time, to help the states in their planning effort.

The process of planning and the pattern of centre-state relations relating to it has been evolving since 1950. Broadly speaking, the process, as outlined by the ARC Report on Machinery of Planning, consists of a series of steps, commencing with plan formulation which is the most important stage, plan implementation, and progress reporting and evaluation.⁴⁶ Without going into the whole history of the evolution of the planning process, the principal features of the process as it worked during this period may be indicated. After formulating the overall macro-framework for the national plan and broadly indicating the quantitative magnitudes as well as major policies involved in the adoption of the framework, the Planning Commission attempts to indicate to each state, both financial magnitudes of the outlay for the state plans and guidelines on the formulation of the sectoral proposals. The states then formulate their plan proposals and send them to the planning commission. The difficulty has been that the suggested financial magnitudes are exceeded by most of the states in their plan proposals. Similar has been the case regarding the plan proposals prepared by various departments as well as districts in states. In many cases, the plan outlays proposed by different departments and districts put together add up to an outlay which is much in excess of the plan ceiling suggested by the Planning Commission for the states.

Central Allocations

The NDC is consulted by the Planning Commission at various stages of plan formulation. The initial 'macro-economic framework' as well as policy proposals is placed before the council, discussed and its general approval obtained. However, the Planning Commission has not

been able to obtain any clear guidelines or firm commitments from the council. The discussions in the council, while approving of the goals in general terms, have not led to commitments in terms of acceptance of the discipline required by way of policies, regulations or mobilization of additional resources. It is generally held that the state representatives on the council use the platform of the NDC mainly to ventilate the grievances of their own states. Chief Ministers are by and large content to point out the importance of providing more central assistance and more schemes. At the same time, they are reluctant to make any clear commitments about their share in the proposed mobilization of resources. The central government also has generally found it difficult in the early stages of the formulation of the five-year plan to take decisions regarding the magnitude of the financial mobilization that it would undertake. The tug-of-war between the Planning Commission and the finance ministry about the contemplated size of public sector outlay has many times continued almost till the beginning of the five year plan period, thus keeping the question of the size of public sector outlay undecided till a very late stage of plan formulation.

Resource – Outlay Gap

Many other factors also contribute to unrealistic plan formulation. The system of central assistance that was gradually evolved, emphasized the distinction between plan expenditure and non-plan expenditure, the later including what came to be known as ‘committed’ expenditure on development schemes which were already under implementation in the previous plan period. While central assistance provided by the Planning Commission was expected to meet the states deficit on account of plan expenditure, assistance provided on the basis of the award of the Finance Commission was expected to bridge the gap in the state finances due to non plan expenditure. The award of the Finance Commission normally followed the finalization of the plan. In order to ensure that the Finance Commission should be

more sympathetic in awarding assistance, each state thought it appropriate to show that it has to cover a large gap, the assumption being that the larger the gap, the larger would be the assistance recommended. The attitude regarding plan assistance was somewhat less clear. On the one hand it was assumed that the larger the gap between approved outlay for the plan and the expected financial resources that the states can mobilize, the larger would be the plan assistance.

At the same time, the states were also aware that the Planning Commission frowned upon very large gaps and many times insisted on reducing plan outlay if the state's own resource mobilization was expected to be inadequate. The assumption in this respect has therefore, not been clear. In the past, state governments found that having secured the Planning Commission's approval for a large plan outlay, and having initiated a number of schemes and programmes on that basis, it was easier subsequently to bargain for larger plan assistance at the time of annual plan discussions. In any case, the result was that the states put forward estimates of plan outlay far in excess of what could be financed from their own resources, almost assuming that there was no limit to central assistance.

Apart from regional pressures, sectoral pressures tended to inflate the size of the state plans. In subjects like community development, education, health and social welfare, the concerned central ministries suggested programmes and schemes to the states which tended to unduly inflate the proposed state outlays in these sectors. The fact that plan formulation in the case of the first three plans coincided with the general election was another factor leading the state governments to include a number of schemes which had been properly formulated. All these factors contributed to inflating state plan proposals in financial terms, and also to including in them projects and programmes which were not ready for implementation.

Discussion and Decision

An elaborate system of discussions between the Planning Commission and the state governments has evolved over the years. As already mentioned, the state proposals were usually far in excess of what was considered practicable and included schemes and programmes the details of which had not been worked out. The examination of these proposals, therefore, created considerable difficulty. Even though attempts were sometimes made to persuade the state governments to modify their proposals at an early stage, such attempts mostly failed and all these issues remained open till the last stages of plan formulation. All the matters had then to be decided within a comparatively short period of time – two or three days. The sectoral working groups representing the ministries at the centre and the departments in the state failed to bring about any significant streamlining or rationalization of the state proposals. The task of reducing proposed outlays to some realistic levels was thus left largely to the Planning Commission. The programme adviser would formulate his proposals with the informal understanding, if not approval, of the state finance and planning officers and these were finally considered in a meeting between the Planning Commission and the state government. Till recently, as no clear previous decisions were available about the magnitude of central assistance, each state government considered it appropriate to go on bargaining for maximum assistance right up to the last stage. The decisions tended to become lopsided, too much emphasis being placed on needs and too little on resource availability, resource mobilization and scrutiny of programme proposals.

The result of this process of decision making regarding state plans was that up to the beginning of the five year plan or sometimes even afterwards, it was not quite clear what the size of outlay would be for the state as a whole and therefore, for each department and for individual schemes and programmes. Large scale cuts at the minute or

keeping certain matters pending, also led to considerable uncertainty. The result of including projects which had not been properly formulated was that actual implementation of these could not be taken up for a sometime; at the same time, funds were earmarked for them.

Partly as a result of the failure in the formulation of five year plans in operational terms and partly because of the need for flexibility in development planning, annual plans came to be emphasized from 1957-58. The hope that annual plans would be formulated in a more realistic manner was belied. Yearly plan proposals suffered from defects similar to those experienced by five year plans, though somewhat to a smaller degree. The process of discussion and the problems that had to be sorted out were also similar. The annual plan is not generally finalized till January or February of the year and large cuts are then made in the proposals put forward by the states and by various departments in a state. This created operational difficulties.

As a consequence, plan expenditure was not phased appropriately and the cost effectiveness of outlays in physical terms turned out to be worse than anticipated. It was alleged in many quarters that a principal reason for distortion in the system was the manner in which central assistance for state plans was organized.⁴⁷

[2]

Development planning in India since 1950 gave rise to a number of controversies between the central government and the states. Controversy was somewhat mute before 1961 when planning was comparatively new and the states were politically and administratively under the total sway of the centre. The points of dispute began to be aired more openly from the third five year plan and acquired louder tones after Jawaharlal Nehru's death in 1964; the economic difficulties of 1965 and 1966, interruption in planning (plan holiday) and the

changing political situation that followed the general elections of 1967 and 1977.

One of the major complaints was about over centralisation in this as in other fields of governmental activity. The Administrative Reforms Commission (ARC) laid the responsibility for this situation at the door of the central government and noted that-

as a result of planning, the three horizontal layers of administration represented by the lists of central, concurrent and state subjects, have been vertically partitioned into plan and non plan sectors and within the plan world, the compulsions and consequences of planning have tended to unite the three horizontal pieces into a single near-monolithic chunk controlled from the centre.⁴⁸

For long, one of the principal points of criticism was allocation of central plan assistance. Not only had size of the plan outlay at the centre been increasing more rapidly than that of all the states taken together, but the manner in which the states should undertake development efforts came to be dictated from New Delhi. The advantage of more flexible financial resources under the constitution and of increased foreign funds at its disposal was said to be responsible for central domination. The result was alleged to be that states, in spite of their being in charge of some of the most crucial sectors of national life such as agriculture, education and health, were starved of developmental finance.

Even in regard to subjects which was constitutionally the responsibility of the states, the centre was in a position, through conditional financial assistance, to impose its own policies and programmes irrespective of the relevance or priority of the proposal to a particular state. As a result, not only was the essence of the federal system as envisaged in the constitution subverted but genuine

development, properly related to specific resource potential and felt requirements of each state, could not take place.⁴⁹ Imposition of superficial uniformity was in effect a waste of resources. Moreover, undertaking schemes and projects to which the state administration did not feel adequately committed accounted for projects not being properly implemented. Instances are known of programmes discontinued as soon as specific central assistance ceased.

At the same time, it was pointed out that one of the possible advantages to come out of such centralization, namely balanced development of the country as a whole, had not been achieved; in the case of regions and states, the rich had grown richer and the poor poorer. Many states held that development imbalance in the pre-independence period had not been corrected through planning. Uneven distribution of central projects, ineffectiveness of industrial licensing for ensuring location of industries in less industrialized regions and states, concentration of financial assistance infavour of already developed states, and inadequate central assistance for less developed states, were all mentioned as factors contributing to the continuance of such imbalance.

Teething Troubles

On their part, the central authorities complained that state planning and development efforts continued to remain at comparatively rudimentary levels. States had failed to develop proper machinery, far sightedness in plan formulation, discipline, political courage and administrative competence to implement necessary measures. More projects were taken up than could be financed, thinly spreading investment over a number of projects of long gestation periods and insufficient returns. It was said that states had merely made the centre “a whipping boy for their own failure”.

With the allocation of financial resources being what it is, there is no doubt that Delhi has all along been at an advantage. While, to some extent, financial devolution is effected on the award of the Finance Commission, an increasing share of funds flow to the states on the advice of the Planning Commission. This invariably has given the centre and the Planning Commission considerable leverage in state plans and programmes. The centre's impact on state planning is exemplified by the fact that the pattern of state plan outlays under successive five year plans increasingly came to be uniform.⁵⁰ Because of the system of schematic matching assistance, states had been almost compelled to accept not only particular schemes but even details such as patterns of staffing suggested by central ministries. Not that the latter always had enough and effective information about the situation in individual states so as to be in a better position to work out what was good and suitable. Not surprisingly the states resented the fact that financial strength put central authorities in a position practically dictating development plans and programmes to them.

The inadequacy of central and state planning organizations combined with superficial consultation in the formulation process was mainly responsible for what happened.⁵¹ The National Development Council (NDC) though established in the early years of the first five year plan, never developed well informed and full scale consultation at professional, administrative and political levels, ensuring state and central plan formulation in step with each other. Because of the high political status of the NDC members, it was not possible to have frequent meetings of that body. The result was that no real discussion of specific problems was possible and no clear guidelines were worked out. The fact that, unlike at the centre, in most states no special expertise in planning was developed and maintained in readiness, also contributed to the lack of a proper and sustained dialogue at the professional level. The institution of programme advisers, though well

conceived, in practice failed to provide an effective instrument for liaison.⁵²

Fiscal Unitarianism

With the three major and expanding sources of revenue-customs, excise and income tax – in the union list, the financial structure is heavily weighted in favour of the centre. It appears that the Indian Constitution ignored the principle that financial resources allotted to a government must, by and large, correspond with its executive responsibilities. With the advent of planning, the position worsened as foreign aid and deficit financing, the two vital sources of financial power, lay with the centre.

The constitution had anticipated the imbalance between the state's revenues and responsibilities by the division of income tax proceeds between the centre and the states and allocation to states of the whole or part of specified excise duty revenues. Article 275 further provides the balance of the needs of each state to be met by grants-in-aid, which will be a charge on the Consolidated Fund of India. That is why, every five years the president is required to set up a Finance Commission to determine the states' share of divisible taxes, duties, and grants-in-aid and to devise norms for the division of the sums so payable.

There is no gainsaying the fact that in India, the superior financial position of the union government in a centre oriented federal structure of government and compulsions of planning have given birth to grave imbalances of power resulting in perpetual dependence of the states on the centre for more and more financial assistance. In this background, federal grants instead of working as a corrective measure for removing imbalances, function as a lever for the furtherance of the central dominance vertically and maintenance of disparities among the units horizontally.⁵³

Central transfers to the states for the plans (grants and loans) had risen from Rs.880 crores at the end of the first plan (1951-52 to 1955-56) to Rs.10,353 crores at the close of the fifth plan period (1974-75 to 1978-79). While statutory grants of an unconditional nature had been Rs.859 crores at the end of the fourth plan and Rs.2,831 crores at the end of the fifth, conditional plan grants amounted to Rs.2,046 crores and Rs.4,772 crores respectively. Article 282 has been used also for non-plan purposes in recent years, thus further accentuating the imbalance. Substantial funds are transferred behind the back of both the Finance Commission and the Planning Commission which are not yet subjected to public scrutiny.⁵⁴ The abject dependence of the states on central assistance has undermined the federal process and has reduced the system to what may be called fiscal Unitarianism.⁵⁵

The Finance Commission derives its authority from the constitution, while the Planning Commission is the creation of the administration. The working of these commissions sometimes covers some common areas. Both make estimates of the revenue resources and expenditures of the states to work out budgetary surpluses but the objectives of the two are different. The Finance Commission examines the needs of the states to determine a formula for fixing grants in aid. The Planning Commission is primarily concerned with the task of discovering what surpluses could be diverted from the non-plan sector for the development of plan size. Thus the estimates of the revenue surpluses by the Finance Commission and the Planning Commission have in the past varied, creating legitimate doubt about their correctness.

Overlap and Duality

Successive finance commissions have earned a reputation for efficient and impartial working. Any transfer of functions now discharged by the Finance Commission to the Planning Commission is likely to arouse suspicions and add to centre-state tensions. The

Finance Commission must therefore retain its present functions but submit its recommendations well in advance of the finalization of the next plan.

On the question of overlapping and confusing jurisdictions of the two commissions, the observations of Justice P V Rajamannar made in 1965 sound appropriate and realistic. He was evidently not satisfied with the bifurcated responsibility. In this opinion, compared to a statutory body like the Finance Commission, the Planning Commission could be described as a quasi-political body. Although he did not find it easy to describe its status vis-à-vis the government in spite of its importance, “it remains to this day a body without any constitutional or legislative sanction”. Since the entire plan, both as regards policy and programme, comes within the purview of the Planning Commission and also since the assistance for plan projects by way of grants or loans was practically dependent on its recommendations, it was obvious that these two bodies could not operate in the same field.

Rajamannar was, therefore, of the opinion that “the relative scope and functions of the two commissions should be clearly defined by amending the constitution, and the Planning Commission should be made a statutory body independent of the Government.”⁵⁶ Later, the Committee on Centre-State Relations headed by him pleaded that the Finance Commission should be made a permanent body and after annual adjustments are made to the plan by the Planning Commission, both plan and non plan grants should be determined by the Finance Commission which would imply that the scope of the Planning Commission should be limited to the formulation of the size and pattern of outlay of the five year and annual plans and that it should be divested of its power to disburse discretionary financial assistance.⁵⁷

The ARC Study Team on Centre-State Relations had also considered various alternative models for overcoming the duality and the overlap between the two commissions which make divergent

assessments and apply different yardsticks and in consequence, fail to secure the best possible distribution of resources. While the debate goes on, the unsatisfactory operation of the two bodies as well as the importance of Article 275 and 282 in moulding the balance of power point to the compelling necessity of some kind of institutional readjustment in the fiscal federalism of the country.

Participation in Decision-Making

The concept of planning involves not only a coordinated development of economic and social activities of the nation but also removal of regional disparities. The policies, strategy and mechanism of planning must be delicately adjusted so as to promote the national objective and at the same time encourage local initiative. In a country of vast dimensions like India, the planning of programmes must of necessity be done at the union and state levels. If the peoples involvement in the process of planning is to be purposeful, the plan for the state and its implementation must conform to the stage of development and the wishes of the people of the region. Of late, involvement of the states in the planning process has improved and their representatives are associated in draft formulation and subsequent consultations. Chief Ministers are given the opportunity to discuss state plans with the Planning commission. All the same, states are not able to play an effective role in the decision making process.

The perfectly legitimate desire to be deeply involved in the process of planning cannot be satisfied by mere consultations, but only by active participation in decision making. It is therefore necessary that after decisions on the broad aspects of state programmes and resource allocation are completed, state plans should be finalized for representation to the National Development Council or an enlarged Planning Commission with a number of state planning ministers participating as full members. For this purpose, states should be divided into suitable groups to sit with the commission when the

concerned state plans come up. Without making it too unwieldy, this proposal should significantly add to the states own responsibility in implementation.

The need for developing a sense of responsibility and for avoiding centre-state conflicts cannot be overstated. Where the constitution has assigned a subject to the state, it is, in principle, objectionable for the centre to interfere with the states power. In brief, division of planning programmes between the centre and the states should follow the pattern of distribution of powers in the constitution, that is, schemes relating to subjects enumerated in the union list with the centre; those in the state list exclusively with the states and those in the concurrent list to be shared with the states. The power of “economic and social planning” in the concurrent list (entry 20) should not be used as a device for encroaching upon the powers which the constitution-makers desired to vest in the states, nor should the financial powers of the centre be allowed to become instruments of coercion for making the states accept schemes which would not have been included in their plan otherwise.

Institutional Readjustment

It has to be remembered that the federal process is basically a cooperative process in a spirit of partnership which concedes the maximum possible autonomy and freedom of action to the states and the local self governing units in the urban and rural areas for successfully implementing development programmes. In the planning process as understood and accepted by all, the responsibility for implementation of policies, programmes, projects and activities pertaining to development has been squarely laid on the states. Any failure will have to be accounted for by the leadership in the states who face the electorate every five years or so. This calls for rationalization of the entire scheme of resource distribution keeping in view the socio-economic conditions of the different states. If the involvement of the

states has to be assured, readjustment in fiscal federalism ought to be accepted as a necessary prerequisite.

It is an unfortunate commentary on the Indian federal system that on all vital matters relating to the minimum demands of the states for development and welfare, the states are helplessly dependent on the small mercies and reluctant favours of the centre. They have little power to do much on their own, except perhaps to tighten up expenditures on items that have political significance and observe a more rigorous fiscal discipline. The experience of the states has so far been frustrating, because the centre's long arm of cooperation and assistance has not been extended equally and impartially to them in times of genuine distress. West Bengal's experience in respect of the erstwhile Food for Work Programme and the present NREP, as well as in tiding over food short ages, drought or flood is an instance in point.⁵⁸

A suggestion is frequently made that the constitution be amended to provide a better balance of financial powers between the centre and the states. Champions of statutory devolution of revenues need substantial modification. It has also been suggested that grants under Article 282 have become predominant even though these are non-statutory and entirely within the discretion of the centre. This is objected to as making the states over dependent on the centre.

As against this, it is pointed out that the states have not effectively been able to utilize all the tax powers allotted to them, agricultural income-tax being the best example. The centre has been frequently urged to provide a lead in coordinating the tax policies of groups of states and to some extent this has been attempted. It has even been suggested that if no distinction had been made in the constitution for tax purposes between income from agriculture and from other sources, the present anomalies in income taxation and the hesitation felt in imposing taxation on agriculture would not have existed.

Another contention that has sometimes been raised in this context is that too much emphasis in the grant of assistance has come to be placed on Article 282. As a matter of fact, plan assistance provided under it has tended to become far more important than grants provided under other Articles, though the latter are subject to determination by a semi-judicial body like the Finance Commission. It is, therefore, suggested that grants of this magnitude should either be made subject to the purview of another semi-judicial authority, or the Finance Commission.

Constitutional Changes

While it is only appropriate that the states should obtain a substantial part of central assistance by a system of statutory devolution, and even some proportion of the plan requirements should be automatically available, it would neither be desirable from the point of view of the requirements of national finance nor in the interest of national development that the bulk of the plan assistance should be obtainable unconditionally as a matter of right. While it is obvious that the centre should not arrogate to itself the authority to decide all manner or details regarding the development effort of the states, the National Plan as a whole cannot be properly carried through unless the centre can at least partially use the level of financial assistance to ensure the state's compliance with certain basic directions given in the interest of the development of the country as a whole. A proper coordination between the Planning Commission and the Finance Commission is of prime necessity for achieving these ends.

Admitting that it is more a matter of habit and practice born out of political and economic culture and social structure, fiscal discipline for both the states and the centre is the prime need for the moment, and adequate institutional arrangements for ensuring it must be made in the constitution through formal amendments:

The main thrust of a restructuring of fiscal federalism in India must aim at minimizing 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 imbalance in development.⁵⁹

One significant step in this direction will be to augment the resource capabilities of the states by transferring some potential tax-heads from the union list to the state list in the Seventh Schedule. But the greatest urgency must be given to the modification of Article 282. The entire question of the role of Planning Commission and the National Development Council as well as the relative role of the Planning Commission and the Finance Commission will also need a fresh look in the light of the experience of the last three decades and the persistent demands made by political leadership in the states and knowledgeable scholars and practitioners in the field.

In the changed objective socio-economic milieu of the late twentieth century, federalism can never be conceived of as an inflexible model of unchanging categories. All federal systems, whether classical or modern, have experienced a systematic and persistent retrogression under the compulsive pressures of economic imperatives and technological advances. Pressures and counter pressures between the centre and the units in modern governments have been very common and frequent, and the issues of centralization versus decentralization need to be looked at and resolved pragmatically, even when they arise within the overall framework of an ideology or state structure.

Class Character

A federal system being basically a response to social stimuli and objective social realities which are always changing, centre-state relations must tend to adjust to prevailing demands that arise within

the political system and process, whatever the constitutional design or the political structure. However, useful the fiction that federal unions solve the problems of diversity, “we should not overlook the fact that it is fiction.”⁶⁰ Any attempt to maintain the original constitutional design, therefore, could be interpreted as either moving against the spirit of the times or perpetuating the vested interests of the ruling class that had carefully built and nurtured this superstructure. We should not lose sight of the fact that the Indian Constitution at its inception was largely divorced from the mainstream of Indian Political culture, values and attitudes, traditions experience and needs of the people; it had sought to institutionalize and rationalize the dominant political values of the ruling elite.

In this characterization of the Indian federal system as a leading example on the “New Federations” that are flexible, pragmatic and reversible and that have responded to the spirit of the post-Second World War world situation, R.L. Watts⁶¹ overlooked the fact that the federal process did not really operate in India except in very brief interludes of the 1967-71 period, even when momentous and far reaching changes had taken place in such vital spheres as the nature of the party system, position of the prime minister and the style of functioning of the successive incumbents, role of the bureaucracy, making of public policy, style of decision making and so on. Since the basic character of the Indian society and economy has not changed and the entrenched position of the dominant classes has shown no signs of decline, it was perhaps logical to assume that the federal process would not genuinely work in response to superficial changes in the superstructure. The result has been generally disastrous for the all round development of the political system and for the intended congruence of growth and equity that is the cure of the Indian problem.

The ‘Emergency’ experience and its aftermath, including the forty second amendment of 1975, has conclusively demonstrated that a

highly centralized leadership and decision making structure cannot adequately meet the challenges of development, especially in view of the large size of the country, regional linguistic and cultural diversities, and the magnitude of the problems. The social and political realities are fast changing, and these are not being adequately articulated and reflected in the present constitutional and institutional arrangements. Although it is idle to expect any maximal consensus on a comprehensive structural and institutional readjustment in the present phase, especially in the context of the bewildering variety and volatile nature of local situations there is a slowly emerging awareness, particularly in the eastern and southern regions, for a decentralized, regional development process that will require for greater autonomy in administrative and financial matters than at present.⁶²

West Bengal Experience

West Bengal, with its regional personality, political culture, leadership pattern and social class structure, has already given the initial lead to the drive for political, administrative and financial decentralization in the present centralized federal set up in India, and this lead is being more and more appreciated and recognized in other parts of the country. Whatever success has so far been achieved by the New Panchayati Raj experiment in West Bengal during the last five years will go immensely to consolidate and confirm the growing belief that the planning process towards development can be leavened only by active popular participation at the regional level by utilizing the instrumentalities of local self government and ensuring the active leadership of the state-level administration. A prominent scholar has admitted that the West Bengal experiment, if successful, could be a precursor for a New India, a grand design for social transformation and a path-setting psychological break through that could have far reaching consequences for the rest of the country.⁶³ It has been hailed as an “alternative strategy for structural change.” There are signs of durable

changes in West Bengal rural areas through a genuine system of democratic decentralization that has opened up a new vista for other states.

Centralization of authority and resources cannot be the answer to India's gigantic problems. Political decentralization is an absolute necessity. Since the constituent states are charged with heavy responsibilities for plan implementation and development administration, their willing partnership and autonomous enterprise, rather than a paramount, paternalistic position of the centre, should be the condition precedent for such discharge of responsibilities. Like the Swiss cantons and the Soviet republics, but unlike the American states, the states in India are historical entities. Keeping in mind their linguistic and cultural diversities, and the stark reality that despite the built-in and externally augmental centralization, regional disparity has only been heightened in respect of urbanization, industrialization, economic development, educational attainments and administrative efficiency, a new pattern of decentralized, even non-centralized federation is called for.

Learning from Others

It is not only the left parties which believe that a broad autonomy will conform to the democratic development of the country and of its constituent units, and that a much stronger political and economic basis for this autonomy should be provided in the shape of a redistribution of powers, spheres of competence and functions, a greater share of revenues and the right to pursue a more independent economic policy in conformity to their local needs, situations, infrastructural limitations and capabilities. The new pattern is, of course, yet to crystallize into a viable structural alternative, but there are clear signs of awakening central authority – even after the 1980 elections and the growing regional strength converging in a new kind of federal process tilted in favour of the states and the local authorities.

There can be no doubt that the federal system is very much on trial and is now in a critical stage of transition to a new phase whose contours and character would probably become clearer in the days ahead.

This 'new federalism', following the American terminological practice, will be predicated upon the sovereign equality of the autonomous and linguistically culturally homogenous states and wide dispersal of power in the rural areas. It has come as a reaction against the long trend toward centralization of authority in the federal government in the US that accelerated enormously during the Depression and again during Johnson's 'Great Society' of the 1960's. The underlying idea at the present moment is that the federal government in Washington has no special wisdom in dealing with many of the social and educational issues faced at state and local levels. One has to remember that under the impact of the dynamic forces in American economics and technology, there has been a growth of a new regionally oriented political response involving a readjustment of inter-governmental relationships. Federal state local relations have re-emerged as a topic of public concern after a hiatus of generation or more, and in the current mood of 'revival of federalism', the states are becoming bold and vigorous in their initiative, and the present wave of decentralizing tendencies may produce a different form of American federalism in the decades to come.⁶⁴

Coming to the Soviet experience, the new constitution of the USSR (1977) does not introduce any fundamental modifications in the system of the Soviet socialist federation, for its basic features have been found to have justified themselves. It preserves and reinforces the principles of complete equality, free self-determination of nations, and socialist federalism. Centralism in respect of leadership and economy and defence and socio-political and cultural development operates hand in hand with democracy and broad independence of the republics

and unhindered development of their initiative.⁶⁵ The viability of the Soviet federal system has been proved by the experience of four decades and has belied the fears and criticisms of the Western Scholars.

Without drawing any far-fetched resemblance of the states in India with those in the USA or with the republics in the USSR, the relevance of the American and Soviet experience for the emerging centre-state relations in India need not be overlooked or ignored. Autonomy for the states and wider dispersion of powers among the regions and local authorities need not imply a weak centre or political fragmentation. Autonomy could generate greater consciousness and initiative and responsibility for a competitive and cooperative functioning of the system as a whole. If the evils of uneven capitalist development are to be overcome, the initiative has to be taken by the villages and then passed on to towns and cities and the consciousness of the toiling masses has to be aroused. Disposal of power centres is the needed antidote to the over centralization of political and economic power necessitated by capitalist development in industry and agriculture during the last three decades.

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