

Fiscal federalism

An unequal balance II

What works for East Rajasthan can't work even for West Rajasthan, so how can one scheme work from the hills through the coastal regions? This is the fundamental problem of central schemes

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In the first part of this piece, I had shown how the plethora of central/centrally sponsored schemes, and additional central assistance schemes (jointly referred to as CSS hereafter and which are over 200 in number and some of which are entitlement-based), are run by funds that should have rightfully gone, untied, to the states. It can be argued that as long as the money is spent in the states, what is wrong with CSS? Well, there are serious issues both of principle and implementation involved.

First, if it were the intention of the Constitution that the central government is responsible for everything, and all subjects, then there would have been no need for a state list (List 2 of the VIIth schedule). In fact, there would have been no need for, in Dr Ambedkar's words, a Constitution which is essentially federal in nature. Even if some of us, deliberately or from ignorance, tend not to see it, there was wisdom in recognising the vast social, cultural, economic and geographical heterogeneity of India—considerations that went into giving the Indian polity its federal structure.

Second, as most CSS are framed for the country as a whole, they are broadly based on the one-size-fits-all assumption, notwithstanding the protestations of 'flexibility', as in the Rashtriya Krishi Vikas Yojana (RKVY). Different parts of the country are so different geographically, sociologically and culturally that their problems are simply not amenable to a nationwide solution of a CSS. Thus, most CSS are fundamentally flawed.

Take, for example, the Rajiv Gandhi Grameen Vidutikaran Yojana (naturally most, if not all, schemes must be named after the Nehru-Gandhi family). The scheme provided (and probably still does) ₹1 lakh for the electrification of each village. This may well work for UP or Bihar, or even Eastern Rajasthan; but it is an absurd proposition for the desert districts of Rajasthan, where a village can easily be spread over 50, 70 or even 100 km radiuses. If what works for East Rajasthan cannot work even for Western Rajasthan, how can any scheme be equally valid across, say, hilly states or coastal regions?

Third, if anything, the central government is at a greater distance from the 'field', and therefore the assumption that the mandarins seated in Shastri or Krishi or Yojna

Bhavan understand better the problems, or development issues of all states of the Union, or have a better solution to them, is completely misplaced. I do not think there is any need for anyone to carry the white man's burden now!

Fourth, this centralising tendency both emanates from and has promoted in the corridors of the Government of India, a patronising attitude towards the states, and a misplaced sense of self-righteousness. As a central minister, I often heard IAS officers and their World Bank-trained cousins say something like this: well, madam, we have given them the scheme, we have given them the money, but they do nothing; they are either too lazy or too inefficient, or just

government officials, especially the unelected ones, pontificate on greater decentralisation (even as they emasculate the state government, especially their finances), their hypocrisy or ignorance, as the case may be, is quite infuriating.

Sixth, as most schemes framed by the central government have 'standard' conditions for most states (which creates a different kind of problem), there is usually little scope for discretion. But whatever discretion there is, say, in terms of interpretation, is predictably used against opposition-ruled states. And, if the set of officials framing the scheme are clever enough, they can often 'build in' the ruling party-ruled states' bias by suitably providing, or subsequently

galling enough to pay 'state share' for availing the central scheme (which is also state money, in fact); it is worse that some CSS impose conditions about governance, and even non-plan allocations. Surely there is something fundamentally wrong with a system where some babus direct even non-plan allocations (100% state money) in place of the state's elected legislative assemblies.

Eighth, how committed can the state machinery be about a scheme framed elsewhere, especially if they see that the scheme does not jell with the requirements or conditions in their state? The central government even runs a very large number of CSS that completely bypass the states, and transfer money directly to the panchayats or municipal bodies. Such schemes are almost destined to failure because apart from the lack of ownership at the state level, there is practically no supervision of, or control over, such schemes. The state governments are reduced to being, at best, accountants. In fact, in relation to CSS, it is the lack of ownership that spawns several serious implementation problems.

To conclude, in this two-part piece, I have made two broad points. First, that states need greater 'untied' flow of funds. This can either be achieved by reducing demands for the Central Plan, whereby the states get a greater proportion of the divisible pool of tax receipts or by giving greater normal central assistance to the state governments, in compliance of the 1969 NDC decision. Second, that CSS, for which 9/10ths of central assistance is presently diverted, is much less than an ideal route—to use the current occupational jargon of the jholawallas—for 'inclusive growth' or for mainstreaming 'Bharat'; in fact, CSS are seriously flawed in their conception, design and implementation. The developmental model that a multi-lingual, multi-racial, geographically diverse and economically uneven India will follow, given the federal nature of its Constitution, needs to be soberly debated.

The present centrifugal tendency will, in all likelihood, impact our polity in several significant and uncertain ways. A non-partisan and informed debate on such unintended consequences is called for, too.

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plain corrupt; they just buy planes, or have their hand in the fodder till or, worse, build statues of themselves!

Fifth, in any case, the "I-am-more-concerned-with-or-sincere-about-development-than-the-state's-chief-minister" argument is not only obviously hollow, but runs counter to a directive principle of the Constitution (specifically Article 40), which calls for effective self-government through panchayats. Surely, it cannot be anybody's case that the central government is better than state governments in formulating developmental schemes, and the panchayats are better at implementing them! When central

changing, the conditions of the scheme. The way that the agriculture insurance scheme was interpreted by the Union finance ministry, in the case of Rajasthan, in 2006-07 is a case in point.

Seventh, there is an increasing trend to impose, through CSS, conditionalities that go beyond providing the 'state share' (all CSS provide that for the CSS money to flow to the states, the states provide 'their share', a matching amount that varies between 10% to 50%). As I have explained earlier, most money being used by the Centre for funding CSS should actually have come to the states as untied plan assistance. Therefore, it is