

**MEMBERS' TENTH ANNUAL
CONFERENCE**

(October 30, 1966)

CENTRE-STATE RELATIONS



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**THE INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
INDRAPRASTHA ESTATE
NEW DELHI**

NAMES OF PERSONS WHO CONTRIBUTED PAPERS

Working Papers

- Dr. S.K. Goyal Senior Research Associate, I.I.P.A.
- Shri Abhijit Datta Reader in Municipal Administration,
Centre for Municipal Administration,
I.I.P.A.
- Shri Mohit Bhattacharya Senior Research Officer,
Centre for Municipal Administration,
I.I.P.A.

Background Papers

- Dr. C.P. Bhambhri Reader,
Department of Political Science,
University of Rajasthan,
Jaipur.
- Dr. B.B. Jena Reader in Political Science,
Government College,
Bariapada, (Orissa).
- Dr. P. Sharan Head of the Department of Political
Science,
Meerut College,
Meerut.

PROCEEDINGS OF MEMBERS' TENTH ANNUAL CONFERENCE

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“CENTRE-STATE RELATIONS”

Dr. J.N. Khosla, Director of the Institute welcomed the participants to the conference and felt particularly happy that Shri Barve, in spite of his pre-occupations, had agreed to preside over the session.

Speaking on Centre-State relations, Dr. Khosla observed that our Constitution was an attempt at balancing centralised power with decentralised operations. However, a marked tendency for centralisation in our political system has taken place due to a number of factors such as technological advances, economic and social conditions, the dangers of foreign aggression and the existence of a strong all-India party. Apart from the use of constitutional powers in periods of emergency or on grounds of a break-down of constitutional machinery in a State, and the existence of institutions like the all-India services, the Central Election Commission and the Comptroller and Auditor-General there have been some other developments whose scope had not been fully visualized by our constitution-makers.

During the last 15 years, for instance, the expenditure levels in the States have risen three times, and the funds received by the States from the Centre have gone up four times. Central financing, on unprecedented large scale, has naturally increased central control, and it is time to ponder whether such a situation should be allowed to continue. The practice of the appointment of a Finance Commission once in 5 years has hardly been a satisfactory solution to the problem of allocation of resources between the Centre and the States.

Planning has given a new colour to Centre-State relationships and has made significant impact not only on the financial but on the administrative relationships too. It has tended to unite the three horizontal layers of administration represented by the three Legislative lists—Union, State and Concurrent—

mentioned in the Seventh Schedule of the Constitution and has given the Centre, power of control in respect of subjects in the State and Concurrent lists. It is for consideration therefore, whether we should go back to the position where the States could function in a responsible and democratic manner and not as subordinate offices of the Central Government.

Dr. Khosla also referred to the Centre-State relations in other spheres including public and judicial administration, auditing, public services etc. The constitution, he pointed out, gives the Centre a hand in the management of institutions such as appointment of Governors, High Court judges, Comptroller and Auditor-General, and the recruitment of and control over the all-India services. It is important to see how the constitutional provisions in regard to these institutions, which cover State administration as well, have operated over the years. He observed that the Centre-State relationships in these spheres have either followed the constitutional provisions or the Centre has played a weak role which might have been a by-product of over-intervention in development field. One-party rule both at the Centre and in the States has given a new shape to Centre-State relationships and has resulted in the settling of Centre-State or inter-State disputes at the political level rather than under constitutional provisions. It is thus for consideration whether the provisions of the Constitution regarding Centre-State relationship would be adequate to meet the possible alteration of the present single-party rule at the Centre and in the States.

The Chairman, Shri Barve thanked Dr. Khosla for his introductory remarks and invited the members who had prepared papers to present their viewpoints.

In presenting his paper on Centre-State relations in the field of planning, Dr. S.K. Goyal pointed out that planning is an all-comprehensive term. Although social and economic planning falls under the Concurrent List of the Constitution, the Centre has taken the initiative and responsibility of pursuing planning in the country. However, planning in India was not overall but only refers to additional developmental efforts for the Plan periods. For instance the recurring developmental expenditures of a preceding plan is transmitted to Revenue Account of the States and become a normal charge on the State resources. Thus an arbitrary distinction is made between 'plan expenditure'

and 'non-plan expenditure' while both are developmental in character. As a result of this accounting practice the recurring financial liabilities of the States continue to increase with each successive Plan period. On the other hand the State revenue resources are inelastic. And as a result of the ever rising Revenue Account expenditure and little growth in the State revenues the gap between the resources and the liabilities of the States goes on increasing leading to the inevitable situation where more and more financial assistance has to be provided by the Centre.

Dr. Goyal mentioned a few objective considerations in the light of which Centre-State relations in planning could be discussed. Firstly, it has to be ensured that the States do keep Central and/or national priorities in view while formulating their plan proposals. Secondly, adequate effort at resource mobilization has to be ensured on the part of each State. Thirdly, it has to be seen that each State fulfils its commitments as are made in the Plan documents. Fourthly, inter-state co-ordination is to be ensured in fields, such as, agriculture, education and health which fall under the State List. And lastly, the location of Central projects has to be made in such a way that it would promote the interests of the community in an optimal manner.

While referring to the existing pattern of plan priorities as followed by the States, Dr. Goyal underlined the fact that in a large country like India geographic, physical and socio-economic conditions were bound to vary from State to State. And, therefore, there was no reason that each State should have the same pattern of distribution of its Plan outlay. An empirical study by him, however, shows a tendency, in the patterns of State outlay distribution, towards the acceptance of National pattern by the States irrespective of the States' own resource potential. For instance, in the First Plan there were considerable variations amongst the States in the pattern of distribution of their Plan outlays; the degree of inter-state variation was lesser in the Second Plan; and in the Third Plan there is a very clear indication of the trend towards following a uniform policy in regard to outlay distribution by the States. The reasons for this trend towards uniformity are many. However, the most important reason, in Dr. Goyal's opinion, was the existing mechanism and the procedure followed in the process of plan formulation. At the Centre, he remarked, there is a fairly

competent machinery in the Planning Commission. But at the State level there is hardly any planning machinery which was continuously engaged on the study of the problems of plan preparation, and in working out what should be the most suitable pattern of outlay or what priorities the State should have. Since the States had no agency to undertake the spade work or prepare a rational basis for Plans, the State officials cannot but help accepting the Central directives. This makes the relationships between the Centre and the States as unequal ones. He also referred to one-party rule in the past both at the Centre and in the States and emphasised the need for evolving suitable mechanism for resolving conflicts between the Centre and the States in case of changes in the political parties in power at these levels.

In presenting the paper on *Centre-State Relations—A Case Study* (jointly prepared by Sarvashri Abhijit Datta and Mohit Bhattacharya) Shri Bhattacharya remarked that it deals with the relationship between the Centre and the States in the field of urban development. The Centre has formulated certain urban development schemes such as the National Water Supply and Sanitation Programme, Subsidised Housing Scheme, Low Income Group Housing Scheme, Rental Housing Scheme for State Government Employees, Land Acquisition and Development Scheme, Preparation of City Master Plans Scheme, Slum Clearance and Improvement Scheme, and Urban Community Development Scheme. The subjects covered by these schemes belong to the State List and for quite some time the Centre and the States have been involved in their operation. Their paper, Shri Bhattacharya observed, marks a departure from the conventional formalistic method of inquiry into a federal system, as it looks at the roles and relationships of the Centre and the States not by way of reference to and interpretation of formal constitutional provisions but in the light of their actual working in specific fields. Of the urban development schemes mentioned some are centrally sponsored and some centrally assisted. The Slum Clearance and Improvement Scheme and the Preparation of City Master Plans Scheme belong to the centrally sponsored category. It is, however, open to doubt how far their inclusion in the sponsored sector is justified. Shri Bhattacharya proposed to analyse Centre-State relations under three broad

heads, e.g., administrative, financial and constitutional. Dwelling on the administrative aspects he pointed out that the practice of formulation of detailed schemes by the Centre leads to vertical integration between the Centre and State agencies which has a disturbing effect on horizontal co-ordination at the State level. In owing allegiance to their Central counterparts, the State agencies tend to fall apart from their sister agencies at the State level and come to think more in terms of their own departmental responsibilities rather than the overall needs of the State. Also, uniform patterns of schemes do not take into account the heterogeneity of the States in respect of their needs and circumstances. Another feature of some of the Central schemes such as the National Water Supply and Sanitation Scheme is that the Central agencies have been given the power of scrutiny and sanction of State projects. Such a procedure leads to administrative delays and the exercise of these powers over State List subjects is often resented by the States. Hence, possibilities for their phased and selective transfer to the States, Shri Bhattacharya said, need to be considered.

Dwelling on the financial aspects, Shri Bhattacharya drew attention to the problem of diversion of Central assistance from one 'head' to another within the plan. The State Governments often divert plan funds from 'housing' to some other heads of development on grounds of unavoidable shortfalls in expenditure and escalation of cost. This problem of diversion exists only in the centrally assisted schemes, and as such it does not affect national priorities. Therefore, the method of fixing absolute ties against diversion in respect of centrally assisted schemes, Shri Bhattacharya remarked, should be deprecated. He observed that the schematic patterns of assistance for specific urban facilities render inter-scheme co-ordination difficult and such patterned assistance fettered the discretion of the States in the matter of choosing between alternative urban facilities. Thus it is to be considered whether Central plan assistance to the States should be related to broad heads of development or specific subjects. He also suggested that the responsibility to lay down criteria for the distribution of plan assistance among the States may be entrusted to the Finance Commission under Article 280(3) (c) of the Constitution. The application of these criteria and the determination of the share of individual States might

be left with the Planning Commission. There is provision for matching contribution in at least one urban development scheme, e.g., the Slum Clearance and Improvement Scheme. The bigger issue in this connection is, as Shri Bhattacharya pointed out, to what extent such matching is justified. In view of disparities in State resources and needs, it is also to be considered whether matching should be on a constant or a variable percentage basis. On the problem of plan financing of capital expenditures which are not directly productive but are in the nature of social overheads, he observed that such mode of financing tends to increase the debt burden of the States and it is to be considered whether financing of social overheads should be entirely through Central grants rather than through a mixture of grants and loans. Two important constitutional issues raised by Shri Bhattacharya related to (i) the propriety for the release of conditional Central assistance to the States through Article 282 of the Constitution, and (ii) the status of the Planning Commission. Regarding the first issue, he endorsed the viewpoint of Dr. P.V. Rajamannar, the Chairman of the Fourth Finance Commission and suggested a constitutional amendment to regularise the current practice. Regarding the status of the Planning Commission he thought that such an important body should find recognition in the fundamental law of the land.

Prof. Bhambhri of the National Academy of Administration, Mussoorie, whose paper was earlier circulated, commented on the analysis of earlier speakers and raised the question that if the Centre really provided leadership even in purely State matters due to centralised economic planning, what went wrong with the country's economic development? Concentrating on the problem of land reforms, he said that in spite of Central attention through committees and sub-committees and reports and evaluations of the Planning Commission, things have not proceeded on the desired lines. He felt that India had lost the advantage of one-party domination, and centralised economic planning all these years has not been utilised properly in these areas. This situation might change after the 1967 elections when other political parties might be in power in some States. However, he thought that the domination of the Centre would continue to exist in certain situations such as the States' need for extra food-grains and their administrative dependence in respect of vital

sectors. He stressed the need for proper Centre-State relationship in ensuring effective implementation of plan schemes without which even the best conceived policy would be of no avail. Also he favoured the strengthening of planning machinery at the State level and creation of more all-India services in the technical field for ensuring effective implementation and efficient execution of policies arrived at between the Centre and the States by mutual consultation.

Dr. R.N. Mathur of the Khalsa College, New Delhi, spoke on Centre-State relationship in the field of trade and commerce. He referred to relevant sections of the Australian and American constitutions in the light of which provisions had been made in the Indian Constitution. The problem in this sphere, he pointed out, is to strike a balance between the legitimate needs of the States and freedom of trade and commerce throughout the country. This is being done by the Supreme Court through occasional verdicts. But he felt that the Supreme Court was not the proper agency for this purpose as certain technicalities were involved here. He suggested the creation of an inter-state Commission composed of experts in economics and commercial fields.

Shri S.M. Goyal of the Delhi Administration remarked that there are as much Central control and supervision as lapses and irresponsibility on the part of the States. According to him, in a country of India's size and diversities, there is need for a Centre which would exercise a unifying role. At the same time, the States should be given some autonomy. He cited the instance of the formation of a Council of States in U.S.A. to protect the interests of the States and suggested such an organisation for India.

Dr. Varma of the Institute of Public Administration, Patna, drew attention to faulty planning procedure at the State level which affected national planning adversely. In the educational field, he felt centralisation was being imposed through the University Grants Commission. He observed that vital and important decisions could be taken in Delhi, but other minor decisions should be taken at the State level.

Prof. M.V. Mathur, Vice-Chancellor, Rajasthan University, maintained that the current problems of Centre-State relations could be solved within the existing framework of the Constitution.

For instance, the problem of plan and non-plan expenditure could be solved by creating a planning and development commission which would take note of non-development sector also. In his opinion the National Development Council should be strengthened. It could have a secretariat of its own. There was no need, he felt, for giving a statutory recognition to the Planning Commission. The States' points of view could be expressed through the National Development Council. He observed that the machinery of the Finance Commission could be used in a better way especially in the non-plan field by making it a standing body. On the problem of implementation he thought that the officers responsible for plan administration had a crucial role to play. To this end, the recruitment to the all-India services should be, he recommended, at an earlier age when the recruits could be properly trained to take charge of their responsibilities in a spirit of dedication.

Shri Ghorpade, M.L.A., Mysore, drew attention to the problem of financing of loan to unproductive projects which led to increasing indebtedness of the States to the Centre. He suggested some machinery for scrutinising the process of giving loans and seeing that these would be used in a proper manner which would make the States to repay the loans. He agreed that the planning machinery at the State level should be strengthened to ensure purposeful and effective dialogue between the Centre and the States.

Shri Jindal of the University of Jodhpur pointed out that under Article 274, prior recommendation of the President is required in the case of legislation affecting taxation in which States are interested. Since the President acts on the advice of the cabinet, this provision gives an arbitrary power to the Centre to make unilateral decisions in tax policies. His suggestion was that there should be an Inter-State Council to advise the President on these matters.

Shri Dubhashi of the Ministry of Food and Agriculture, Government of India, dwelt on the forces contributing to centralisation in India. State autonomy, he remarked, would depend on such factors as political stability of the States, their general administrative competence and the will to carry out things. He observed that sometimes local decisions were taken at the Centre, and Central decisions were conditioned by local pressures. The

answer to these problems, he added, would be to leave the things to the Centre which properly belonged to it and give other things to the States which rightly belonged to them.

Concluding the discussions, the Chairman, Shri Barve made some observations on Centre-State relations. He remarked that under the existing system large financial resources have been allocated to the Centre and large responsibilities, principally in the field of development, have devolved on the States. This imbalance, he felt, should be corrected to some extent. He did not look at the problem of Centre-State relationship as an issue of centralisation versus decentralisation. One should strike a balance between centralisation and decentralisation of authority. The relationship, he remarked, is not merely in terms of their constitutional powers, actually it is in term of their political strength. After the elections, he thought, different situations might emerge in the States. He pointed to the crucial role of the Planning Commission about whose precise role a lot of thinking is necessary. The States, he remarked, do not have much incentive to raise their own resources, rather they would approach the Planning Commission for a large proportion of Central aid. This is a very unhealthy situation. The varying capacities, resources and means of the different States make it impossible to have any uniform formula for Central assistance. At the same time, he observed that if the Central grant is purely discretionary, financial responsibility at the receiving end tends to get neglected. How to achieve a compromise between the two is, in his view, the critical problem. Another important problem concerns the accumulation of non-plan committed expenditure of the States over every plan period. Since the States keep these outside the size of their plans, there is, he observed, a natural tendency in all of them to neglect the maintenance aspects of everything done in the earlier plan periods. On the question of the States' indebtedness, he agreed that the States are not paying back Central loans which have not always been put to productive purposes. When they raise loans from the market, he commented, the States would have to create sinking funds and use the loans for productive purposes. But that is not the case with Central loans. He also referred to the problems created by the Centrally sponsored schemes through which the Centre had been encroaching on the States' jurisdiction and

a radical rethinking was necessary in this sphere. In conclusion he said that we have reached a watershed so far as Centre-State relationship is concerned, and it would be very good if the Institute which is the national academy for undertaking studies on administrative problems, could organise a full-length seminar on this extremely important subject.

The Director thanked Shri Barve for having presided over the session and for his very illuminating remarks. He promised to take early steps to organise a full-fledged seminar as suggested by Shri Barve.

