STATE PLANNING IN THE FEDERAL SET-UP :
WITH SPECIAL REFERENCE TO BIHAR 1977–1989

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Dhananjay Kumar Verma

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C O N T E N T S

CHAPTER 1

PLANNING IN INDIA: AN OVERVIEW

To be familiar with planning in India, the possibilities open to it and the constraints it faces, it is necessary to appreciate the historical context and the socio-political framework within which planning for development is pursued in the country. A number of institutional reforms were effected before and after the attainment of independence which laid the foundations for promoting rapid socio-economic development.

Officially, actual economic planning began in 1950 with the setting up of Planning Commission at the central level, yet the root of economic planning in India can be traced much before independence. The famous engineer statesman Sir M. Visvesvaraya through his well known treatise "The Planned Economy of India" (1934) outlined targets and made suggestions to attain them. He laid down a ten year development programme to double the national income. His suggestion was to attain industrialisation to increase employment and economic growth.

In fact, he had the first hand experience of working as Diwan of Mysore State and had found that the persistent neglect of industries resulted in over crowding of agriculture and lack of technical efficiency in the people. So, his emphasis was naturally on industrial primacy. It also appears that he stressed on the utilization of human resources when he pleaded, "the present unequipoised distribution of the population among occupations, mostly primitive in character and scope should be steadily rectified on a settled plan and schedule".[1] The responsibility of such kind of development, for him, was not be exercised by the national level alone but at the provincial and local level also. It means in today's sense planning at state level was talked of by Visvesvaraya. He concluded that if planning had been pursued with vigour and determination, "... unemployment, poverty and suffering would have been gradually brought under control and there would be progressive tendency to make the country a better and happier place to live in".[2] Thus, it can be argued that he preceded others in giving a sort of 'trickling down' theory.

After that in 1938, the Indian National Congress appointed a committee under the chairmanship of Pt. Jawaharlal Nehru, popularly known as The National Planning Committee (NPC), to go into the problem of planning and the development of India and recommend some concrete proposals for this purpose. This committee with the help of several other committees (29 sub-committees) examined the whole problem in detail and formulated many proposals at the beginning of the World War II. In the process, quite a large representative body of experts, specialists, industrialists, businessmen and political leaders took part in the deliberations of the committee. But due to the extraordinary and complicated situations created by the war, nothing could materialise immediately. The final report of this committee was published in 1949.

Though its report spoke of the doubling of the standard of living of the Indian people within a prescribed limit, say ten years, importance was given to economic development in general and industrial growth in particular, Once Nehru said, "for me, this has been fascinating work and I have learnt much from it. It is clear that any scheme that we may produce can be given effect to in a free India. It is also clear that any effective planning must involve a socialisation of economic structure".[3] But under the strong protests from industrialists and bussinessmen, socialisation of economic structure could not be made possible and private enterprises were given their due share. Consequently, the report suggested that private sector should be the main agency for economic development and the state should own public utilities.

Commenting upon the importance of the National Planning Committee Report, Sukhomoy Chakravarthy says, "the deliberations of this committee undoubtedly had an impact on the type of economic regime that India adopted on gaining independence, which involved a variety of institutional motive forces. That India under Nehru adopted a socialist framework of economic policy in the mid fifties, doubtless, owes something to the ideological predilections of Nehru and some of his associates".[4] He is very quick to add further, "but it may be maintained that even a more pragmatically inclined politician than Nehru could well have opted for the same set of arrangements for promoting economic development if his perception of the factors perpetuating structural backwardness conformed to".[5]

Before going further, here it deserves to be mentioned that the work of the NPC was cut short in the beginning of the 1940s when leading members of the congress were imprisoned for their participation in the independence movement. The environment surcharged by the political struggle for independence and the possibility of grasping freedom, led many to come out with plans, reflecting their respective ideologies. These were: the Gandhian Plan, the Mudaliar Committee of economists, the People's Plan and the Bombay Plan. None of them was official plan but each one represented an urge to shape the country's economic development. Each one described its own priorities and put forth its reasons for doing so.

The Gandhian Plan drafted by S.N. Agarwal, a Gandhian economists, proposed a ten year period investment outlays of Rs. 3500 crore at pre war prices, which amounted in terms of the 1944 price level to about 15,000 crores. Of this, 33.6 per cent was allocated to agriculture, 28.6 per cent to large scale and key industries, 11.4 per cent to public utilities, 10.0 per cent to rural industries, 9.0 per cent to education and 7.4 per cent to public health. Thus, it appears that Gandhian Plan focussed on rural construction involving massive development of agriculture and cottage and village industries. But because of the Nehruvian strategy and the need of the time for rapid development this plan was not given a place in post independence period.

The Mudaliar Committee suggested the formulation of policies for developing transport, banking, industry and commerce, currency and foreign exchange, but it did not lay down any policy framework.

The People's Plan formulated by M.N. Roy contemplated a growth endeavour under Marxian socialism. Its basic premise was the replacement of the capitalist economy by a socialist one. Accordingly, it envisaged all round nationalisation, including that of land so that no intermediary is left. It had proposed a four-fold improvement in the standard of living over a period of ten years with an investment of Rs. 15,000 crores. But its allocations of outlays indicated greater emphasis on agriculture as compared to industry and within the industrial sector on consumer industries as compared to basic industries. Notwithstanding its orientation to the betterment of living standard of the masses, it lacked realism as we had no infrastructural facilities to materialise it. But one thing which was accepted after independence was to introduce planning at the central level for comprehensive economic development.

The Bombay Plan got wide appreciation. It was in three parts and was entitled "A plan of economic development of India". The memorandum was signed by a galaxy of distinguished industrialists and businessmen viz., Sir Purshotamdas Thakurdas, J.R.D. Tata, G.D. Birla, Sir Ardeshir Dalal, Sir Shri Ram, Kasturbhai Lalbhai, A.D. Shroff and John Matthai. Commenting on the circumstances which led to the outcome of Bombay Plan, L.K. Jha a noted economist says, "in the first half of the century under British rule, the trend growth rate between 1900-01 and 1945-46 had been 1.2 per cent for national income about 0.3 per cent for agriculture and 2.0 per cent for industries. There was a countrywide consensus among economists, politicians and industrialists that once India became independent, the nation must embark on a strategy of planned development in which both the public sector and the private sector will play a symbiotic role. A concrete shape had been given to this concept by the formulation of what came to be known as the Bombay Plan".[6]

The Plan proposed an investment of Rs. 10,000 crores, with priority assignment of Rs. 4480 crores for industry. Net output in agriculture was to be doubled, while the industrial output to rise five times. The second volume dealing with distribution was out a year later. The planners suggested plan finance of 7,500 million pound to be raised through hoarded wealth, sterling securities, exchange surplus, foreign borrowings and internal finance through savings and created money.

The signatories to the memorandum observed that their aim was to put forward, as a basis for discussion, a statement of objectives to be kept in mind in economic planning in India. The ultimate objective was to increase the volume of production in the country to the extent natural resources would permit. The modest aim, however, was to secure a minimum standard of living, which included, besides food, clothing and shelter, some provision for medical relief and education.

For this, much emphasis was placed on industrialisation of India. They observed that industrial sector would record the largest increase during the 15 years period. They noted that in modern times no industry could be established without power, machinery and chemicals. Similarly, without fertilizers it was difficult to imagine any progress in agriculture. Therefore, they emphasised the need for producing more electricity and noted with approval the achievement of the USSR in the field of electrification. In the organisation of industries, adequate scope was given to small scale and cottage industries.

They noted that a policy which specially aimed at securing that objective should have a double purpose: (1) to secure to every person a minimum income essential for a reasonable standard of living and (2) to prevent inequalities in the income of individuals and classes. In regard to socialisation, their steps were towards nationalisation of important industries which were to be taken by degrees. The motto was "to mould and transform, not violently uproot",[7] says Haridasan and thus, "they sounded like the Fabian Socialists",[8] adds Haridasan. But H.V.R. Iyengar in the course of "John Matthai Memorial Lecture" delivered at the Kerala University observed: "it is one of the great paradoxes of our recent history that the authors of the Bombay Plan who were hard headed businessmen leading the biggest business houses of the country should have come to the conclusion that a plan on the Soviet model was essential for Indian economic development".[9]

No doubt, it appears paradoxical, but in those troubled days, such kind of planning was ultimately to help them (Bombay Planners). They were leading businessmen and were aspiring to be great industrialists but were not interested in taking risk by investing in basic industries. Admittedly, the emphasis was on industrialisation, involving growth of basic industries resting on development of power. At the same time their emphasis was on free enterprise. They expostulated that the official policy, "must provide for free entreprise which is truly enterprising and not a mere cloak for sluggish acquisitiveness".[10] The Plan, accordingly envisaged the role of the state to be that of a supreme coordinator and controller of the Plan, which, to a great extent can be seen as part of Nehru's "socialistic pattern of society". So, it is not an exaggeration to say that Bombay Plan, "set the pace of scientific thinking and action and jerked the government out of its torpor".[11]

So far as machinery for planning is concerned, they visualised a National Planning Committee under the central government representing concerned interests to which the responsibility of drawing up Plans would be delegated. The actual execution of the Plan would be the responsibility of a Supreme Economic Council working alongside the National Planning Committee. They (Bombay Planners) observed: "since planning is primarily a matter of organising the human and material resources of a country, our aim should be to devise a system which helps to utilise them to the maximum advantages", [12] and anticipated considerable measure of state intervention and control on economic matters. However, their scheme of planning would be accomplished under a democracy. "If democracies can successfully plan and organise their resources for waging wars, it stands to reason that they can do so equally for fighting social evils".[13]

Here, it should be remembered that there had already been an effort in the direction to see some kind of planning machinery in action during the World War II. In fact, during the war there was an accute shortage of consumer goods, so the Governmént of India appointed number of committees to suggest some measures for mobilising all the resources of India for furtherance of war efforts. In 1944, the Government of India, for the considerations of Plans for post war reconstruction created a Planning and Development Department, which was put under a separate charge of a member of the Viceroy's Executive Council. Sir Ardeshir Dalal, one of the authors of Bombay plan was its member in charge. This department had constituted some 20 panels of experts to deal with different aspects of the development process to be generated. Consequently, the department drafted a short and long term plan for placing the economy of the country on a sound footing.

In 1946, Interim Government headed by Nehru abolished the Planning and Development Department and constituted instead an Advisory Planning Board whose membership comprised commercial, industrial, agricultural and financial advisors to the Government of India as well as some economists and scientists. The terms of reference of the Board were to review the official planning effort, the work of the National Planning Committee and other available plan proposals and to make recommendations about objectives, priorities and future machinery of planning. The board examined the whole problem facing the country and suggested establishment of a Planning Commission. Latter was to be constituted at the central level and supposed to devote itself continuously for planned development of India. The suggestion was crystallised in March 1950 when under the chairmanship of the Prime Minister Jawaharlal Nehru, a Planning Commission was set up to prepare a plan for the most effective and balanced utilisation of the country's resources.

But the establishment of the Planning Commission at the centre and the decision for the planned development of the country was not merely based on the immediate past experience but also on the successful story of the planned development in other countries, mainly the USSR and France. As such, a short appraisal of what economic planning seeks to achieve is in order in the Indian context in view of the fact that planning in other countries has a significant relevance to India.

"There is no formal economic planning in the USA",[14] says Bertram M. Gross. Maurice Dobb is of the view that "in the USSR socio-economic development is planned and executed on the dictates of the Gasplan",[15] though, I think presently it is in topsy-torvy. "In East-Europe economic planning is under duress, while in a developing economy it may be an exercise in economic arithmetic",[16] Seymour E. Harris opines.

However, recently economic planning in the Eastern-Europe has undergone a metamorphosis.

"In economic planning, France stands mid way between the USA and the Soviet Russia and developing countries like India have been inspired by the French system"[17] observes Vashist. The French Monnet Plan was a six year charter of development, which began in 1947. The Monnet Plan has six basic sectors which are vital for the economy. These basic sectors called core sectors in India are steel, cement, farm machinery, coal, electricity and transportation while fuel and fertilisers are added later. The direct state participation is confined to the core sectors, whose allocation and mobilisation of resources is done by the state, whereas in other spheres of the economy, the objectives are indicative only.

"Not surprisingly therefore, very shortly after independence", says L.K. Jha, "The Planning Commission was set up to chalk out the strategy for growth with due regard to social justice on the one hand as well as to self-reliance".[18] On 20 March 1950 John Matthai dealt at length the circumstances leading to the formation of the commission and analysed the objectives it should pursue: "... since the National Planning Committee did its work and since the Planning Advisory Board which was appointed in 1946 did its work, there have been some important changes in the set up of the country which necessitated a reexamination of the whole position... Therefore if we regard the work of the Planning Commission with any sense of reality, it is most important that these big changes that have occurred in the country should be taken into account".[19]

Thus, from 1951 onwards, India has continuously used planning for the development of its economy. Both in respect of the practice of planning, as also the results flowing from it, the country has much to show. Its experience also sheds much light on the working of a mixed economy which has grown over time and changed with circumstances.

In fact, the task of planning is to arrive finally at a growth scenario consistent with national objectives to be achieved with mobilisable national resources. But, before getting an insight into the experience of planning in the last four decades, it will be useful first to spell out the goals, which the country had placed before itself just after independence. When India became independent after a long period of colonial rule, the country lacked most of the infrastructure. The country had hardly any industrialization worth the name. The per capita income and labour productivity were at a very low level. It was against this backdrop that planning started in India.

The first assumption was regarding the reason for India being poor. "The First Plan (1955-56) had a two fold objectives: to correct the dis-equilibrium in the economy caused by the Second World War and partition of the country and to initiate simultaneously a process of all round balanced development, which would ensure a rising national income and a steady improvement in the living standards over a period of time".[20]

For "rapid industrialisation and diversification of the economy", the Mahalanobis strategy considered the development of "basic industries and industries which make machines needed for further development as the crucial element. This strategy naturally came in conflict with the employment objective of our plans. To solve the conflict between rapid growth on the one side and immediate increase in employment opportunities on the other, Mahalanobis strategy adopted a "policy of encouraging labour intensive techniques in consumer goods industries even as the capital intensive sector of heavy industry was being expanded rapidly".[21]

Another set of assumption was that there should be development through industrialisation. Industrialisation would generate jobs. People from agricultural sector would transform themselves to industrial sector. The logic of industrialisation, thus was not merely for development, but for creation of employment and hence elimination of poverty and to ease off pressure on agriculture as well. "Economic development has in the past been often associated with growing one qualities of income and wealth. the gains of development accrue in the early stages to a small class of businessmen and manufacturers, whereas the immediate impact of the application of new techniques in agriculture and traditional industry has often meant growing unemployment and under employment among large number of people... The problem before under developed countries embarking upon development at this late stage is to plan the alignment of productive resources and class relationships and to combine development with reduction in economic and social inequalities".[22]

Another assumption was that even though inequality was not acceptable yet it has to be tolerated because creating equality or transformation of wealth all of a sudden would disrupt the whole production process. Keeping this in mind, the Indian planners decided to talerate inequality for some time and assured that with the pace of time it would be diminished.

To recapitulate the above assumptions, it appears that the prime objectives selected were increasing the per capita income and standard of living and reducing economic dependence on outside powers. These objectives were subsequently translated into a development strategy aimed at building fast the 'capital capacity' of all the basic and infrastructure industries through an increase in the rates of growth of domestic savings and investments.

From the very inception of planned development, objective has been to achieve high growth rate and it was believed that from this, benefit would trickle downwards. But this 'trickle down' theory proved wrong because of inherent contradiction. To begin with, so far, in general, the development of the Indian economy was based on the Nehru's investment strategy. This strategy was based on the Russian experience and in India Prof. P.C. Mahalanobis played a pivotal role. Needless to say, Nehru's strategy of development has made India the tenth most industrialised nation in the world. Reviewing the overall achievements of planning during the first five year plan, the sixth plan Janta Draft mentions: "it is a cause of legitimate national pride that over this period, a stagnant and dependent economy has been modernised and made more self-reliant".[23] But in the course of this rapid industrialisation, the objective of equal distribution was found neglected. It was so because the objective of rapid economic growth based on heavy investment and development of capital intensive production could raise income but in turn led to the concentration of income and accentuation of income disparities.

A look at the four decades of development since independence indicates following statistics:

* The trend growth rate of Indian economy rose from 3 per cent till early 1960s to 5 per cent during the 1980s.

* Aggregate industrial output has increased five fold since independence at a compound rate of 6 per cent, the share of basic and capital goods industries increasing from about 15 per cent to about 50 per cent.

* India's food grains output has more than trebled from 50 million tonnes in 1950-51 to 177.3 million tonnes in 1991.

One measure of economic growth of a country is the continuous expansion, year after year, of real national income and real per capital income. But for a poor country such as India increase in national income by itself is not significant. To illustrate it, in three decades (1950-80) the growth rate of national income was 3.5 per cent whereas the population growth rate for the corresponding period was 2.2 per cent. The annual increase in the per capita income hence was just 1.3 per cent barely enough to fight poverty. Moreover, in the increase of the average of the per capita income is generally added by a certain section whereas population growth is spread out horizontly. So, if economic development has to have some significance, it is necessary that the rate of increase in national income is much higher than the rate of growth in population so that per capita income increase substantially. Commenting on the India's economic development in whatsoever fields it has been Sayeed S. Shafi says, "notwithstanding considerable progress achieved in sectors like agriculture, industry, energy, transport, to wave only a few, there has been a singular lack of perception about the spatial dimension of development at the national and state level. Its neglect has already taken a toll in the form of further accentuation of regional disparities and developmental differentials".[24]

Indian planners aimed at increasing national and per capita income on the assumption that the continuous growth in these incomes would remove poverty and misery and raise the standard of living of masses. But when they found that increase in national income was accompanied by increase in the degree of poverty in the country, the objective of planning from the Fourth Plan onwards was not simply on growth but raising the stadnard of living of those who have been living in abject poverty for generations. But certain questions arise, will they remain above poverty line once they are brought out of it? The answer from many studies give indication in negative. It has been observed that "in calculating the past investment net incomes, none of the surveys had deducted the annual repayment instalment as cost. If this legitimate expense is taken into account, the percentage of beneficiaries who might have crossed the poverty line will come down very considerably. In fact, in many instances, it would appear that the beneficiaries were having some extra income only because this expense was not deducted. Their incremental income was only the unpaid dues of the banks".... "The proportion of beneficiaries who would have really risen above poverty would come down. Therefore, it would not be far wrong to estimate that at the end of 7 years of operation IRDP about 3 per cent of the poor households in rural India would have been helped to live above poverty, even if for a while only".[25]

Second, question is as to why only from the Fourth Plan targeted people were considered in planning . According to the Fourth Five Year Plan, "the basic goal is a rapid increase in the standard of living of the people" and "emphasis is placed on the common man the weaker sections and less privileged".[26] In fact, the slogans of "garibi hatao" (Removal of poverty) and "growth with justice" were coined during the early 1970s to indicate clearly that the emphasis would be on removal of poverty and not simply on increase in national income.

And third and last question is that why emphasis has been given to sectoral development and not on spatial development. The answer, at best, may be as B.R. Nayar points out that, "in formulating a plan, the planner swings between what is desirable and what is feasible in a democratic system: sometimes feasibility is given preference over desirability. In discussing the mobilisation of resources, the planners acknowledged that in the initial stages of planning, however, the size of the programme as well as the sources of finance would have to be fixed. Keeping in view what can be achieved through existing institutions and the available administrative and fiscal machinery".[27]

Apparently, the list of objectives appears to be unexceptionable and comprehensive but for Parmit Choudhuri, there are three major shortcomings of this set of objectives. "First, very few of the objectives are quntified or have a time horizon attached to them, with the exception of national income targets. Secondly, there is no discussion of the feasibility or consistency of the set of objectives that has been chosen. This would hardly have been possible without a clear quantification of the objectives. Thirdly, as there is no serious recognition of problems of inconsistency between the objectives, there is naturally no discussion of trade offs amongst them".[28] This view point is also strengthened by the remarks given by a former planning commission secretary, Azit Mazoomdar. He says that "planning is not just an exercise in making five yearly economic projections and public investments programmes. It is a concerted and sustained endeavour to achieve radical economic and social change throughout the country. For this to succeed, these has to be a national consensus on objectives and instruments and continuity of development policies. And for effective planning, the states must be fully involved; plans can't be laid down by the central government in exercise of majority rule".[29]

Here, it should not be forgotten that India opted for planned development in a federal structure where both central government and state government were expected to work for the attainment of the objectives which were set forth. But a number of important economic and political forces had/have operated between the centre and the states since the time the First Five Year Plan was formulated which did not reflect the true nature of functioning in the federal structure. It was not that the politicians, academicians etc. were unaware of it. As far back as in 1963, K. Santhanam rightly pointed out that "planning for purpose of economic development practically superseded the federal constitution so far the states were concerned but this suppresion was not legal or constitutional but was by agreement and consent".[30] Of course, having seen political power structure of the country. I can agree with the above view of K. Santhanam but after 1967 it has not been based on agreement and consent rather on coercion and tension.

Moreover, "the procedure and processes we followed in this country", says Kamladevi Chattopadhyay, "are anti-thetical to growth, progress and strengthening of democratic organisations or climate. No doubt, each state is supposed to prepare its own plans. But this again is only a copy of

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the central prototype and denies to those involved in the immediate environment a real sense of involvement".[31]

And this is one of the reasons as to why over the decades the different states in the country reflect significant regional diversity in endowments and stages of development. That, too when about half of national plan outlays are incurred in the states sector and central assistance for state plans accounts for nearly 30 per cent of the outlays. The factors responsible for this regional diversity and distorted developments are, in the words of A. Vaidyanathan, following: "the mismatch between the distribution of functions and the command over resources between the centre and the states, excessive concentration of power in the hands of central government, the erosion of various check and balance mechanisms envisaged in the Constitution, problem of federal finance, the balance between state autonomy and national priorities".[32] And solution to this "is multi level planning"[33] suggest Sarup and Brahme. For them, this method of planning by negotiations reduces the possibility of metropolitan cities drawing resources from the hinterland without making commensurate contribution to the development of these areas.

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CHAPTER 2

PURPOSE OF STUDY AND METHODOLOGY

Planning, its nature, its efficacy or otherwise can be better understood in the perspective of economic and political environment of the country. It is so because to judge a plan, one must take into account the socio-economic landscape as well as the informal constraints which the planners have to respect. To begin with, India is a mixed economy and it is a nation consisting of federal economic and political units, i.e. states. Further, economic and social planning, inter alia is in the concurrent list of the constitution which means the planning process takes place at both level federal and state level.

The term 'planning process' is itself a very complicated one because virtually all aspects of human life are affected by this. It is essentially a means of making conscious and deliberate attempt to coordinate policies and action in order to achieve a set of objectives. Formulation of objectives as clearly and unambiguously as possible is therefore, an essential prerequisite of the planning process. But the relationship between planning process and planning for development is often only intuitively understood and that, too, without fully realising all its implications in a federal set up. Thus, leaving much scope for arbitrary speculation and generalisation. A good attempts at making systematic analysis of the phenomenon through a rigorous investigation of the political aspects would yield a knowledge of plan formulation. A few studies have successfully raised the issues but no studies have been done in recent past.

The existence of an appropriate planning organisation at various levels of planning and decision making is another essential requirement of an effective planning process. The organisation should be such as to preserve a just balance between both technical and political considerations because neither of them can be overlooked. At the outset, it seems, thus, appropriate to take stock of the situation as it is. At central level there are Finance Commission which is constitutional and the Planning Commission which is an extra constitutional body. Besides, the National Development Council is there whose composition reflects federal nature of government. At state level, no such constitutional machinery exists. Though, some planning organisations do exist but not like the one that exists at the central level. In the view of Nayar, "the states do not have any purely technical planning machinery; all schemes are prepared by the departments based upon the corresponding central ministries instructions".[1] Thus, the exploration of it can yield illuminating insights into the problems of economic development and planning process facing state level authorities.

Allocations of resources or location of various projects among different needy states are essentially economic in nature but they assume greater political significance in the context of federal democracy of India where regional affinity among its citizens is phenomenal. Commenting upon the Indian political system Rajni Kothari says, "we have a half hearted democratic framework, a centrally monitored federal set up an all India officialdom that overpowers representative bodies at all levels and centralizes party hierarchy in which both the composition and the continuation of state governments are at the mercy of the high command".[2] But I think now situation has undergone metamorphosis. Now many state governments belong to a party which is not in power at the centre. Thus, in the diffused political system of India today the regional governments have become extremely powerful. "This is a gain to politics of federalism, but a loss to econimics of planning and it is, therefore, very difficult to combine federalism with planning" says Amal Ray.[3]

Thus, the relationship between tasks assigned to the centre and the states is essentially one of inter dependence rather than of conflict. Both are equally vital to the economic and social progress of the country. The administrative system in the states equally serves the nation as a whole. Therefore, arrangements for finance should be designed to secure the most creative partnership possible between the states.

The idea to write a paper on state planning in federal set up dawned on me, when I realised, inter alia, viability of more autonomy to states in the changing circumstances. Rapid demand of decentralization and failure of centralized socialist economy in Eastern Europe prompted me in this direction. The Planning commission Deputy Chairman Mr. Pranab Mukherjee, delivering a lecture on 'present day economic system and the development of the country', wondered "whether the present system of a handful of member of parliament and state legislatures could efficiently plan and decide for the whopping 800 million population of the nation". Do we require more lower level decision making and planning machinery in the form of panchayati raj municipality raj or development block level raj? Mr. Pranab Mukherjee felt, "the nation should have 'mini parliaments' in all the development blocks".[4] Here it should be recalled that in the mid-sixties when political scenario changed in India few literatures were published on 'planning process and centre state relations' - notable among them Lakdawala's "planning and centre state relations", Raghaviah's "planning machinery in India", a report by the Indian Institute of Public Administration (IIPA) on "workshop on planning at the state level", Paranjape's "centre state relations in planning", Nayar's "leadership, bureaucracy and planning in India - A sociological study", etc. But none of them has given the importance of the state planning process which ought to be in a federal set up. They have either dealt with constitutional aspect or machinery of planning at various level and their functions.

Thus, it is clear while many books have been published on economic development and the Indian plans, very little has appeared on how a development plan is actually made at the state level. The present study/paper is an attempt towards providing insights into this process at the state level.

Proper planning machinery procedures and styles of workigng are of vital importance for making a good plan and these are all very much inter linked. For bringing about improvements, it is very necessary to have a hard and critical look at the entire system and style of plan formulation and appraisal at suitable intervals. This study is a small effort in this direction.

Broadly speaking, the study proposes to delve into the current procedures and organisation of planning at the state level. While disucssing the broad theme of state level planning in a federal set up, it is hoped to explore its philosophy, its institutional context and its viability with desirability. Further, the role of federal politics in planning and relationship between the economy of planning and polity of planning have to be analysed.

Since planning is a phenomenon linked to the coordination and cooperation of various institutions, it had to be examined in relation to a political structure and in particular to the modus operandi of such structure and degree of autonomy it allows. From this standpoint state level planning is associated with the level of autonomy it enjoys. Rajni Kothari has gone to the extent to saying that "there is nothing sacrosanct about states; in many of them there is need to provide autonomy to important regions within the state by splitling it. Indeed, one of the justifications of greater autonomy of the state level is that it will put an end to the present situation in which advanced states get the better of the others by virtue of their pull at the centre. The new strategy should be to both allow a large measure of self reliance at the state level so that hitherto untapped potentials are relesed - this itself will begin to narrow disparities - and at the same time provide transitional correctiveness by weighted allocations and transfers".[5]

But the demand for more autonomy is a multi-dimensional phenomena. At once, it is a geo-cultural, politico-economic and above all psychic. All these factors once led Mr. Biju Patnaik, the Chief Minister of Orissa to aver that the P.M. should not be from U.P and other time he went to the extent that if his demand of fiscal autonomy is not met he would demand for a separate country. Later on, he slightly changed his views and said "apart from defence, currency, communication and foreign affairs, all other powers should vest with the states. Even in foreign policy matters, states should be consulted".[6]

For financial resources state heavily depends upon central assistance. It means centre has upper hand in formulating not only central but also state plan. The reason why the states have always to look to the centre for more funds, etc. and exert whatever pressure they can to secure them is to be found in the relevant constitutional provisions. The taxing powers of the states under the constitution are very much less as compared to their administrative functions (and vice versa in the case of the Union Government), and this federal imbalances has necessitated various constitutional provisions for transfer of revenue from the union to the states. The part XII of the constitution (Art. 264 to 300) regulate financial relations between the union and the state governments, but nowhere any mention has been made about sharing of plan expenditure between the centre and the states. Thus, the issue is whether state has any fiscal autonomy or scope to raise resources of its own? Such question leads to the politicisation of planning. In a federal country like India, governmental functions are divided at the two level the centre and the states. And when two different political parties would be formulating plans for their respective fields it is bound to clash at one point or another because of different nature and ideology of the parties. It is, thus, manifest from the fact that till 1967 when there was one party rule both at the centre and the states, there was hardly any skirmish of politicisation of planning.

And related to above assumptions is another - that at several occasions planning decisions are political. For instance, discretionary grants provided by the centre to the states for plan purpose is highly political. K.K. George affirms this view when he says, "they (discretionary grants) are very much like gifts of the centre and, therefore, the considerations which govern their dispensation can be much more political than economic and objective".[7] So, the point to be looked into is that what has been the consequences of this kind of grants.

In order to investigate state planning in the federal set-up, I have opted for to focus on Bihar during 1977-89 as an illustration. Here, I am solely concerned with establishing the general analytical framework within which I have chosen to set out the basic facts of planning with political implications at the state level in Indian federal set up.

Period 1977-89 which I have opted for my case study, reflects different kinds of political character both at the centre and in the state of Bihar. Bihar had in this period as many as seven Chief Ministers and the country as many as four Prime Minister from two centrist parties. Besides, during this period, efforts were made to prepare Five Year Plan on three occasions. Having considered all these factors together, I have kept a somewhat myopic vision fixed firmly at the state level planning (particularly Bihar) hoping that I don't present a distorted view of the reality.

In short, what I have tried to look into is that what kinds of plan, Bihar has had? How much resources it raised on its own and for how much it demanded from the centre and ultimately got what? If there has been reduction in original demands it is on what proportion and on what basis?

The work is not intended to provide a comprehensive answer to planning problem in federal set up though it does highlight some of the ill approaches of it and reveals it is not ineradicable.

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CHAPTER 3

PLAN FORMULATION AT THE STATE LEVEL

The process of plan formulation and the pattern of Union-States relations -- has been evolving since the day planning process started off in India. The retrospect of the planning in India has been dealt with elsewhere. So, in the present chapter, focus is mainly on as to how plan is formulated at the state level and what are its processes.

The States had to be involved in the planning process, since the Indian Constitution puts "Social and Economic Planning" in the concurrent list. Besides, the States have been assigned several developmental functions specially in such vital sectors as agriculture, irrigation, rural development, etc. Yet, C.H. Hanumantha Rao observes, "the States' awareness on the issues and problems connected with state planning became perceptible only since the Fourth Plan Period when major changes were introduced in regard to the allocation of plan finances to the States. This induced them to set up suitable planning machinery in their States to take up the challenging tasks in state planning".[1]

The Five Year Plans has both a central and a state component. In view of the federal nature of the economy and also because rapid economic development requires a great deal of consideration and coordination, the plan at national level and at the state level is not prepared in isolation. Rather they are inter-linked.

The national plan comprises on the one hand, the plans of the Central and State government and on the other, plans for the private sector and more specifically, for the corporate sector. Estimates for the private sector are prepared in the first instance by the Reserve Bank of India, mainly with reference to past trends, while those for the public sector are worked out by the Planning Commission and the Finance Ministry. The first stage is the consideration of the general approach to the formulation of the Five Year Plan. This begins about two years in advance of the commencement of the Plan. For instance, for the Eighth Five Year Plan (1990-95) it began in 1988 during the Congress(I) Government, "a Committee headed by a member of the Planning Commission visited all states. The methodology adopted was to have preliminary interface between visiting team and local authorities in order to let the State itself come up with a blue-print of its own vision about perspective planning".[2]

It involves an analysis of the state of the economy, identification of its social, economic and institutional weaknesses, appraisal of past trends in production and rate of growth in relation to the long-term view of the progress of the economy. Suggestions are also given to correct the imbalances or to make more intensive efforts to ensure success of the targets set. Preliminary conclusions on these and related aspects incorporated in "Approach" or "Plan

Frame" are submitted by the Planning Commission to the Central Cabinet and the National Development Council (NDC). At this stage, magnitude of the plan is not suggested. The NDC, in the first phase of its deliberations, indicates the rate of growth to be assumed for the next plan as well as the objectives and considerations that should be given special emphasis.

The second stage takes up studies leading to the Memorandum on the physical content of the Five Year Plan. The interrelationships and broader dimensions of the plan are studied within the Planning Commission. At this stage, the Planning Commission constitutes large number of working groups which review the performance of the economy in their particular fields. They assess the progress in achieving the policy objectives outlined in the present and previous plans and point out the deficiencies.

Simultaneously State Governments are advised to constitute similar working groups and arrangements are made for informal contacts between State and Central groups. Apart from these groups, in many sectors, Planning Commission constitutes panels with leading experts and scholars from outside the Government to advise on the broader aspects of policy and approach towards formulation of the plan in their respective fields.

Based on the studies of the various groups and the suggestions of the panels, the Planning Commission collects the main features of the plan being formulated, including the principal magnitudes into a Draft Memorandum.

A Draft outline of the Five Year Plan is prepared by the Planning Commission based on the Draft Memorandum. The outline, considerably elaborated over the Memorandum, gives more content to the plans envisaged for different sectors and brings out the main issues of policy and objectives and the approach proposed to be adopted. The Draft outline, commented upon by different Ministers and State Governments and discussed by the Central Cabinet, is placed before the NDC with whose approval, the outline is published as a document for the widest public discussions, considerations and comments.

The detailed discussions with the states, besides, recommendations and suggestions by different working groups and panels are held by the commission in the preparation of the final document of the Five Year Plan. The detailed document expounding the objectives, policies, programmes and projects in plan is submitted to the central cabinet and the NDC. After the latter's approval, the document is published and it goes into implementation.

As the working groups at the Centre begin their work, the State Governments are also advised to constitute similar working groups of their own. The main objectives of the working groups in the states is to try to build up a picture of the development plan of each state. But it could be foreseen by constitution makers that the resources available at the state level would fall short of the requirements. So, there was made certain constitutional provisions to be fulfilled by the centre. In other words, it can be said that the size of the plan of any state equals the state's own resources plus central assistance. The resources of a state become a matter of detailed discussion between the offices of the planning commission and representatives of the states. And finally as a result of these discussions plan allocations for the state concerned are finalized. But between this a lengthy processes and politics can be observed.

To begin with, after formulating the overall macro framework for the National Plan, the Planning Commission indicates to each state both financial magnitudes of the outlay for the state plans and guidelines regarding the formulation of the sectoral proposals. At the same time, the state governments also receive model schemes for different departments from the central ministries as the latter also allocate resources to the state. Different departments then prepare their plan accordingly.

On receipt of the departmental plans (and plans from districts)[3], the Planning Departments of the state checks them for internal consistency and confirmity to the planning commission's directives. The plan is then discussed by the State Planning Advisory Committee. After approval, the plan is printed as the State's Draft Five Year Plan and copies are sent to the planning commission and the central ministries. The planning commission then invites the state representatives to discuss the draft plan. Several rounds of conferences are held at this stage, and much bargaining occurs in these meetings.

One need not to go far to find out the causes of this bargaining. The suggested magnitudes are exceeded by most of the states in their plan proposals and that, too, obviously not without reasons. The first is central assistance which is given to the state. The system of central assistance system generally emphasizes the distinction between Plan expenditure and non-plan expenditure. To meet the states' deficit on account of plan expenditure, the Planning Commission provides central assistance while assistance provided on the basis of the award of the Finance Commission is expected to bridge the gap in the states' finances due to non-plan expenditure. But before the finalization of the final outlay, "the states try to manipulate (the centre) by providing false data"[4] says Paranjpe. He further says, that the state government, generally, inflate their draft plans disproportionately as compared to the provisions made by them for raising additional resources for the purpose because, "it is assumed that the larger the gap between approved outlay for the plan and the expected financial resources that the state can mobilize, the larger would be the plan assistance".[5]

Then it is the regional pressures and apart from this, sectoral pressures that tend to inflate the size of state plans. Needs of the people as also politics at the local level might also be influencing the inclusion of many schemes which go to inflate the state plans substantially. And ultimately it is the planning commission who undertakes the thankless job of cutting down the sizes of these draft plans and asks the state concerned to recast their plans again on a realistic basis. "One effect of the pruning of the state plan by the planning commission", Divakar comments, "has been that it gives to the state government an opportunity to direct the local discontent, caused due to its own failures against the centre, and try to absolve itself from as much blame as possible. This will perhaps be more evidenced when the ruling party at the centre would be different from those in some of the states".[6]

It is clear that the issues of finalization of the state plan as well as the magnitude of the central assistance remain open till the last stage of plan formulation. The sectoral working groups representing the ministries at the centre and the departments in the states fail to bring about any significant rationalisation of the state proposals. The task of reducing proposed outlays to some realistic levels is thus left largely to the planning commission. The programme adviser formulates his proposals with the informal understanding of the state finance and planning officers and these are finally considered in a meeting between the planning commission and the state government. Paranjpe feels, "the result of this process of decision making regarding state plans is that right till the beginning of the Five Year Plan or sometimes even afterwords, it is 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 cut at the last minute or keeping certain matters pending, also leads to considerable uncertainty".[7] He further states, "the result of all these difficulties is that the plan expenditure is not phased appropriately and the results of plan outlay in physical terms are much worse than anticipated".[8] Because of these uncertainties and difficulties the Sarkaria Commission Report has rightly suggested that "substantial changes in the size and content of the plan and allocations of outlays should not generally take place in this meeting (between Deputy Chairman of Planning Commission and Chief Minister of a state)."[9]

However, it should not be forgotten that these state schemes do not involve any overall planning but only sectoral planning. Comments from many quarters have came that their (states) prioritisation in most cases is done on ad hoc basis and what state planning departments put up as a plan are in a number of cases collection of scheme ranked according to political or administrative considerations. To quote Nayar, "overall planning is done at the all India level by the planning commission-an expert body. The states do not have any purely technical planning machinery; all schemes are prepared by the department based upon the corresponding central ministries instructions".[10] Kamta Prasad has a different view on it. For him, "the suggestions made by the planning commission are generally kept in view; otherwise the procedure of planning at the state level is broadly similar to that at the centre".[11] But as it appears having seen the nature and functioning of the state planning machinery, which is in order, the procedure of planning at the state level differs in more than one way from the centre.

The Planning Machinery in the states varies considerably from one state to another. However, it is possible to identify a few agencies in each state which perform the different tasks of planning. The council of ministers in a state is highest authority responsible for broad policy decisions regarding plan objectives, size priorities, etc. Then there are state planning committees or state planning boards in many of the states which usually include the Chief Minister as the Chairman and the few ministers as members. In some states, these are cabinet sub committees headed by the chief minister. Besides, there is a separate department for planning.

No doubt, the Planning Agency in the secretariat performs a key role in state planning. It acts as the liaison between the planning commission and the state development departments and communicates the directions of the former to the latter agencies. It advises the state cabinet on possible extent of central assistance for the plan and resources to be mobilised within the states. Once the state plan draft is prepared, the department takes initiative in presenting it to the Planning Commission and in arguing the states case before the Planning Commission.

The State Planning Boards and departments coordinate the work of other departments for the preparation of development plans and present reports on the execution of state plans. The state planning department generally receives direction from a committee of the state cabinet and is also supported by the state statistical bureau. In addition to this, there are a few other bodies which play some role in state planning. These are located in the district and blocks. It is needless to say a state plan consists of not only department plans but district plans also.

But C.H. Hanumantha Rao is not happy with the state planning boards and the way they function. He observes, "they have not been brought close to the planning process operating in the state. Sometimes some isolated functions like preparation of perspective plan for the state or guidelines for decentralised planning, etc. have been given to the state planning board. On the whole there appears to be considerable scope for enlarging the planning functions at the level of the state planning board".[12] Even the Administrative Reform Commission (ARC) observed, "they have, at best, served as Public Relations Committee".[13] Pointing out to the causes of this criticism, Sarkaria Commission perceives that "they have not been drawn into the real planning work. The State Planning Departments continue to discharge this responsibility and only assign same technical studies, etc. to their Planning Boards. These seems to be same reluctance and also mistrust in making the Board de facto pivot of Planning at the State level".[14] Thus, it appears that the appointment of the boards or other similar bodies has not helped in the past to strengthen either the planning machinery or the process of planning in states.

But Hanumantha Rao is, at least, optimistic about one planning machinery in states. In his view, "so far as the Planning Department in the states are concerned, they have been strengthened by setting up functional units on the lines envisaged in the planning commission schemes. In some states, the technical machinery available for planning is quite good".[15] But Dr. Gadgil had exaggerated about the planning process in the state when he said, "in all the major states there is practically no machinery for planning as such at the state level. The state plans are prepared basically in the same manner as the annual state budget".[16]

The annual plan and the annual budget are exclusively the work of the state government and the centre has little to do with it. Though, at the last moment the planning commission does influence it. The first annual plan was prepared at the beginning of the Second Five Year Plan. Work on the annual plan precedes the annual budget. Around September each year the planning commission indicates to the state governments, the more important objectives towards which the plan for the following year should be oriented, and the amounts of central assistance they could reckon for their plans, and asks for their draft proposals within the general frame of their five year plans. States are also asked to furnish their proposals for raising additional resources, for financing their plans in accordance with the resources and outlay targets of the Five Year Plan. The proposals of states are discussed in detail during November and December. The central ministries also participate in the deliberations. Similar examination is undertaken with the ministries at the centre where work on the annual plan is linked with the preparation of the capital budget. The allocation agreed to with the ministries became the basis of budgetary provisions for the following year.

But in Paranjpe's view "annual plan proposals, too, suffered from defects similar to those (mentioned earlier) regarding the Five Year Plans, though to a somewhat smaller degree. The process of discussion and the problems that had to be sorted out were also, therefore essentially similar. The annual plan not being finalized till January or February and large cuts being then made in the proposals put forward by the state and by various departments in a state, created many operational difficulties in the way of the smooth progress of development schemes and programmes".[17] Here it should not be forgotten that the introduction of the annual plan itself was against this operational difficulties which existed in the Five Year Plan. To quote once again Paranjpe, "partly as a result of the failure in the formulation of Five Year Plan in operational terms and partly because of the realization that the necessary flexibility in development planning could only obtain through a system of annual plans, annual planning came to be emphasized from 1957-58".[18]

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CHAPTER 4

PLANNING IN THE FEDERAL SET-UP: CENTRALISATION VS. STATE AUTONOMY

One of the problems of planning in a federal set-up is that of building up a plan for the whole country and obtaining the consent and cooperation of both the Federal and State Governments in this task. Since, planning is essentially a unitary process, a plan is formulated for the whole nation as an unit and, therefore it tends to impinge upon the state autonomy. At the same time, planning is also the greatest endeavour of cooperative federalism. To fulfill the latter aspect of planning an institution called the National Development Council (NDC) was constituted in 1952 and since then it is supposed to be the linchpin of the Indian cooperative federalism. However, in the course of study we shall see as to how the mushroom growth of other institutions and the tug of war between the centralisation vs. State autonomy, has reflected the unitary feature of planning at the cost of the NDC.

The first and foremost requirement to start with any kind of planning is availability of resources. The Centre and State generate their own resources to meet the need of planning. Revenues of the State Governments in India are derived from three distinct sources: State taxes, non-tax revenues and transfer of funds from the Centre to the States.

The major sources of tax in the State are land revenue, sales tax, state excise, electricity duty, etc. whereas the important items of non-tax revenue are: Forest, Minerals, Oil, etc. "The States obtain revenues from these sources by exercising its right of property",[1] say D.D. Panigrahi. Because of the limitation of time and space and the nature of this study, I have confined my discussion only around mineral receipts, which has also been a controversial item.

Under the Constitution, regulation of mines and minerals development is a Union subject. The State Government's share in the mineral wealth raised is generally obtained in the form of royalty or in the form of profits earned on departmental working of mines. Naturally, royalty are approved by the Parliament by law. It is, generally, alleged that the revenue earned by a Government of a state from mines and minerals is not commensurate with the mineral wealth of the State.

It is so because the rates of royalty are determined by the Government of India. The States proposals for revision of rates are not normally given the urgency they observe. Commenting on this problem, D.D. Panigrahi realises, "The pressure lobby of the users which are large industrial complexes existing all over India, one of them being the Government of India itself, prevents the revision of royalty rates. it may be noted that the Government of India is both a manufacturer and a trader and it does not show any inclination to revise the rates of royalty with the change in circumstances".[2]

Thus, it appears that there is a problem of inelasticity of state revenues. The UP Chief Minister, Mr. Kalyan Singh has called for the redefining of Centre-State relations so as to give more financial powers and resources to the States. He said that "at present the States were like municipalities' earning revenue from just three sources -- excise, sales tax and stamp duty".[3] This, he said, led to the State becoming entirely dependent on the Centre for funds for development. "The Centre uses this fiscal power to dictate terms to the Chief Ministers resulting in a situation where all powers get centred with the central government much against the ethics of democratic functioning of the States",[4] he said.

For the transfer of resources from the Centre to the States, there are three ways, viz.

(a) Statutory transfers through Finance Commission;

(b) Plan transfers by the Planning Commission under Gadgil formula and for projects assisted by external agencies, and

(c) Discretionary transfers for centrally sponsored schemes and for different non-plan purposes by various Union Ministries.

The Articles 264-300 under the Constitution have provisions of the Finance Commission to distribute various taxes and duties between the Centre and the States so that both of them may have their independent source of income. However, a critical analysis of "the distribution of taxes between the Centre and the States as mentioned in the Union and the State lists, reveals that most of the flexible sources of revenue have been assigned to the Centre and most of the rigid sources of revenue have been allotted to the States".[5] Thus, it would be interesting to go in little detail to see how financial relation are a perennial source of problem in all federations, particularly in India where we have both constitutional and extra-constitutional institutions which give financial assistance to the States in their plan efforts. But in a big country like India, there is lack of uniformity in the problems faced by each region. For example, each region has its own resources and potentialities as also its own limitations.

From above discussions, it can be inferred that there are two kinds of federal fiscal imbalances -- vertical and horizontal. The former refers to a situation where division of revenue sources and expenditure functions between the federal government on the one hand and the states government on the other are not on equal footing. The latter refers to the prevailing inequalities among the States. All these imbalances between the Centre and the States and among the States are sought to be reduced by the Constitution mainly through transfer of resources from the Centre to the States. Commenting on the overall situations of fiscal imbalances, Lakdawala opines, "With the increasing integration of national economy, this implied that States' own revenues would fall short of state expenditures necessary for the efficient discharge of the functions assigned to them. For the purpose of bridging the gap as well as for horizontal transfer to the weaker states, the Constitution had provided for a Finance Commission to recommend distribution of income tax and Central excises and grants-in-aid of revenue to weaker States in need of assistance".[6]

Though the dependence of the States upon the Centre in financial matters was expected, yet the gap between the States' revenues and their expenditure has crossed the reasonable limits because of certain subtle Central twists on the one hand and the pressure of the public on the State governments for certain public utility services on the other. Another cause of dependence is that, two important sources for national plan financing are foreign aid and deficit financing. And, these two sources are available to the

Centre only, but not to the States. The reluctance of the State Governments to tap the rural sector is the next important factor accounting for the slow growth of the revenues of the State Governments. Consequently, the vertical inequality has been growing continuously between the Centre and the States and the constitutional provisions of transfer of resources from the Centre to the States have become a tool in the hands of the Centre to dictate over the States' plan policy. But before examining the manoeuvarability power of the Centre, the constitutional provisions of trasfer are in order:

1) The distribution of revenues between the Union and the States, collected through various kinds of taxes as per Article 268 to 272.

2) Through statutory grants-in-aid of the revenues of the States, according to Article 275 of the Constitution, and

3) Through grants for any purpose, according to Article 282 of the Constitution.

But the use of all these Articles has not been in convenience with the true growth of federalism. Divekar observes, "The Article 282 of the Constitution which gives discretionary powers to the Centre to make grants for 'public purposes' has been politicised and thereby has given blow to the federal planning finance".[7] K. Santhanam, Chairman of the 2nd Finance Commission says "this distortion of the Constitution could not be foreseen by the Constitution-makers".[8]

Besides, all the above mentioned provisions which mainly relate to assistance on revenue account, the Centre also provides loans for any purpose to the State Governments under Article 293 of the Constitution. Yet, even this power is not without its limitations. The limitation is that the State Government cannot raise any loan without the consent of the Government of India if it has an outstanding loan from it. Since it is a truism that there is hardly any State which has not borrowed from the Government of India, they cannot borrow from the public without the permission of the Central Government. Further, the phrase 'outstanding-loan' may be interpreted by the Centre according to its own convenience. Moreover, while giving loans to the States, the Central government functions as a money-lender with a profit motive. For example, "the Centre obtained loans from international agencies at two per cent interest and passed it to the States at ten per cent interest".[9] Even more, "the Centre reduced the period of repayment from forty or fifty years allowed to it by these agencies to ten or fifteen years while passing on the funds to the States".[10] The purpose of above elaboration, in short, is that the transfer of resources from the Centre to the States consists of share in certain taxes and duties, grants and loans; and to show, in the process how the Centre reduces the autonomy of the States.

The institution which regulate the flow of the resources are the Finance Commission and the Planning Commission besides the Central Ministries. The Finance Commission is a constitutional body and the Planning Commission an extra-constitutional body but latter because of the nature of its functions has emerged as dominant one. In India, basically, two types of grants - statutory and discretionary -- are provided to the states. The grants made under Article 275 on the recommendation of the Finance Commission are statutory grants and such grants and tax devaluation awarded by the Finance Commission go to the states as of right. Further, the scope of the Finance Commission is limited to non-plan expenditure and it reviews only the revenue segment of the budget of the States. At best, "the only role which now has been assigned to the Finance Commission is to plug the non-developmental budgetary gap in the States' finances".[11] In fact, there has not been uniformity in the distribution of revenue between the Centre and the States, and among the States by the Finance Commission. For instance, "the divisible pool (excise revenue) had stagnated at the 20 per cent level till 1977-78 when the Seventh Finance Commission recommended to raise the States' share to 40 per cent. Successive Finance Commission have recognised the fact that increasing participation of the States in the net proceeds of Union excise duties will alone bring about some degree of balance between their financial commitments in an era of planning and their resources".[12]

One of the criteria has been the contribution of the States. Though all the Finance Commissions have so far given a weight of 10 to 20 per cent to the contribution criterion for the distribution of income-tax revenue, "in the Indian context the principle of collection is objectionable on many grounds".[13] And it is this criterion which has aggravated the regional imbalances in place of doing away with it.

Population is a satisfactory general index of fiscal need. All the Finance Commissions have continued to accord high weightage ranging from 80 to 90 per cent to the population factor.

After the Fifth Finance Commission, there have been some changes in the criteria. It was observed that the application of a formula based on relative tax effort, however, designed would place at a disadvantage some of the States faced with big gaps on non-plan revenue accounts. To quote "all the Commissions attempted, therefore, to get away from the 'mechanised' gap-filling aproach by building some sort of norms into their schemes".[14] However, in the terms and conditions of the Tenth Finance Commission, "the normative approach that the Ninth Finance Commission was asked to adopt has been dropped".[15] It appears, thus, that so far no criteria have been able to satisfy the need of the time. In the opinion of D.D. Panigrahi, "the real crux of the problem efforts or the tax efforts of the States as such but on the methods adopted for their measurement".[16]

When Gujarat approached the Ninth Finance Commission for assistance because the State was losing income for having a firm prohibition policy, the Commission "had guts to tell us, 'you scrap prohibition, we have nothing to do with your policy, we are not going to help you",[17] said Mr. Chimanbhai Patel, the Chief Minister of Gujarat few days before joining Congress (I) alongwith entire Council of Ministers. To conclude the criterion and criticism of the financial transfer from the Centre to the States through the Finance Commission, it can be said that, "the unhelpful attitude adopted by the successive Finance Commissions together with the unrealistic assumptions used for estimating the budgetary projections have repeatedly resulted in unanticipated deficits in non-plan revenue budgets. Some States had to meet their non-plan expenditure on revenue account through loans".[18]

The Planning Commission has been distributing Central Assistance for State plan in accordance with the Gadgil formula since 1969-70. Not satisfied with the performance of the formula during Fourth and Fifth Plans, a modified Gadgil formula was introduced on the eve of the Sixth plan, which was continued during the Seventh plan. The weightage given to the backwardness (per capita income) was doubled and the share assigned to continuing irrigation and power projects was dropped. But it, too, could not help in the balance development of the States. "It is seen that the Central Plan assistance as a proportion of State plan outlays registered a declining trend over the past four Five-Year Plan periods. As a result, the low income States which rely relatively more on Central Plan assistance have had to be content with slow growth in their per capita plan outlays".[19]

The ever-increasing revenue expenditure of the States can partly be traced to the proliferation of centrally sponsored schemes, the entire liability of which devolved upon the State governments once a plan period is over. And centrally sponsored schemes which are non-Plan and non-statutory transfers largely depends in the discretion of the Centre. Because, "both statutory and at least a major part of Plan transfers by contrast, are supposed to be governed by clearly stated criteria, whatever they be, as spelt out from time to time, departures from which are not easily defensible.[20]

The discretionary element in the Central Plan assistance by its very nature has benefited the 'better-off' States than the poorer ones, particularly when it involves matching contributions. "It has tended to be regressive as affluent States with larger command over resources draw more funds from the Centre by providing matching contribution from their own resources".[21] A remedy has been suggested by H.L. Bhatia. He says, "the remedy is not to transfer this responsibility to the Finance Commission, but to strengthen the planning process and curtail the transfers by the Finance Ministry without reference to the Planning Commission".[22] Here it may be recalled that the plan outlays which are considered developmental are regulated through the Planning Commission and the discretionary grants through the Finance Ministry and the Planning Commission. Consequently, discretionary grants are used as a mighty lever to influence priorities in the state sector and the decisions of the State Governments. Further, the Planning Commission takes an overall view embracing both capital and revenue requirements of the States.

One of the reasons why the Planning Commission goes in for detailed examination is usually that the state plan outlays exceed the financial resources available for the state. In such a situation, the Chief Ministers take this up with Deputy Chairman of the Planning Commission when the plans are finalised between them. Again decisions are at the political level and may be taken without much technical and economic considerations. In his lecture entitled "Planning Process in India" in 1987, R.K. Hegde, then Chief Minister of Karnataka said "many investment decisions are being taken with a political, rather than any other motives".[23]

It is needless to recall that the task of planning was entrusted to the Planning Commission in 1950. But the whole problem that arose from the day was how does one go about Planning in a federal set up. The problem also arose from the fact that the Planning Commission had to plan for the local needs and resources about which its understanding was limited. Another specific question addressed by the Planners was, should planning be restricted only to central subjects? If not, then how does one devise institutions for planning for areas having their own government?

Hence, the National Development Council (NDC) was set-up in this regard in 1952 which was different from the Planning Commission. The purpose of the NDC was to create consensus over a plan prepared by the Planning Commission. Since in the NDC all the States are represented so it is a kind of institution which reflect federal character of the country. The Prime Minister as the head of the Planning Commission, presents a draft plan and it is only after the

NDC (which, too, is headed by the Prime Minister) approves the draft plan that it becomes a plan.

In earlier days, due to similar political colour all over the country, this approval was merely a formality. The strategy of development did not come in for critical appraisal and the states spoke up to support the centrally formulated priorities. Expertise to do anything more was also lacking, for the states had little opportunity to scrutinize the Approach Paper in detail. But in the post 1987 period, the NDC could no more be considered a rubber stamp. Now the Chief Ministers began to object the draft plan. In the last decades, the coming of strong opposition governments in States like West Bengal, Andhra Pradesh, Karnataka, etc. and the recent political scenario of the country have made the NDC discussions comparatively more meaningful, at least, in pointing out ideologically based alternatives. To begin with, the West Bengal Chief Minister Jyoti Basu openly disagreed with the Seventh Plan Approach and priorities in the NDC meeting held to approve the Seventh Plan. He wrote in an article, "There has been an inherent tendency in this approach (VII Five Year Plan) to shut the democratic participation of people out from the process of planning and to centralize economic power and powers of decision-making in the hands of the Central government".[24]

Thus, it is manifest from the above elaboration that at the central level planning, the States have very little to say even being constituents of the federal set-up. The tendency of centralism is reinforced when almost every important aspects of the States' plan is conditioned by the Centre and thereby the States' autonomy is curtailed.

Upto 1969, the Planning Commission was transferring money on certain criteria that was not uniform. D.R. Gadgil formulated a formula for this grant in 1969, known as the Gadgil Formula. According to the agreed formula, 60 per cent of the Central allocation would be distributed on the basis of population and 10 per cent each on the basis of (i) per capita overall tax effort for three years in relation to per capita income; (ii) continuing major irrigation and power schemes; and (iii) special problems peculiar to individual states. The remaining 10 per cent was to be distributed among six States having a per capita income below the National Average. Starting with 1969-70, 70 per cent of the Central assistance is being given in the form of loans and 30 per cent in the form of grants.

At few occasions there have been brought about some changes in the criteria and latest one is introduced in December 1990. According to the new formula for distribution of Central assistance to the States, 60 per cent of the weightage will be given for population. The per capita weightage has been increased to 25 per cent, 20 per cent on the basis of "deviation" method and five per cent on the basis of "distance" method. The deviation factor accounts for the deviation of the per capita income of the State from the national average and the distance method deals with the difference in a State's per capita income from the highest level. The balance distribution will be on the basis of 7.5 per cent weightage to the special problems of the State while the other 7.5 per cent weightage is to be accorded to the performance of the State in stipulated fields.

Many States have, however, objected to this formula particularly after viewing it from their point of view. Thus, while those States which have successfully implemented family planning programmes have objected to the population weightage being increased to 60 per cent from 55 under the consensus formula, some others have objected to the per capita weightage being lowered from a total of 25 per cent under the consensus formula earlier formulated to 20. Similarly some of the States have called for a higher weightage for special problems (it was 15 per cent under the consensus formula), while almost all have opposed introduction of the achievement of specified objectives on various grounds.

Most of the States have also opposed the financial form of the transfer. "They have pointed out that if the transfer is done on the basis of 70 per cent loan and 30 per cent grant, the loan repayment burden on the States would go up tremendously and could even lead to a net withdrawal of resources from the States to the Centre".[25] Shanta Kumar, the Chief Minister of Himachal Pradesh even went on to say that "central assistance to special category States be transferred on a 100 per cent grant basis, keeping in view the mounting debt burdens and massive increase in the interest liability".[26] However, the Kerala Chief Minister Mr. K. Karunakaran was little moderate about it. Referring to the proposal of Central assistance, he said, "the grant component should be raised from the present 30 to 50 per cent so that loan-grant ratio became more balanced".[27]

Thus, by now it is clear that on this basis grants take place in the name of Central plan assistance. Further, it is also clear that the primary reason why the States come to the Planning Commission for discussion is for the Central plan assistance. Loan is a facility which may not be a grant but provides discretion to the Central Government to assist States. But, there have been difficulties in Central assistance. One charge that is frequently levelled against the Central government is of favouritism. Commenting on this kind of favouritism, Paranjape says, "one of the possible advantages that should have arisen out of such centralization, viz., balanced development of the country as a whole has not been achieved".[28]

Secondly, there is also an allegation by the States that they do not get assistance for implementing schemes which they feel are in higher priority. The state governments cannot spend the Central plan assistance as they like, and thus, it frustrates the very concept of federal set-up. To quote S. Chakravarthy "The basic philosophy behind the vertical division of responsibilities is that States are likely to do best in activities whose spread effects are generally felt most conspicuously within the States itself and where information availability is likely to pose less of a problem".[29] Contrary to this, the Centre gives the money and takes it upon itself to fix the priorities. Thus, the Centre restricts the flexibility of the States. This is one of the greatest kind of friction between the State and the Central governments that has taken place over the years. However, in the view of Subir Roy "the devolution of central assistance for state plans, being determined by the Gadgil formula, is not a matter of on-going centre-state disputes. Controversy, however, has plagued the Commission's assessment of a State's additional resource mobilisation plans and consequently the size of the plan that it wants".[30]

Another method by which the Centre restricts the ways by which the States could spend their money is, what has come to be known as the centrally sponsored schemes. These schemes have two characteristics. Firstly, the Planning Commission demands that States should also share the financial burden, which should be equivalent to the money put in by the Central government. So, the central government can force the states to spend the money by operating centrally sponsored schemes in those states. Here the options of States are limited by these schemes and States' resources are diverted.

The States complain that if these schemes have to be implemented, then the Centre must consult them before finalizing it and also that there should be better mechanism to implement these schemes. "It has been alleged", says Diwan, "that large number of resources are earmarked for centrally sponsored schemes and Union undertakings and projects leaving little resources to the States"".[31] So, Mr. Sunderlal Patwa, the Chief Minister of Madhya Pradesh has rightly suggested, "transfer of all centrally-sponsored schemes to the States except the poverty alleviation and family planning programmes. He said the poverty alleviation and family planning programmes were of national importance and their implementation was beset with many problems".[32]

About on-time completion of externally aided projects there has been unanimous opposition from the States, who, in turn, have blamed the Centre for delaying the decision to pass on 100 per cent of the external aid to the States concerned (at present only 70 per cent is passed on). As against this, the Central authorities complain that state planning and development efforts continue to remain at comparatively rudimentary levels. Besides, more projects are taken up than could be financed, resulting in thinly spreading investment over a number of projects and leading to long gestation periods and insufficient or delayed returns. It is said that the States have merely made the Centre a whipping boy for their own failures.

On the part of the Centre, it is necessary for the overall and balanced development of the country that planning process should be concentrated at the national level. Mr. Morarji Desai, then Deputy Prime Minister of India, advised the States, "to plan within the framework laid down by the Central machinery which always endeavoured to plan for the country as a whole, after taking into consideration both the general needs of the country and the special needs of individual States".[33] On these assumptions, from deciding the size of the state plan to making grants for numerous minor schemes proposed to be undertaken by the State Governments, the decisions are taken by the Centre as a result of bilateral negotiations with the State Government. In turn, this has given political overtones to the whole process of central assistance.

This political overtones got momentum in the mid-sixties. Resultantly, the Centre and the States relations in the field of planning assumed greater magnitude as a result of the political developments after 1964, the death of Jawaharlal Nehru, the economic difficulties of 1965 and 1966, the interruption in planning, and the changing political situation, specially after the General Elections in 1967. Non-Congress Party run governments in various States began to assert their autonomy and accused the Centre of being over-centralised. Since then in Indian federal set-up a tug-of-war is continuing between the State autonomy and the centralisation. Mr. Ashok Mitra, eminent leftist economist, perceptibly argues, "the economies to be reaped from indivisibilities and centralised decision-making had been exaggerated by Indian economists who had not taken into account adequately the dis-economics of economic centralisation including its political consequences of stifling local or regional initiatives".[34] Streeton and Lipton have also spoken in the same tone when they said, "there was a general demand for more decentralization of the planning process. This was usually presented as a contributions to efficiency; but its main aim was to give

State Governments more elbow-room to cater for the 'felt-needs' of the people".[35]

When all these demands of the States were not met by the Centre, and instead centralisation continued to grow, the different States and various Committees came out with their report in favour of more autonomy to the States. Rajamannar Committee set-up by the DMK Government of Tamil Nadu came out with its report heavily in favour of the State autonomy. From this report, Chandra Pal comes to the conculsion that, "the idea was that the revenue devolution should be enlarged so much so that the need for grants-in-aid under Article 275 either disappears or is minimised".[36] West Bengal Memorandum of 1977 is more or less based on the Rajamannar Committee Report. It demanded that the distribution of revenue should be made in such a way that it ends the mendicant status of the States.

"The Anandpur Sahib Resolution of which no authentic version is available, has been the most controversial among various demands for States autonomy. However, the original resolution adopted at Anandpur Saheb demanded a separate constitutional position for Punjab in terms of Article 370 on the Jammu & Kashmir model".[37] It advocates, though in some exaggeration, that all the subjects that are today included in the Union and the Concurrent List except few subjects like

Defence, Foreign Affairs should be transferred to States. In another attempt before the setting up of the Sarkaria Commission the Chief Ministers of Southern States made a bold demand for state autonomy. "They made a demand for transfer of resources to the States more on a statutory than on a discretionary basis. It should be on an objective appraisal of the needs of the States according to the criteria to be evolved by the Council of all Chief Ministers".[38]

The Administrative Reform Commission (ARC) while making recommendations on Centre-States relationships in planning could not overlook the new mood of the States, their organised opposition to central control. "The Commission recommended that the participation of the Union Ministers in the Planning Commission be discontinued and the Commission be reconstituted as a non-ministerial expert advisory body, bereft of all its functions executive in character. The Commission, according to the ARC, should be responsible only for formulating the objectives, laying down priorities, indicating broad sectoral outlays, fixing the basic targets and approving the main programmes -- detailed sectoral planning including preparation and execution of individual schemes and programmes should be left to the State governments".[39]

The Sarkaria Commission Report has also suggested many a change in the existing Centre-States relations in planning process inter-alia. But the crux of this Report is cooperative federalism wherein both the Centre and the States have to adopt 'partnership' approach. One of the important suggestions in this regard is that the Report talks of making the Planning Commission a statutory body. Many others too have endorsed this view. R.K. Hegde, then Chief Minister of Karnataka said, "there was a need to make National Planning Commission a statutory body so that is consultation and concurrence became prerequisite before many major investment decision was taken. This will ensure that the Commission is not downgraded in statute and bypassed".[40]

But simply arguing for more autonomy to States vis-a-vis Centre is not desirable unless states equip themselves fully with institutional arrangements, and provide room for expertise in planning. "Serious irritants in Union State relations can be considerably reduced", says R.C.S. Sarkar, "if a substantial number of State plans are formulated and implemented by the States with the resources under their control. One of these kind of resources is the tax on agricultural income which has both elasticity and buoyancy. It accounts for roughly 50 per cent of the gross national income".[41] But such resources as land revenue surcharge, betterment levies or enhanced irrigation rates are politically so inconvenient that no state shows enough political courage to mobilize these resources fully. This reluctance on the part of the States to mobilize enough resources for their plans has been correctly explained by A.H. Hanson as a "product of their comparative proximity to a tax-shy electorate".[42]

Under such circumstances, it is no wonder if the States came to depend substantially on the central assistance for the resources of their plans. There is another problem also which allows the Centre to intervene in the State plan formulation. Taxing people for irrigation, electricity, etc. by taking bold political initiatives is not possible for an individual state alone. To quote Paranjpe, "It has to be done collectively otherwise reluctancy is obvious on the part of an individual state. For example, large differences among neighbouring states in policies regarding irrigation and power rates create economic as well as political difficulties. In this case it is the responsibility of the Centre to manage the balance approach and hence, inevitability of the Centre's intervention".[43]

Centralization has been facilitated and even encouraged by following factors also. The first is the lack of planning machinery in the States which could operate with a reasonable measure of freedom from departmental pressures in the manner, say, of the Planning Commission at the Centre. In turn, State Departments have often adopted administrative and financial procedures which tend to nullify the decentralized operation of District and block plans. "In respect of district level schemes, even the districts were supposed to prepare plans against financial limits imposed by the State, they were unable to influence the planning decisions taken at the level of state heads of sectoral departments. Thus, the planning for the district level schemes is centralized at the state level".[44] From this, it becomes manifest that there has developed a kind of tendency everywhere to concentrate the power whenever and wherever one gets the opportunity and which is why planning process has been centralized. Hence, as a corollary, the tendency has also developed in opposite direction, i.e. the demand for more autonomy to the States. And recent trends "when industry is being decontrolled and liberalised, the enormously large economic units that constitute India, viz., the States, that make the Union, can hardly be administered by an over-centralised decision making system any longer".[45]

Together with this the political complexion of the country has also undergone a perceptible transformation which needs to be recognised betimes. Otherwise the very purpose of the federal polity may be defeated. In this regard we have also the example of Eastern Europe and particularly of the Soviet Union and Yugoslavia. Therefore, the claim for greater autonomy by the States within the existing constitutional frame and through some constitutional amendments (with due considerations to various suggestions in this regard) to the extent necessary, is neither extravagant nor anti-national rather with true spirit of federal set-up.

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CHAPTER 5

A CASE STUDY OF BIHAR: 1977-89

The name 'Bihar' is a distorted form of 'Vihara' which means a Buddhist monastery. It is mentioned in the Vedas, Puranas, epics, etc.[1] At present, Bihar, with its rich mineral resources and the valuable legacy that history has bequeathed to its people, is almost certainly one of the most fascinating and interesting states of India. Till 1911 Bihar formed part of the Bengal Presidency, when on 12 December 1911 a separate province of Bihar and Orissa was created. In 1936 Bihar was made a separate province.

Lying approximately between $21^{o}58'10''$ and $27^{o}31'15''$ N latitudes and $83^{o}19'50''$ and $88^{o}17'40''$ E longitudes in the lower and middle Gangetic regions and extending to 605 kilometres from West to East, this almost quadrilateral state embraces some of the most fertile lands in India. It has an approximately of 1,74,083 square kilometres - 5.71 per cent of the total area of the Indian Union. It is bounded on the north by Nepal, on the east by West-Bengal, on the West by Uttar Pradesh and Madhya Pradesh and on the South by Orissa.

An idea of Bihar's tremendous manpower can be had from the Census of 1991. According to it, the State's population is 86,338,853 - a staggering figure to most of us, indeed, because while Bihar covers only 5.3 per cent of the country's total area, it has 10.23 per cent of the country's population! In this respect, then, the state of Bihar is next only to Uttar Pradesh which has 16.4 per cent of India's population. "It is interesting to note that out of about 250 countries in the world, only seven, excluding India, have populations higher than that of this state".[2]

Topographically, Bihar does not present a uniform picture. The most striking geographical feature of Bihar is the sharp division between the great monotonous alluvial plain of the ganga and her tributaries and the Chhota-Nagpur Plateau. The northern portion is almost entirely a level tract and is an extremely fertile strip of land, the land being watered by rivers Sarayu, Gandak and Ganga. While the southern region is wooded and hilly, which is made up of several smaller plateaus and dissected hilly country interspersed with valleys. The alluvial plain both sides of the Ganga has been formed by the silt carried by this mighty river and its numerous tributaries. The Chhota-Nagpur plateau, however, has some of the oldest rocks in the world.

Bihar is, thus, traditionally divided into three natural divisions, viz. (i) the North Gangetic Plain, (ii) the South Gangetic Plain, and (iii) South Bihar Plateau.

THE NORTH GANGETIC PLAIN:

It extends from the base of the terai in the north to the Ganga in the south. It spreads over the whole of the Tirhut and Kosi divisions and has a gentle slope towards the South. The Ganga flows from west to east near the southern margin of the plain. It is noticeable that the soil even at the foot of the hills has no rocky formation and wherever water can be impounded, rich growth of crop is possible. The hill-streams, however, play havoc by bringing down huge quantities of sand and destroying cultivable lands.

THE SOUTH GANGETIC PLAIN

The alluvial filling south of the Ganga is shallow, a mere veneer and the peninsular edge is very ragged. A considerable part of this sprawling plain is but bhangar, and the inundated areas are fewer than the Tirhut division. Both north and south of the Ganga, the construction of railways across the drainage causes local, but sometimes disastrous, water-logging and flooding. Some of these temporary inundations, however, are agriculturally useful; rabi crops are grown on them when they dry out, or they are bunded for producing dry-weather rice.

THE CHHOTA-NAGPUR PLATEAU

The southern part of the state, an undulating tract of land full of hills and ridges and with many rivers, valleys and basins, is very different in character. The main coalfields lie partly in West Bengal, partly in Bihar and notably along the Damodar valley. The principal field Jharia-Asansal-Raniganj, shared by the two states, yields up to nine-tenths of India's coal.

"Bihar happens to be the richest state in India from the point of view of mineral wealth, accounting for 41 per cent of its total mineral production by weight and 30.5 per cent by value. The Chhota-Nagpur plateau, which is the richest mineral belt in the whole of the Indian sub-continent, contains the world's largest reserves of mica, and also large quantities of iron ore, copper, bauxite, limestone, kyanite, china-clay, fire-clay, etc. Bihar produces 100 per cent of copper and apatite, 95 per cent of Kyanite, more than 50 per cent of coal, 60.34 per cent of mica, 48.28 per cent of iron ore and accounts for 40 per cent of its coking coal".[3] Our knowledge of Bihar's mineral resources is admittedly far from complete as is obvious from the growing number of cases of newly explored reserves.

The economic life of Bihar, however, centres around, and draw sustenance from agriculture. The supreme economic importance of agriculture may be realised from the fact that about 80 per cent of the population of this state draws sustenance from it. "It is no exaggeration, therefore," says Ram Chandra Prasad, "to say that the success or failure of the crops every year is a matter of vital importance. More so because as much as about 90 per cent of the total cropped area here is utilised for foodcrops against the national average of only 75 per cent".[4] Bihar's economy is exposed, thus, to the vicissitudes of the seasons. Here droughts and flood sometimes cause scarcity and have been known to cultivate in famine. In such a situation, the State requires a well conceived plan which could yield maximum possible benefit to the people of the state as well as to the nation.

But before coming to planning in Bihar, it is better to estimate the State's resources. First of all it should be cleared at the outset that, total resources of a state is equal to Additional Resources Mobilisation (ARM) and negotiated loans and state enterprises market borrowings and withdrawal from reserves and state budgetary resources other than negotiated loans and state enterprises borrowings. The performance of the State in additional resources mobilisation has not been consistent. Sometimes it has been far below whereas occasionally it has performed better.

Table - A

Rs. in crores

Year	Plan Outlay	ARM
1980-81	476.61	32.38
1981-82	560.00	143.75
1982-83	670.00	217.57
1983-84	681.00	357.66
1984-85	751.00	428.99

Like other states, Bihar, too, started off planning for the overall development of the State and since then it has come a long way. Though formal planning process began only in 1967 with the establishment of the State Planning Committee after the 'Administrative Reform Committee report, yet, the origin can be traced back from late 1950s. At present the main planning machineries at the state level in Bihar consist of the State Planning Department, the working groups and the State Planning Boards.

The State Planning Departent came into existence as an independent entity on the 18th of December 1959 through a Bihar Government Resolution. Prior to this, Planning was directly looked after by the Development Commissioner. The State Planning Department was required to scrutinize, evolve and formulate the plans for the State as a whole, assess and allocate resources, make such adjustments as may be necessary from time to time and also evaluate the progress of plan projects generally as.... the work proceeds. The Department of Planning was thus in overall charge of the work relating to planning and functioned as liaison office betwen the Planning Commission of the Government of India on the one hand and other administrative departments of the State Government on the other.

The Working Groups which generally also include representatives of the Central Ministries are constituted by the Development Commissioner before the commencement of each Five Year Plan for each sector or sub-sector of development. The Groups are required to assess past progress, problems involved and the future prospects of development in the concerned sectors and frame the development programmes for the Five Year Plan accordingly. After the Working Groups submit their reports, they cease to exist.

Following the recommendations of the Administrative Reforms Committee in their interim Report on 'Machinery for Planning', the State Government set up the State Planning Committee on 22nd December 1967, through a Bihar Government Resolution. This had, however, replaced the Bihar State Board for Planning and Development which had been initially set-up in November 1963.

The State Planning Committee has comprehensive functions relating to plan formulation and continuous evaluation of the progress of the State's economy. But it is only an advisory body and has neither any full-time member nor a separate secretariat of its own. However, the Planning Department of the State Government functions as its secretariat. But the apex planning organisation - Bihar State Planning Board was set-up by the State Government under its resolution dated 11th March 1972, on the eve of the formulation of the fifth plan. The Planning Board functions under the administrative control of the planning department or the State Government. The functions of the Board are:[5]

1) To prepare an inventory of the State's resources and to suggest measures for augmenting them;

2) To prepare a perspective plan for the certain period of time;

In other words, the main functions of the Planning board are the preparation of a perspective plan, critical appraisal of previous plans, long term evaluation of plans and programmes, the preparation of shelves of projects and making recommendations on the priority of objectives and major projects and programmes.

In the words of N. Somasekhara, "the Planning Department is the executive or administrative body in charge of the day-to-day affairs of planning. It is responsible for collating the plan proposals received from the Technical Department and discussing these with those departments. As stated above the Planning Department's responsibility is to direct the Technical Department and guide them in drawing up plan programmes".[6] Planning at the district and block levels are handled by the Development Commissioner and the organisation under him. Thus, district planning is also the responsibility of the Planning Department. Here it should be remembered that the Planning Department in Bihar is headed by the Principal Secretary to the Government of Bihar who also happens to be the Development Commissioner.

By now it is clear that there is no planning organisation at the state level as it exists at the centre in the form of 'Planning Commission'. Neither did they have expertise nor full time members like the Planning Commission. That's why, there is the division of planning work among the various planning agencies. Model building is undertaken by the Planning Board because it is supposed to be the key organisation of planning at the State level. "In addition, an outside agency namely, A.N. Sinha Institute of Social

Studies builds an input-output model which is utilised for the purpose of formulating a consistent macro-economic perspective plan. Alternative targets are fixed by the State Planning Board which is responsible for the choice of policy instruments. Sectoral allocation of investment is determined by the Secretariat, the State Planning Board and the Technical Department. The same three agencies are also responsible for project formulation. Resource estimates are prepared by the Finance Department. The input-output analysis and the phasing of plans are not undertaken. According to the State Planning Board's Report - 1974-75, 'some of the constraints of the Planning Board are the dearth of suitable accommodation for the various divisions, library and cartography unit shortage of technical personnel, the gaps and delays in the flow of information from the various agencies in the Government of India and the State Government. Steps are being taken to remove these difficulties".[7] Even the Government of Bihar accepted the inadequacy of the Planning machinery in the State while replying the questionnaire of Sarkaria Commission. In its view, "the monitoring and evaluating machinery so far established in Bihar is quite inadequate. Most of the Departments do not have a proper monitoring arrangement".[8]

Next step in planning process is to formulate a plan in a given space and time. Since policy planning involves a strategy to shape the future in a preferred direction, it must encompass certain assessments about the future and its impact on one's objectives and goals. In turn this would necessitate a knowledgeful and data based conceptualisation of future trends. Such assessment has to be based on a careful evaluation of trends in different areas relevant to the goals and objectives to be achieved and it cannot just be a linear extrapolation of current trends.

That is to say that, economic development is a long term process. Growth involves introducing changes in social structure, acquisition of new skills and capabilities by the people and creation of social, economic and institutional infrastructure which are time consuming in nature. "To ally this fear, a perspective plan portrays the direction in which the economy is to move and helps to avoid bottlenecks in the economy by taking anticipatory action well in advance. The perspective plan, therefore, provides a background to the successive Five Year Plans and Annual Plans. The problem that can be solved over a very long period can be taken into account now itself. Indeed once the perspective plan for 10-15 years is outlined, it is easier to prepare short term and medium term plans".

The Perspective Plan Model was originally prepared for a period of 15 yeas from 1974-75 to 1988-89 encompassing the Fifth, Sixth and Seventh Five-Year Plan. But as the Fifth Five Year Plan (1974-79) had been terminated on the 31st March 1978 and a new Medium term Plan for a five year period (1978-83) had been launched from the 1st April, 1978, it was considered necessary to modify the original Perspective Plan

Model. The modified model then covered a period of 11 years from 78-79 to 1988-89. After a careful study of all aspects of the problems, the Perspective Plan had been designed to achieve the following objectives"[10]

1. to catch up with the all-India per capita real income level by 1988-89;
2. to attain full employment;
3. to attain self-sufficiency in food-grains;
4. to promote industrialisation;
5. to provide the minimum needs such as elementary education, drinking water, etc.
6. to attain self-sufficiency in power and irrigation; and
7. to remove social, economic and regional disparities.

Further, the new strategy of "growth for social justice" instead of "growth with social justice had been kept in view.

But again, the change of guard in the State in 1980, undermined this new 'Perspective Plan Model'. So far, none of the objectives of the elusive perspective plan has been achieved in the State. All these have been made possible only because 'federal politics dominated over federal planning'. To quote Kamla Prasad, the former Chief Secretary of the Government of Bihar, "federal issues are inherent in Central fiscal transfers, investment by Central financial institutions, direction of private corporate investments, dispersal of railway and national highway networks, location of national power plants and pricing of power. Earlier, they were being debated by experts alone. Now there is a growing awareness that these pertained to the root causes of the financial poverty of states".[11]

As has been said in other chapter that the State's own resources fall short of their requirements and, resultancy, they have to depend on the Central assistance, the Centre uses this opportunity to influence the State's financial position as well as the planning process at the State level. And this has clearly been exposed in my case study of Bihar. Though, both the Centre and the State (Bihar) have their own arguments in their favour and blame each other for shortcomings.

Illustration of this hypothesis follows:

Table - B

Rs. in crores

Year	Plan outlay	Actual Expenditure
1980-81	476.61	465.47
1981-82	560.00	574.65
1982-83	670.00	593.51
1983-84	681.00	595.135
1984-85	751.00	751.00
1985-86	851.00	932.21
1986-87	1150.00	1271.82
1987-88	1500.00	1195.14
1988-89	1600.00	1269.21

The plan size for the year 1985-86 was fixed at Rs.851 crores by the Planning Commission. There was serious doubt regarding the capacity of the State Government to mobilise adequate resources for this size of the Plan. However there was considerable improvement in the resource position of the State Government and the actual expenditure exceeded the outlay and was Rs.932.21 crores. In the light of the performance in the year 1985-86, there was considerable increase in the outlay for the year 1986-87 and it was fixed at Rs.1,150 crores. As a result of a substantial opening balance for the year 1986-87 and additional resource mobilisation (ARM) of about Rs.120 crores, the resource position remained satisfactory and the actual expenditure in the year 1986-87 exceeded the Plan Outlay of Rs.1150 crores and was Rs.1281.17 crores.

The encouraging results in the first two years of the VIIth Plan convinced the Planning Commission regarding the capacity of the State Government to mobilise adequate resources for the plan. The annual plan for the year 1987-88 was, therefore, fixed at Rs.1500.00 crores, showing a considerable increase over that for the year 1986-87. "However, a number of factors including the unprecedented floods in the State during the year 1987-88 put considerable strain on the financial resources of the State Government and there was deterioration of the State's resources amounting to Rs.577 crores".[12] The size of the Annual Plan 1987-88 was, therefore, reduced to Rs.1400 crores. As against this, the actual expenditure was Rs.1194.84 crores.

As a result of difficult resource position in the year 1987-88, the opening balance for the year 1988-89 was not helpful. The strain in balancing the finances in the year 1987-88 spilled over to the year 1988-89. "Having regard to the need to increase development expenditure to raise the low per capita outlay from the previous plans and the backwardness of the State, the size of the Annual Plan, 1988-89 was fixed at Rs.1600 crores. The major earthquakes of August, 1988, however, gave a severe jolt to the otherwise strained finance of the State Government and the Annual Plan Outlay was revised to Rs.1200 crores".[13]

The Central government has directed that "Bihar will have an outlay of Rs.13,000 crores for the Eighth Five Year Plan (1992-97) subject to the State Government being able to raise Rs.2,500 crore as additional resources indicated by it".[14] Thus, it is clear that even now when the State is being ruled by Janta Dal and the Congress (I) is ruling at the Centre, there has been no other criterion than which was followed during the Sixth and Seventh Five Year Plan, when at both the places Congress (I) was in power.

But it does not mean that the conditional central assistance is acceptable to the State Governments. Rather they are opposed to the deduction of central assistance subject to any ground, and claim that annual exercises of plan outlay always witness the role of politics. In reply to the quiestionaire of Sarkaria Commission, the Government of Bihar says, "there is no justification for deducting central assistance on the ground that the performance in the earmarked sector has not been as per predetermined targets. This amounts to penalising the financially weaker states".[15]

Without any hesitation, the State government accepts that it is absolutely necessary to ensure incorporation of the national priorities in the State Plan but once Planning Commission has identified the national priorities the State Government should be left free to draw up projects and programmes based on local conditions and needs within these priorities, without following any centrally prescribed pattern. Regarding this, the view of the Janta Party, which ruled in late 1970s both at the Centre and in the State, is that, "the Planning Commission should accord its approval of outlays only for some major sectors of development and leave the rest to the States to determine the allocations to the districts on the basis of a well defined formula".[16]

So far as role of politics in annual exercises of Plan Outlay is concerned, it can be clear from the following example which also show how the Centre defends its position. "According to the figures available, besides U.P. and Tamil Nadu, the other big states to have a reduced outlay for 1992-93 included Bihar and Madhya Pradesh. On the other hand, Karnataka secured a massive step-up of Rs.405 crores".[17]

Justifying this stand, the Deputy Chairman of the Planning Commission, Mr. Pranab Mukherjee said that, "if the outlays had increased it was mainly because of their own efforts in resource mobilisation and the plan implementation with the Central assistance remaining the same".[18] In this justification it appears to me that it has both the element of truth and reason, if I compare it with other data. To begin with, generally, the proposed outlay of a plan exceeds the final plan outlay but the Eighth Plan Outlay of the State (Bihar) remained same as was proposed by the State i.e. Rs.13000 crores.[19] Whereas the Centre and the State are being ruled by two different parties.

Table - C

Rs. in crores

Year	Proposed Outlay	Final Outlay
1981-82	687.02	560.00
1982-83	820.17	670.00
1983-84	948.20	681.00
1984-85	1090.06	751.00

Moreover, contrary to its claim, the effort of the State Government has been in mobilising additional resources if we see recent figures. "In the last financial year (1991-92), Rs.840 crore was supposed to be mobilised as additional resources. But against this, till January 1992, only 15 per cent had been collected".[20] It has also been observed that, "sales tax and excise collections have fallen by 50 per cent following preoccupation of the administration with law and order problems".[21]

Again, "against a target of Rs.1,205 crore to be collected from coal and other minerals, the actual collection has been only of Rs.331 crores".[22] On this point even the Government of Bihar agrees to. Mr. Laloo Prasad Yadav, the Chief Minister of Bihar said that, "most of the State resources were being spent on salaries and there was not much scope for raising additional resources".[23] But he was quick to add that, "an increase in the coal royalty may improve the State's financial resources".[24]

It is well known that Bihar is rich in minerals and particularly in coal. But royalty given by the Centre on coal is not adequate nor a uniform royalty formula has been adopted by the Centre. "Petroleum and coal belong to the same generic category of energy source but a uniform royalty formula on calorific value of the two commodities has not been adopted".[25] Royalty is given on the basis of tonnage which fetch about Rs.43 crore monthly. Rate of royalty is revised every three years on the tonnage basis. Whereas, the State Government demands that royalty rate should be paid on the basis of market value of coal. Arvind N. Das observes that these reflect a growing sense of outrage in the intelligentsia of a state like Bihar against what is seen as the discrimination that has been practised by the Centre over the years in the name of promoting the development of India as a whole".[26]

"The issue is also igniting political passions which have transgressed partisan considerations. The Chief Minister, mr. Laloo Prasad Yadav has been addressing public meetings in the State against the Centre's discriminatory practices. It is significant that the Congress (I) leader Dr. Jagannath Mishra, has endorsed the statements in this regard of his political *bete noire*. Indeed, Dr. Mishra had raised this issue earlier and had incurred the displeasure of the Centre. Among other political forces, the Jharkhand Mukti Morcha has been consistent in agitating on the issue of the mineral-rich region not getting a proportionate benefit from its natural endowment. The other growing political formation, the Indian People's Front has also been so vociferous in this regard that its critics have dubbed the Bihar People's Front".[27] Thus, it is clear that the Centre has been playing partisan role against Bihar irrespective of party affiliation. Though, no doubt partisan role becomes bitter when Bihar is ruled by a party other than which rule at the Centre. This is clear from the coal royalty issue when some of the states agitated against the Centre.

To pacify the agitating states on the issues of coal royalty rate, the Central Government merged the cess and royalty together in order to hike the royalty rate. The catch, however, is that though the hike from an average of Rs.5 to Rs.70 per tonne appears to be hefty, it is going to be deceptive one. In fact, Bihar stands to lose more by way of cess than what it will gain by the increase in royalty.

Here once again discriminatory politics can be seen. "Opposition ruled states like West Bengal, Bihar and Orissa stand to lose by new formula. Bihar will get only Rs.541 crores as royalty as against the present yield of Rs.678 crore. Whereas Congress (I) ruled states like Maharashtra is beneficiary whose quantum of royalty will increase from Rs.10.18 crores per annum to 96.3 crore. Andhra Pradesh's royalty will be more than double from the level of Rs.55.27 crore to Rs.119 crore and Assam, if it opts for the new formula will get Rs.9.58 crore as against the present cess which yields only Rs.54 lakhs".[28] From this it can be inferred that, "the merger of cess and royalty by the Centre in respect of coal is part of a process of the abridgment of the constitutional right of states to levy cesses in order to raise revenue".[29] It puts not only certain states at once at a fiscal disadvantage but it also violates the fundamentally federal chracter of India.

In the view of Kamla Prasad, "the freight equalisation, consignment tax and royalty-revision on minerals; are purely economic management issues. They call for simple reversion to *status quo ante* since the discriminatory changes made by the Union government are no longer justified".[30] Mr. Laloo Prasad, too, urged the Centre "to withdraw the frieght equalisation policy so that the state can reap the advantages of its raw materials. He further said it was proposed that the States and the Centre must aim at increasing their revenues and restricting their expenditures so that fiscal balance was attained by them. He suggested that the Centre concentrate on price stability so that staff expenditures are kept restricted".[31]

Here one should not forget that expenditure has its own repercussions on plan outlay and plan formulations. It is also taken into account by the Centre while deciding for central assistance. "Shortfall in expenditure in earmarked sectors involves proportionate reduction in central assistance even if total annual plan expenditure exceeds approved outlay".[32] For example, the Reserve Bank of India (RBI) advised state governments to mobilise additional resources and enforce economy measures so as to avoid taking recourse to a cut in plan size during the eighth plan. In fact, "the RBI advice is the outcome of an analysis of finances of 25 states during 1990-91, the first year of the plan, pointing to the disquieting tendency of growth of non-developmental expenditure".[33]

However, statistically, it appears to me that there has been no uniformity in the Plan Outlay and expenditure. sometimes, it has exceeded and sometimes remained below target. Whenever it has exceeded, it is generally due to increased central assistance and better performance in additional resource mobilisation".

Table - D

Rs. in crores

Year	Plan Outlay	Actual Expenditure	Central Assistance
1978-79	384.14	313	255
1979-80	376.27	321	215.86
1980-81	476.61	465.47	258.41
1981-82	560.00	574.65	247.86
1982-83	670.00	593.51	247.25

Here it must be remembered that during 1978-79 and 1979-80 there was Janta Party regime both at the Centre and the State whereas after that till 1984 Congress (I) remained in power at both the places.

Table - E

Period	Bihar	Centre
26.06.77 to 18.02.80	Janta Party	Janta Party
08.06.80 to 16.12.89	Congress Party	Congress Party

From the year-wise approved outlay and actual expenditures incurred, it seems that the actual expenditure in the 7th Plan was 87.42 per cent of the approved annual Plan Outlays. If, however, a comparison is made with the original 7th Plan approved outlay, which was fixed at Rs.5100 crores, the percentage of actual expenditure over the approved outlay comes to 18.30. This means that the original 7th Plan Outlay has been exceeded by about 18.3 per cent. This was possible due to both increased central assistance and increased mobilisation of State resources".[34]

Whenever, the expenditure remains below target, it is alleged that it is owing to the diversion of funds. Commenting on the overall expenditures in the 7th Plan, the Draft 8th Five Year Plan says, "performance would have been better but for the diversion of resources due to natural calamities and cost of pay revision".[35] Consequence of this diversion always results in the deduction of plan outlay. For example, "the Central Government has ordered to reduce the amount of Rs.107 crore because expenditure by the Bihar Government fell short of the last year's allotted centrally sponsored scheme".[36] Due to this conditional resource allocation and rigid demarcation of expenditure, the Janta Party opines that "in matters of resources allocation to States, there can not be a rigid demarcation between 'Plan' and 'non-Plan', 'developmental' or 'non-developmental', 'revenue' or 'capital' accounts. The problem of resource allocation to States must be viewed in a wider and a more comprehensive perspective".[37]

Then, there is the provision of loan within central assistance (70 per cent loans and 30 per cent grants) which, too, reduces the resources of the State. What causes deep concern to the State is (i) growing volume of States' indebtedness to the Centre, (ii) the mounting interest charges, and consequently (iii) smaller funds left available for meeting development requirements. "The indebtedness of Bihar rose to Rs.2,195.48 crores in 1982-83 leaving the State very little surplus from the central assistance after repayment of debt and debt service liability to the Centre. As against the Central assistance of Rs.273.15 crores for 1982-83, the repayment of loans to the Centre and interest thereon amount to Rs.188.97 crores. This is a major factor contributing to the financial imbalances in the States".[38]

Table - F

Rs. in crores

	1979-80	1980-81	1981-82	1982-83
Central Assistance	215.86	257.01	247.86	247.25
Repayment of loans to the Centre	51.09	63.54	78.56	44.96
Payment of Interest to the Centre	26.99	105.23	83.66	96.05
I - (2+3)	137.53	104.24	85.64	56.24

So, to improve the financial position of the State, there needs to be some alteration in the central assistance. First, funds made available by the Centre to the State for tackling natural calamities should be of the nature of grants rather than loans, as latter add to the State's debt burden. Secondly, it is so because the State is engaged in discharging the responsibility of providing a large part of infrastructural facilities for social and economic development.

Centrally sponsored schemes, too, have not been beneficial for the State as they distant the State's own plan. Further locational feasibility is not taken into account while imposing particular scheme over the State. Commenting on the advantages and disadvantaes of the schemes, the State Government opines that "Centrally sponsored schemes result in some distortion of priorities within the State sector and taking up of schemes despite the fact that Government does not consider them as schemes of high priority in the local situation. What is more objectionable is that the Ministers suddenly decide to discontinue certain schemes thereby creating a problem for the States in terms of resources".[39]

The Gadgil formula, which is used in allocation of central assistance, is also not conducive to a State like Bihar. It should be pointed out that even revised Gadgil formula for the allocation of central assistance to the State needs to be changed so as to give greater weightage to backwardness and level of poverty. At present due to its nature, it has aggravated the regional disparities as different states vary in nature and social composition. Mr. Laloo Prasad, the Chief Minister of Bihar said that "for the backwardness of the State, theCentre is responsible and Gadgil formula is not in the interest of the state"[40] at a seminar entitled 'The Backwardness of Bihar' at Patna. When the same question, i.e. regarding Gadgil Formula was asked to Mr. Pranab Mukherjee, the Deputy Chairman of Planning Commission, in a seminar entitled "Conflicting Issues in Centre-State Relations", he said "problems remain there irrespective of whatsoever changes are brought in. Only with the change of time and changes in the mode of socio-economic conditions, problems can be solved".[41]

Thus, from overall discussions and trends between 1977-89, it appears that Bihar has continuously been neglected by the Centre. Whether it is a question of federal fiscal transfers or balance development, Bihar has been the poorest state of India notwithstanding rich mineral resources.

There is more than one factor responsible for this. It is the inability of the State Governments to mobilise enough resources because of their own instability.

Table - G

Rs. in crores

Year	Plan Outlay	States' Resources	Central Assistance
1977-78	282.22	81.35	105.65
1978-79	384.14	88.00	255.00
1979-80	376.27	96.00	215.86

Instability indicates the change of the Chief Minsiters in very short period. Within two and half year, two Chief Ministers took office

Table - H

Period	Party	Chief Minister
26.06.77 - 21.04.79	Janta	Mr. K. Thakur
21.04.79 - 18.02.80	Janta	Mr. Ram Sunder Das

So, their emphasis naturally shifts on short-term plan. To quote Paranjape, "political instability seems to be a much greater source of political weakness in development planning than ideological differences. It is observed that decision-making on a sustained long term development plan suffers with unstable legislative support. In addition to this, there is an obvious unwillingness to do anything which might adversely affect any major section of the electorate. Economic development can't be ensured without the citizens themselves paying the ncessary cost, undertaking efforts and making sacrifices".[42] In short, I would like to say that asking for more central assistance and putting all the blame for various ills on the Centre is only a short term way out but it can certainly solve no problem.

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CONCLUSION

It is well known that planning is not a new phenomenon in the Indian context. Even prior to independence, during the last phase of the national movement, planning was considered to be the best treatment for the Indian-ills. Afte independence, planning was finally introduced for the purpose of overall development of the country. In the beginning, no doubt, it got wide appreciation and raised the hopes and aspirations of the people but now after more than four decades of planning, its fallacies have been exposed. The aims and objectives have not been fully realized. The goal of self-reliance in food-grain has been achieved but at the same time the aspirations of the teeming population for the social justice has remained a dream. The growth has taken place but that has not percolated to the lower rungs of the population ladder.

The planning process was introduced not only at the central level but also at the state level because of the federal nature of the Indian Constitution. But the state level plan got momentum only after 1967 when opposition parties, i.e. non-Congress parties came into power in several states. The political change, changed the colour of planning at the state level. There came a drastic change in the method of allocation of funds and central assistance to the states. Another change took place after the report of the Administrative Reforms Commission (ARC). At this juncture many states tried to constitute an appropriate planning machinery which could help in formulating state level plans.

In the beginning, the state level plan was started on the same lines as that of the Central Plan. But the difference is that the state planning is not done independently. It is so because the states' own resources fall short of their requirements, and for this shortage the states heavily depend on the Centre for assistance. This assistance is given to the states mainly through two institutions, among them one is constitutional and another is extra-constitutional. It is the latter which while giving central assistance to the states, takes political criterion into account more than the economic one. And here begins all sorts of tensions between the Centre and the states. Tug of war takes place between centralization and demand of autonomy.

The states accuse the centre of making the federal set up a mockery whereas the Centre justifies it on the name of desirability. The Centre asserts that it reserves the right to allocate the funds to the States to remove regional disparities. But the state government of Bihar complains that "the system of allocation of funds has failed to remove regional imbalances. It has, on the contrary, accounted regional disparties which will be manifested from the fact that gap between the per capita income of Bihar and the country as a whole which was only 32.7 per cent during 1972-73 has gone up to about 43 per cent during 1981-82".[1] Further, the criteria of giving central assistance to the states is not very acceptable. Many state governments have demanded the reversal of the present criteria of 70 per cent loan and 30 per cent grants. The provision of loan instead of benefitting the states has become a burden because of long term investments, law and order problems, and other fast growing non-developmental plan expenditures.

The other side of the coin is that the states have shown reluctancy in mobilising additional resources. The state governments because of electoral politics generally do not dare to increase the tax burden on the people on the subjects which came under the State List. Their expenditure is also not done in appropriate manner. In the view of N.T. Toskar, "almost all the states have been responsible for financial indiscipline. The expenditure on day-to-day administration and for development staff absorbs nearly 70 per cent of the revenue collection. Since there is a resource constraint in the States, political horse trading for development expenditure is unavoidable... The States clamour for funds, and accuse the Centre for discrimination. The Central Government retaliates by imposing more controls. In this slanging match and politics of power, it is the people who are paying the price".[2]

Apart from all these, there is the National Development Council (NDC) which is supposed to be the apex body of plan formulation. Its composition reflects the federal nature of the institution. But it is often by-passed. It has been reduced to a meagre rubber-stamp which gives its assent without any alteration in original plan prepared by the Planning Commission. In other words, the States have almost no say at the central level plan. But it seems astonishing when the concept of federal set up is undermined by the Centre. Here one may recall that the state plan is not solely prepared by the State governments; time to time it gets direction from central ministries and the Planning Commission. Further, the state plan is superimposed and thus, distorted by centrally sponsored schemes and matching grants. The Planning Commission not only trims out the state plan in the beginning but also gives constant direction to the state plan. In short, "planning in our country by and large continues to remain a highly centralised affair, in which good deal of initiatives and direction lies with the Central Government".[3]

From the brief analysis on the basis of data collected from various sources on Bihar, I have discovered some trends and existing constraints at the state level planning. No doubt, it is also due to State's weak position yet the Centre is chiefly responsible for making the state planning a dependent variable. The States does have the planning machineries of their own among which some function on permanent basis and some on ad hoc basis. But the state level planning machineries lack in expertise and are not as autonomous as the Planning Commission at the Central level. They have to take into accunt the guidance provided by the central ministries and the Planning Commission while formulating the plan.

Though minerally and agriculturally rich, Bihar has basically remained a poor state whether it is per capita income or per capita expenditure. Between 1977 to 1989 there have been as many as seven Chief Ministers in the state from two different centrist parties and at the Centre four Prime Ministers from the same two centrist parties, i.e., the Janta Party and the Congress (I) Party. But it was not the party politics which had been considered vital for granting control assistance. Rather, trends had remained same throughout the period irrespective of party affiliations. The amount of the central assistance had been more when previous years expenditure exceeded the total plan outlay, and additional resources mobilisation (ARM) of the State had been better. During the said period it did not matter which party was ruling where. So, if there had been any other complain, it was not against a particular party rather it was against the Centre which had constantly neglected the development planning of the State.

The State plan also kept on fluctuating due to change in political power either at the state level or central level. It was so because of populist politics to win over the electorate. Divekar opines that "if a party in power in a state is replaced by another party or a coalition of parties, the first thing that the latter would perhaps do, would be to restart negotiations with the Centre to increase the size of the state plan and change the pattern of its allocations. Each new party in power would naturally like to show that what was done by its predecessors was not adequate in the best interests of the State, and therefore, there was much scope to improve upon the work done by the former party in power and in various fields. Increasing the size of the state plan and changing its priorities would be naturally among such improvements".[4] Thus, it can be inferred that politics has also penetrated, though only to an extent, into the state planning - sometimes politics is played by the central leaders and sometimes by the leaders of the State themselves. Intervention by the Centre is done at the cost of the federal nature of the country. But if the question arises why the Centre intervention? Answer is that it is owing to the weak leadership of the State. A top-ranking Bihar left party leader said, "Bihar needs a political boss who should not have any lust for his chair. He needs to bring about radical improvement in the administrative, political and official system with an iron-hand and wage an all-out war against growing mafia activities under the patronage of politicians and bureaucrats".[5]

And to improve the federal structure of the nation, the powers of the Centre and states should be clearly defined. This is possible only when the economic powers of the States and the Centre are defined along with political power. Apart from this, I would like to suggest, which I think many scholars and planners too will give a thought is that some kind of planning machinery and its functioning should be mentioned in detail in the Constitution of India. I felt a sense of satisfaction when more or less the same kind of view was also expressed by Mr. Shivraj Patil, the speaker of the Lok Sabha, in a seminar entitled "Constitution of India in Percept and Practice". He wondered "whether it was not possible to have a chapter on planning in the Constitution".[6]

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2. N. Toskar, Poverty and Planning in India in <u>The Hindu</u>, New Delhi, 15 May 1992.
3. Commission on Centre-State Relations, op. cit., p.146.
4. V.D. Divekar, <u>Planning Process in Indian Polity</u> (Bombay: Popular Prakashan, 1978), p.126.
5. Arvind N. Das, Bihar is not the only aggreived State in <u>The Times of India</u>, New Delhi, 14 January, 1992.
6. <u>The Hindu</u>, New Delhi, 26 April 1992.

APPENDICES

Appendix - 1

	Period	Party in power	Chief-Minister	Prime-Minister
1.	11.04.75 - 30.04.77	Congress	Dr. J. Mishra	Smt.Indira Gandhi
2.	30.04.77 - 26.06.77	President's Rule		M.Desai
3.	26.06.77 - 21.04.79	Janta	Mr. K.Thakur	M.Desai
4.	21.04.79 - 18.02.80	Janta	Mr. Ram S.Das	M. Desai & Charan Singh
5.	18.02.80 - 08.06.80	President's Rule		Smt.Indira Gandhi
6.	08.06.80 - 14.08.83	Cong. (I)	Dr. J. Mishra	Smt.Indira Gandhi
7.	14.08.83 - 12.03.85	Cong. (I)	Mr. C.S. Singh	Smt.Indira Gandhi & Rajiv Gandhi
8.	12.03.85 - 13.02.88	Cong. (I)	Mr. B. Dubey	Rajiv Gandhi
9.	13.02.88 - 10.03.89	Cong. (I)	Mr. B.Jha Azad	Rajiv Gandhi
10.	10.03.89 - 16.12.89	Cong. (I)	Mr. S.N. Sinha	Rajiv Gandhi
11.	16.12.89 - 10.03.90	Cong. (I)	Dr. J. Mishra	Rajiv Gandhi

(Source: Official record, Assembly Library Patna).

Appendix No. - II

The central assistance made available to Bihar has been low as compared to all the State's average during the four decades of planning process, except during the Sixth Plan Period.

Plan Period	Per Capita Central Assistance	
	Bihar	All Stage Average
1st Plan	14	23
2nd Plan	19	25
3rd Plan	44	55
4th Plan	57	65
5th Plan	105	130
6th Plan	201	196
7th Plan	340	375

Source: Draft Eighth Plan

Appendix - III

Transfer of Resources from the Centre to the State by way of Taxes, Duties and Grants-in-aid

	Amount	Per cent	Per capita
VIIth Finance Commission 1979-84	Rs.2212.87 crore	10.62	Rs.392.68
VIIIth Finance Commission 1984-89	Rs.4220.47 crore	10.70	Rs.748.93

Percentage increase in the VIIIth Finance Commission over the VII Finance Commission is 90.72.

Source: Official Records,
Planning Department Library, Patna.

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Appendix - IV

Rs. in crores

Year	Plan Country	Actual Expenditure	States' Resources	Central Assistance
1977-78	282.32	N.A.	81.35	105.65
1978-79	384.14	313	88	255
1979-80	376.27	321	96	215.86

Sources: Annual Plans of above mentioned period.

Appendix - V

Rs. in crores

		1979-80	1980-81	1981-82	1982-83
1.	Central Assistance	215.86	257.01	247.86	247.25
2.	Repayment of loans to the Centre	51.09	63.54	78.56	44.96
3.	Payment of Interest to the Centre	26.99	105.23	83.66	96.05
4.	1 - (2+3)	137.53	148.24	85.64	56.24

Payment of Central Loans by Bihar between 1984-89 is Rs.949.60 crores.

Sources: Selected Plan Statistics, 1986, Govt. of Bihar and Draft Eighth Plan.

Appendix - VI

Rs. in Crore

	Plan Outlay	ARM*	State's	Central assistances
Draft Sixth Plan (1978-83)	N.A.	323.88	539.67	1190.93
Sixth Plan (1980-85)	3225	677.77	1965	1260
Seventh Plan(1985-90)	5100	N.A.	1085.99	1804.23

Sources: Three Five Year Plan.

* ARM - Additional Resources Mobilisation.

Appendix - VII

Rs. in crore

Year	Proposed Outlay	Plan Outlay	Actual Expenditure	ARM*	Central Assistance
1980-81		476.61	465.47	32.38	258.41
1981-82	687.02	560.00	574.65	143.75	247.86
1982-83	820.17	670.00	593.51	217.57	247.25
1983-84	948.20	681.00	595.135	357.66	314.16
1984-85	1090.06	751.00	751.00	418.99	370.48

* Additional Resources Mobilisation

Sources: Selected Plan Statistics, 1986, Government of Bihar.

Appendix - VIII

Rs in crores

Year	Plan Outlay	Actual Expenditure
1985-86	851.00	932.21
1986-87	1150.00	1271.82
1987-88	1500.00	1195.14
1988-89	1600.00	1269.21
1989-90	1800.00	1364.73

Source: Draft Eighth Plan, Government of Bihar.

Appendix - IX

Rs. in crore

	Sixth Plan (1980-85)	Seventh Plan (1985-90)
Plan Outlay	3225	5100
Central Plan	95.68	272.97
Centrally Sponsored Schemes	54.32	527

Sources: Sixth and Seventh Five Year Plan.

Appendix - X

Rs. in crores

	Approved Plan Outlay (Rs.per Capita)	Central Plan Assistance (1980-85) (Rs.per capita)	Devolution from VIIth Finance Commission (1979-84) (Rs.per capita)
Bihar	461.3	180.3	287.2
National Average	678.0	175.2	249.8

Sources: Official Records, Planning Department Library, Patna.

Appendix - XI

Bihar placed lowest among all states in per capita expenditure

	Per capita expenditure Bihar	Per capita expenditure National Average
Fifth Plan	207	302
Sixth Plan	442	670
Seventh Plan	642	1,022

Source: The Economic Times, New Delhi, 13 February, 1992.

Appendix - XII

Aggregate Resource	=	State Resources + Central Assistance
Plan Gap	=	Plan Outlay - Aggregate Resources
State Resources	=	Additional Resources Mobilisation(ARM) + Negotiated loans and state enterprises market borrowings + Withdrawal from Reserves + State budgetary resources other than negotiated loans and state enterprises borrowings.

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