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# **Growth and Diseconomies**

**ASHOK MITRA**

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**YALE MEMORIAL LECTURE, 1975**

**Gokhale Institute of Politics and Economics,**  
Poona 411 004

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## GROWTH AND DISECONOMIES

I FEEL honoured by the invitation from this great Institute to deliver the Annual Day Lecture associated with the name of its illustrious founder. I am more a dilettante than an academician of any genre. If, notwithstanding this fact, colleagues and friends at the Institute have commissioned me for the occasion this year, it is a tribute to their catholicity. I propose to exploit in full this generosity accorded to me and indulge in a theme which may appear to be altogether outlandish.

### I

It is perhaps a pardonable urge on the part of social scientists to look back from time to time and take stock of what their contribution has been to the social weal. The closing of the third quarter of this century provides such an occasion to those of my generation. The formative period for a considerable number of us, Professor Dandekar including, coincided with the second quarter of the century; we stepped into the more active phase of our professional career only towards the end of the 1940's and the beginning of the 1950's, even as the nation received her Independence and launched into what came to be described as the great adventure of socio-economic transformation. Those were electrifying days for us; the world lay at our feet; apparently nothing was impossible of achievement on our part. The past twenty-five years have witnessed a gradual fading of that self-confidence, and along with it, of our dreams. As the third quarter of the century now ends, all passion seems to have been spent. This may, up to a point, be the outcome of an inevitable biological metabolism, but is not at least part of it also linked to developments in the polity and the economy ?

The national scene presents a sombre spectacle. The air is thick with recriminations, bickerings, complaints. There is a thinning out of the tribe of optimists. There is an increasing belief that we have bungled our heritage and messed up our affairs; the great promise which India was at the time of Independence is obliterated, perhaps beyond redemption. This has come about, we are often told, because social scientists have failed the nation. Economists in particular are

at the receiving end of opprobrium. Too great a trust was reposed, it is said, by our decision-makers on economists and their prescriptions for planned growth. The prescriptions did not work, and economists have unfailingly come up with newer alibis why these did not work. These alibis deserve to be treated with contempt; things have gone wrong only because economists have advised wrongly. The priorities in planning turned topsyturvy because economists were steeped in lopsided notions; the operational aspects of planning were neglected because the arm-chair tribe of economists consistently underemphasised these. A doctrinaire approach to practical issues slowed down the rate of growth, again because economists are great doctrinaires. So goes the long chant of accusations : if some individuals are to be sent to the gallows for our present discomfiture, the most obvious candidates, there seems to be little doubt, are the economists.

One need not accept, either wholly or partially, any of these uncomplimentary references to the profession. The world is shaped not by economists, but by politicians; most of the time, crucial economic decisions are taken not on the advice of economists but despite their advice. Even so, it is difficult to avoid the judgment that in one sense economists in particular, and social scientists in general, have failed to do their duty by the nation. And they have done so not by offering an excess of wayward advice; nor is it a fact that they have been always devoutly listened to. The sin the social scientists have committed is in the other direction : they did not, I feel, assert themselves sufficiently during these twenty-five years. They allowed their profession to go by default. They took the conventional political wisdom too much for granted, and thereby passed up the opportunity to make their distinct contribution to the task of nation-building.

Let me elaborate. Two facts dominate the current economic scene. First is the quasi-stagnation in the nation's economic growth. In the decade since 1965-66, the national *per capita* income has risen little, if at all. If you listen to official apologists, the adverse turn in the rate of growth is a consequence of natural calamities marking the decade. One would however have thought that the whole purpose of a planned development effort is to make economic progress independent of vicissitudes such as are caused by natural factors. The other proffered explanation for slow growth, namely, the nation's involvement in hostilities with external powers, sounds equally unconvincing. In this imperfect world, India is not *sui generis* : other nations have fought more extensive wars during the decade and yet succeeded in performing better economically. If economic growth has been disappointing, it is not simply on account of the wars fought or the failure of rains, but because — as I would argue later — of more basic factors, such

as, for example, (a) savings having wither shrunk or not grown in a satisfactory manner, and (b) the deployment of savings for capital formation being less than optimal.

The other major emerging fact, which needs hardly be dilated upon within the precincts of this Institute, is the aggravation of income inequalities. Not only has the rate of income growth not been satisfactory, whatever growth has taken place has been most unevenly distributed between different income groups, and between different regions. One may suspend one's judgment on the issue of absolute impoverishment, but that some sections and regions have grown particularly poorer in relation to some other sections and regions and that over-all income distribution has become perceptibly more inegalitarian over the period is beyond dispute.

To sum up, there is not enough growth, and whatever growth does take place is unjustly distributed. The consequence is a rising turbulence at different points of the polity. A certain disenchantment is in the air, a disenchantment which feeds upon itself.

Once we come to analyse the factors underlying the quasi-stagnation, we cannot altogether avoid ideological questions. There is, for instance, a substantial body of opinion which maintains that a lesser concentration of economic power in the hands of the State would have yielded a higher rate of growth. The complexities which afflict the application of fiscal, monetary, administrative and physical controls, it is argued, has led to a lowering of economic efficiency. Cumbersome regulatory instruments have fouled up market signals and rendered comparative advantages infructuous; it has also given rise to a number of market rigidities which in turn have led to the emergence of oligopolies in industry and agriculture, and who does not know that oligopolists insist upon maximising profits through restraints in output.

All this is of course a one-sided recounting of facts. Without massive State intervention, few of the major social and economic infrastructures would have been built, or at least built on their present scale. Whether the culpability for the spread of oligopolies can be held exclusively at the door of controls is debatable : the depredations by oligopolists have not been markedly less in the neighbouring country of Pakistan, where the economic role of the State over the quarter of a century has been significantly more passive. It is also an open question whether income distribution would not have been even worse in the absence of State regulation.

Efficiency has to be defined in terms of objectives. While I will soon have occasion to refer to a specific aspect of efficiency, given the multiple calls upon the nation's instruments, it would be difficult to

maintain that the emphasis on the public sector *per se* has affected the efficiency of investments, and thus affected growth. A more important contributory factor for slow economic progress has been the general dearth of savings. Private savings have by and large played truant; given their mercantile bias, even those sections of the private sector, who have profited enormously from the stylised pattern of economic planning adopted since the early 1950's, have not ploughed back enough resources to high-growth productive activities. In fact, the expansion of the private corporate sector is these days itself largely dependent on transfer of resources from public institutions. A shrinkage in public savings too is now discernible, which compounds the problem. The extensive outlays on public undertakings are generally yielding a poor rate of return. While the burden of taxation on the non-agricultural sector is as much as 25 to 30 per cent of income, this is neutralised by the fact that, for agriculture, it is hardly 7 per cent, and that too rather regressively distributed. Finally, a major fraction of the State's resources is being pre-empted by the requirements of the current budget. The public sector's image as a progenitor of growth is therefore fading; there is a corresponding diminution of the resolve of the State towards regulating income distribution.

It is in this connection that I have one or two propositions to suggest. The economic process reflects developments in the sphere of the polity. One crucial political issue, namely that concerning Centre-State relations, is, I feel, of major relevance to the problems of growth and redistribution. And it is, while dealing with these issues that our generation of social scientists, in my view, has exhibited an excess of conformism. The structure of our Constitution is federal, with a seemingly even division of responsibility between the Centre and the States. In practice, however, the Centre is very much the active agent in the so-called federal entity. This is largely the outcome of the manner in which political affairs have developed in the country. In the programmes of most political parties, the theme of centralised power and unified administration is given the place of pride. Historical facts apart, the relatively more recent circumstances which led to the partition of the country have been instrumental in strengthening the urge for a strong Centre. The integration of the princely States, and the towering personality of Jawaharlal Nehru as Prime Minister, initiated a process which has gradually given rise to a situation where the overriding role of the Union Government is taken for granted in all economic, social and administrative matters. Because the command over resources is a pivotal element in governance, the process is enormously strengthened by the financial provisions of the Constitution.

The devolution of financial powers, as laid down in Part XIII of the Constitution, could not be more unambiguous. A Finance Commission, appointed by the President on the advice of the Union Cabinet, has as its prime task to decide how the proceeds of the income tax are to be distributed between the Centre and the States. The corporation tax is pre-empted for the Centre. The proceeds of import and export duties again belong to the Centre, despite some special clauses pertaining to distribution of the proceeds of the export duty leviable on jute. Countervailing duties, as well as excises on major items, are also the prerogative of the Centre. What is vastly more significant, the control over monetary resources is the exclusive preserve of the Union Government which exercises total suzerainty over the nation's central bank, over its currency, coinage and legal tender, as well as over its foreign exchange. The far-reaching implications of this dominance can be gauged from the fact that outstanding bank advances during any time of the year at present outstrip the Centre's annual budgetary operations.

The contrast between the nominal and the real could not be more acute. One can set up an abstract schematics with a roughly equal distribution of executive and legislative powers between the Centre and the States, and can also indicate the area of concurrent jurisdiction. It is however the mode of distribution of the State's power to command goods and services which is the most crucial. Between the form and the content, the shadow was thus bound to fall. If one leaves out the power to levy taxes on agricultural income and property, the rest of the major sources of income, including credit creation, belong solely to the Union Government. True, the States, if they so want, may impose levies on the purchase and sale of a number of commodities and services. Still, apart from the fact that there are limits beyond which indirect taxes turn out to be either excessively inflationary or excessively regressive, what come under the orbit of the States add up to an altogether minor package.

He who pays the piper calls the tune. Inevitably, the Centre soon took over the commanding heights of executive and legislative decisions in the spheres of concurrent jurisdiction too. That tenuous body, the Finance Commission, has only a marginal role, and it has been overshadowed by the Planning Commission. No constitutional provision laid down the set-up for the latter Commission. Established by a resolution passed by Parliament, it is entirely a creature of the Union Government, which appoints and dissolves it. Because of developments during the past twenty-five years, the resources disbursed to the States on the advice of the Planning Commission far exceed those disbursed in terms of the awards of the Finance Commission. Loans and grants for developmental purposes out of the consolidated

funds of the Union Government are now an almost exclusive prerogative of the Planning Commission. It is thus the key body for determining the pace and pattern of growth in different parts of the country.

The nature of the Planning Commission being what it is, the situation that has emerged is one of the Centre being the dispenser of monetary and fiscal bounty and the States queueing up for benediction. The States of course, are not precluded from mobilising resources on their own. It is up to them to levy direct taxes on agricultural income and property, at the moment one of the least taxed areas. Because of historical circumstances, the control over many State governments has however concentrated in the hands of land-owning interests; the latter are naturally chary to tax themselves. Where restrictive output helps to maximise returns, land-owning interests have even discovered that lack of development need not encroach upon their profitability from land. A reluctance on their part to raise resources, they may therefore conclude, would not be altogether costly to their long-term class interests either. The distribution of financial and monetary powers between the Centre and the States indicated in the Constitution and the class interests of those in power may thus combine to ensure that the States will either be short of fiscal and monetary resources, or obtain these resources only provided they swear to conform to the Centre's wishes and guidelines.

Development plans and policies have accordingly been shaped much in the image of what the Union Government has in mind. Eminent men such as Professor Gadgil have, from time to time, dwelled on the bliss attendant upon a decentralised framework of planning, but they have been unable to reverse the trend of increasing centralisation of economic decisions.

The complaint of conformism I lodge against my generation of economists comes to the fore in this context; this I call self-criticism. Certain hypotheses we have tended to take for granted. At one end, many of us, who were nurtured by ideas stemming from Allyn Young and Book V of Alfred Marshall's *Principles*, have been fascinated by the role of indivisibilities in economic growth; sophisticated models on integer programming have added to the fascination. The economies which supposedly emerge from bigger and bigger operational sizes have been a fount of intellectual pleasure. A centralised economic structure ensures a whole array of indivisibilities — or so we have believed —, for instance, in relation to the market, in the exploitation of natural endowments, in the raising of resources, including resources from abroad, in the application of technology, in the utilisation of infra-structure, and so on. Once you are in a euphoric mood, the existence of an integer connotes only economies of scale, the perils

of diseconomies do not at all enter the mind. For some Indian social scientists, the case of indivisibility-exploiting growth was strengthened by the success of centralised economic planning in the Soviet Union and other East European countries. In these discussions, hardly any reference was ever made to the social bases of planning : modalities of economic growth, it was implicitly assumed, are neutral in relation to the character of the polity; experiences of different countries were considered to be freely inter-changeable.

For their own reasons, the politicians, at least the dominant ones amongst them, have been in favour of centralised political power — and centralised economic decision-making. Economists have conformed only gladly; in this matter, thanks to their faith in the magic of the scale factor, their professional conscience has not bothered them. The exploitation of latent indivisibilities is crucial for sparking off growth; a political-economic agglomeration helps to foster such indivisibilities, even as it facilitates effective coordination of resources and targets. Economists have therefore rushed headlong and embraced the concept of centralised policy-making. It has been a rapturous love affair.

This is precisely where, I submit, most of our problems have arisen. Our political leadership has conceived of India as one administrative whole. Despite the outwardly federal nature of the Constitution, there has been a built-in suspicion of non-conformist trends developing in any part of the country. Each expression of political or economic dissidence has been treated as a near-unpardonable heresy. The concentration of financial and monetary powers in the hands of the Centre has been used as a lever for enforcing a unitary discipline and for discouraging polycentric urges.

The resultant cost to economic growth has been enormous. An over-concentration of decision-making at the Centre has emerged as the dominant trend. Indivisibilities have been imagined to exist where in fact there have been none; excessive centralisation, for instance, in such matters as formulation of blueprints and implementation of projects, has led to grievous diseconomies of scale. Where the scale factor is at issue, and one is not sure of the exact boundary where economies turn into diseconomies, there is scope for picking and choosing. In our blind enthusiasm for coordination at a single point, the picking has been done without any thought to choosing. This has seriously affected initiative at the regional and the State levels, including initiative for raising resources for growth. Those State governments which have been, for sectarian reasons, reluctant to mobilise resources have learned to cash in on their political conformism; they have looked upon the Centre as a milch cow, available in

all seasons to make up the gap between their income and expenditure accounts. Since the responsibility for both sanctioning of projects and their implementation has, in the final analysis, rested with the Centre, the States have felt free to treat lightly the task of harnessing surplus.

At the same time, the Union Government has been inordinately anxious not to allow dissidence of any kind to rear its head in any corner of the country. This has given rise to a pattern of behaviour which has been enormously resource wasting, and this really brings me to the heart of the matter.

## II

A few weeks ago, the incumbent Deputy Chairman of the Planning Commission was reported to have lamented over the fact that at least fifty per cent of the nation's investible resources are currently being frittered away in the pursuit of political objectives and thus not available for promoting economic growth. Is there much objectivity in this lament? Politics, after all, is for the seizure of power. The seizure of power, in its turn, has a definite economic objective, namely, to tilt the distribution of assets and incomes in favour of sections and groups who support, and are supported by, the political party which captures the power. Thus it is in the nature of a non-sequitur to complain that resources are being used to further political purposes. What is more relevant is to enquire into the social opportunity cost for politically coloured economic decisions. It is only provided this cost is considered high, in terms of, say, loss of production and income or failure to attain some of the other socio-economic goals that the question arises of working out trade-offs between short-term political ends and long-range economic objectives. In the present context, a near-zero rate of *per capita* national income growth and progressively aggravating income inequalities may indeed be regarded as too high a price to pay for certain political goals, such as the preservation of a unitary administrative structure.

Allow me to pursue the point. The anxiety to maintain the unitary structure of the polity has, in more recent years, manifested itself in a near-obsession to have the rule of the same political party — or its close allies — in the Centre as well as in each of the States. Considering the disparate social processes at work in different parts of the country, it would be quite astonishing were the course of political thought to be identical everywhere. In economics, interregional variations in resource endowment are taken as axiomatic; such variations should be regarded as natural with respect to political thoughts and attitudes too. If a uniform pattern of political behaviour is nonetheless set as a national goal, two courses are then available to the

authorities. First, the Centre can allocate available resources, in a blatantly discriminatory manner, favouring recalcitrant areas in the hope of winning back their loyalty. In case this is done, the allocation ceases to follow the law of comparative advantages, whichever way you define it, but is guided by a mundane system of subjective weightages which cuts across technical-economic considerations. The pattern is repeated with respect to current expenditure too of the Union Government, and an excessive deployment of resources takes place with the object of shoring up politically unstable areas. At the other end, since a premium is in effect obtainable for political recalcitrance, State governments do not waste any time in applying the principle of 'compensatory finance', and begin to translate their asset of non-recalcitrance to economic advantage : they could, they discover, behave as irresponsibly as they wanted to in economic matters, yet the Centre would not dare discipline them for fear of creating another pocket of political dissidence.

The second *modus operandi* for curbing political non-conformism assumes an authoritarian garb, but is no less economically wasteful. The Union Government tries to stamp out dissidence by mobilising the forces of law and order. The resulting increase in expenditure on the police and the army — on defence personnel as well as on equipment and armaments —, can assume a runaway form ; a continuous diversion of resources takes place from the development to the current budget ; where fresh revenue-gathering fails to keep pace with the expanding needs of the army and the police, the inevitable monetary expansion induces inflation. As far as priorities are concerned, at the national level, the enforcement of political conformism receives precedence over economic growth ; as between different States, recapturing the political loyalty of a wayward State is regarded as more important than looking after the genuine economic needs of a 'gentle' State. Often the two methods of containing dissidence operate side by side : not only is there a major deployment of resources on account of the police and the military in politically volatile areas ; in addition, the authorities offer lollypops of projects to quieten them down.

The economic cost of this preoccupation with political conformism manifests itself in several directions. It is instrumental in malallocating the available resources as between development and maintenance ; the interregional malallocation of the available developmental outlay can be laid at its door ; it is equally instrumental in slowing down efforts at mobilising additional resources. In other words, the emerging diseconomies affect both the *supply* of savings as well as the *allocation* of savings.

Other subsidiary consequences may also be listed. One major merit claimed for centralised planning is the opportunity it offers to eliminate waste and duplications, enabling the best possible allocation of resources among socially indicated priorities. The history of our playacting with planning during the past quarter of a century — with the stress more on conformity-fetishism than on growth — suggests the reverse. Not only have resources been continually diverted to non-developmental, non-priority uses : the allocation of the left-over investible funds has also been heavily influenced by extra-economic considerations. And it has been an autoregressive process. Because not enough of the potential resources can be made available for growth and because the best possible economic use cannot be made of even those that are available, the rate of growth declines. In individual areas and States, the rate of income growth fails to keep pace with the rate of population increase; as a result, economic discontent is intensified. The manifestations of such discontent are taken as a further threat to the nation's political integrity, and it is decided to channel an even greater fraction of the given resources either into the political 'pork barrel' or for strengthening the police and the army. A progressive shrinkage of resources available for growth is combined with a progressive malallocation of the latter; the trend towards stagnation is in consequence further confirmed.

The other major stated aim of planning, namely, shifting the pattern of inter-personal distribution of incomes and assets, also falls victim of the same process. A meaningful programme for narrowing social inequalities should consist, among other things, of public works aimed at creating additional income and employment for the hitherto neglected groups, a network of public distribution covering food and other essential commodities, and sweeping administrative measures, including land reforms. To carry out all this, those in power must be prepared to make themselves unpopular, at least for a while, with privileged groups. But other considerations may crowd in here. A government, even if it were not swayed by narrow class interests, can still be greatly concerned over the short-run consequences of particular policies. Implementing the measures referred to above may mean alienation of elements and sections currently entrenched in many State governments. The Centre may decide that such an act would be contrary to its immediate purpose; it may be apprehensive of the instability which could rear its head in the wake of the suggested reforms. Whatever the radical slogans in vogue, the Centre may hence deliberately seek the alliance of precisely those privileged groups against whom the slogans are nominally directed. With each deterioration in the economic situation, the urge to take 'risks' may be further enfeebled.

Thus we enter a phase of little growth and less of income redistribution. While the stress in policy is on stability, the slowing down of development accompanied by the growth of social inequalities increases economic discontent and generates greater turbulence, to counter which recourse is taken to more and more *ad hoc* short-term measures. The latter further eat into the investible surplus and further erode its allocational efficiency.

Diseconomies thus outrun economies. The anxiety to preserve the unitary political form works havoc with its economic content : the advantages supposed to stem from economies of scale largely fail to come off. Considerations of interregional equity suggest a policy of restraint in the economic expansion of areas which have the benefits of resource endowment, early start and entrepreneurial skills; resources from these areas are occasionally sought to be transferred to areas which have hitherto remained neglected. In reality, however, the backward regions gain little from such attempts at forced equalisation, for many of the other pre-conditions of development remain absent. Resources wither away, without fostering growth along desired directions. Consequent on officially declared policy, some resources go underground, but they do not move too far from their original bases of operation, and all that happens is a distortion of social priorities.

The integration of targets as well as instruments of economic policy, which a centralised unitary administration is supposed to facilitate, is also frustrated. Whether it is the planning of the power grids or the distribution of river waters or the allocation of basic raw materials, coordination at the national level tends to be weak, and the Centre fails to assert itself as much as one expected it to. The reason for this failure again lies in the obsession over political dissidence. Apprehensive of creating too many pockets of alienation, the Centre often gives in to local recalcitrants; once you concede to the whim of the recalcitrants in one particular State, the virus spreads, and elements in other States queue up for extracting similar concessions from the Centre.

The story is repeated in such matters as, for example, food procurement and distribution. Even after more than fifteen years of sustained effort to evolve an integrated policy for food procurement, prices and distribution based on the principle of equalisation of *inter se* gains and sacrifice, things have remained pretty much where they were. There have been phases of aggressiveness on the part of the Union Government in trying to evolve an integrated food policy, but such phases have soon given ground to other moods, and 'hard' decisions have been kept in abeyance. The reluctance to enforce such

'hard' decisions has been particularly noticeable in instances where the interests of entrenched groups and classes are directly involved.

Are we not now fast reaching the end of our tethers ? On the one hand, it has not been possible to channel private impulses along socially approved directions ; on the other, overt considerations of inter-regional equity have stood in the way of optimum utilisation of given resources. The anxiety to maintain the immaculateness of the unitary political form has had an adverse impact on the Government's economic management, apart from draining dry its capacity to harness resources for growth. The intent of centralisation is to ensure political cohesion, but its economic consequence has been a menagerie of discontent which itself has emerged as the biggest threat to the nation's integrity.

### III

The parts of India are not greater than the whole. But, unless the parts survive and prosper, there could be no whole either. No better means exist for sustaining our political structure than to release the impulses which generate fast and equitable growth. In our pursuit of the will-o'-the-wisp of rigid centralisation, we have however achieved, if I may repeat, precisely the reverse of what we intended to achieve.

Has not the season arrived to plead : let our States go ? Could we not admit that the frame we have tried out for a quarter of a century deserves to be overhauled ? Is the opportunity cost of turning our polity and our economy into a true mirror of federalism so severe that we have to continue to flinch from the task ?

These questions have to be asked by social scientists. It is also their particular obligation to formulate some tentative answers to the issues raised. The Centre has held, but just about, and certainly our other socio-economic dreams have failed to come true ; there is, consequently, a dangerous corrosion of faith which might well lead to a meandering nihilism. Centralisation has not helped ; on the contrary, it has hindered the objectives of growth and redistribution.

Learning from the experience, could we not endeavour to have a controlled decentralisation of administration, and decide to transfer the primary responsibility for economic management to the federating States themselves, with a corresponding strengthening of their financial and monetary powers ? Once this is done, the Centre will revert to the classical role assigned to it in a federal entity, and act largely as mediator between the States and as builder of the nation's

economic infra-structure. It will continue to be responsible for defence, external affairs, certain strategic industries, the major networks of transport and communications and general economic co-ordination, and hence retain considerable powers of suasion *vis-a-vis* the States. But it will no longer be directly responsible for economic management and growth. That prerogative will be transferred to the States, who will be on their own. If the economy of a State fails to take off, the responsibility for that failure will belong to the State government; it will not be able to run to the Centre either for filling the gap in resources, or for saddling it with the blame for lack of development. There will be other changes. Those in authority in the States will have to think deep and hard before they take recourse to strong-arm methods to suppress discontent that might be causally related to their failure to manage efficiently their economic affairs. For, even in the matter of applying punitive instruments, they will be ordinarily on their own, and the Centre will not be expected to bail them out of situations which they might have brought upon themselves. Once this realisation spreads, the State governments will, for sheer survival if for nothing else, eschew frivolity and concentrate on the essential tasks which facilitate better economic management and faster growth. At the same time, the Centre, now dethroned from its sovereign position in financial and monetary matters, will also have to adjust itself to its reduced role : even were it still enamoured of the concept of an overly centralised polity, it will lack the vital command over resources to try to make it operational.

It is the redistribution of financial and monetary powers which is key to the alternative frame I have in mind, and which has to be brought about through a series of constitutional amendments. A re-oriented Planning Commission, in my view, should constitute the fulcrum of the new arrangements. In addition to absorbing the present functions of the Finance Commission, it could be assigned wider responsibilities connected with the devolution of fiscal and monetary powers. It will be the final authority to decide how the revenues flowing to the exchequer are to be distributed between the Centre and the States, and under what terms and conditions, with perhaps only this proviso, namely, that a proportion of the total revenues — say, a quarter — should be minimally set aside to cover the requirements of the Union Government. There should be no other pre-empted sources of revenue either for the Centre or the States, and the distribution of all other revenues flowing to the exchequer should be as determined by the Planning Commission. Even the allocation of foreign exchange should be no longer be the preserve of the Centre, but be added to the responsibilities of the Commission. And since the allocation of national resources can hardly be complete without the

allocation of credit, the guidelines for credit planning too should cease to be the exclusive prerogative of the Reserve Bank of India and the Union Government, and be drawn up in consultation with the Commission.

In all this, of course, there is a basic pre-supposition. The Planning Commission is at present very much an arm of the Union Government. Its philosophy and operational principles are echoes of those of the Centre. The moment it is called upon to be the final arbiter for the distribution of resources between the Union Government and the States, its role will be altered; it will then cease to be a part of the Union Government, and will have to develop a psyche and a personality of its own.

I may be accused of a certain casualness in the manner in which I am recommending the dismantling of the present centralised arrangements for credit and foreign exchange allocation. It is however furthest from my intention that the Planning Commission should itself do the detailed allocation of either the fiscal or the monetary resources or of the available foreign exchange. It will lay down the broad guidelines; subsidiary bodies — such as regional banks — will take over the task of working out the details. These guidelines could be within the framework of a rolling five-year plan, and the Commission could annually re-adjust its broad allocations and roll them forward by another year. Within the ambit of this rolling plan, it will be the task of a subsidiary agency to undertake the detailed allocation of credit, and for a specially established foreign exchange authority to work out the detailed disbursement of foreign exchange. Within their respective areas of operation, the federating States will nonetheless be sovereign. Even in areas of concurrent jurisdiction, the Centre, now shorn of financial and monetary powers, will then need to move with circumspection; each Union Ministry will have to work out with the corresponding wing of the State Governments the details of individual projects and arrange for resources, domestic as well as foreign, to implement such projects. Measures needed to be adopted to augment resources over time will also be a matter for exploration between the Centre and the States. The Union Government, in addition, will fill the role of *amicus curiae* where issues of inter-State jurisdiction or division of responsibility are involved. In all such matters, there will be points of agreement — and of disagreement. The results of the discussions will be forwarded to the Planning Commission, which will have the responsibility of settling disputes and announcing awards that will be binding on all parties.

In such a milieu, the Centre will be, within limits, the coordinator but not the arbiter, the counsellor but not the administrator, a major

instrumentality but not the final decision-maker. The States will come to enjoy equal rights with the Centre. They will no longer be imposed upon, but neither will they be able to impose upon the Centre. Once the Planning Commission has given its awards on jurisdictional questions, the States will have to raise resources, on their own, for growth, as well as for current maintenance; they will have to arrange for food for their population; they will have to see to it that adequate employment opportunities are opened up within their boundaries, and that social inequalities do get reduced. The States will be as near to full sovereignty as is possible in a federal structure. If they fail to provide able administration or to ensure rapid growth, it is they, and they only, who will face the consequences.

Obviously, in this scenario, the Planning Commission will occupy a very large place. It has to be constituted in a manner as would enable it to serve its functions completely objectively and without being subject to pressures from different directions. Unlike under the present arrangements, whereby the President appoints the Planning and Finance Commissions exclusively at the pleasure of the Union cabinet, it is important that the re-organised Planning Commission enjoys a substantial measure of confidence and trust from all sections of opinion in the country. The composition of the Commission could be laid down specifically in the Constitution. For instance, its members could be elected by the members of the Lok Sabha and the State Assemblies in accordance with the system of proportional representation by means of the single transferable vote. At the end of every four years, one-third of the Commission may be retired, and the Chairmanship of the Commission could be decided on the basis of seniority. It will be necessary to make these provisions explicit, for a federal arrangement can survive only if its underpinnings are respected by different sections and groups.

Once the basic fiscal responsibilities have been transferred to the States, it would be both pointless and wrong to reserve for the Centre other regulatory functions such as those pertaining to industrial licencing and controls. For reasons of national security, a number of industries will remain earmarked for the Centre; it may not be difficult to reach a concensus which ones to include in this list. Beyond these, the responsibility for the pace and pattern of industrial development, along with that for general economic growth, should rest squarely on the States. After the Planning Commission has given its awards, within their respective spheres the States will have the sole prerogative for the allocation of resources, including foreign exchange, between competing projects and areas of operation; it will be up to them to choose their own priorities. The apprehension of there being a spate of lopsided, unbalanced programmes in case the

States took control of development planning is likely to prove groundless. Each State will have to keep within the limit of the resources allotted to it, unless it on its own is prepared to raise more. There will be mistakes and misadventures, false starts and occasional wastes, but, once responsibility begins to belong to their own courts, the States will be compelled, by the pressure of circumstances, to strive for growth as well as equity. Each State will now be exposed to an inexorable competitive process. If a neighbouring State is making rapid progress, there will be little, if any, alibi left to a State which is not doing so well : it will be hard put to shift the blame on the Centre or even on the Planning Commission. It will have to prove itself or face the wrath of the people.

As each State gradually learns to make the best use of its resources, the Centre too will grow strong; the well-being of the States will contribute to the strength of the Centre. Since it will be no longer be burdened with the responsibility to shore up the finances of the States, it too will be free to make the best possible use of its own resources. As the preoccupation over the preservation of the nation's political integrity will have ceased, the emphasis on law and order will decline, resulting in a general diminution of tension. Inter-State disputes will not die down at one stroke, but they will be no more acute than they are at present. And, once we break away from the quasi-stagnation, there could be at least a quietening of jealousies and bickerings.

Economies will begin to replace diseconomies. The vast market potential which India as a whole represents will not be at all impaired by decentralised economic activities, for the Constitutional provisions in regard to inter-State commerce will be very much there. On the contrary, individual States may soon discover that, in specific instances, for sustaining economic growth, incomes and assets need to be distributed more evenly than has been the case in the past. There could hence be a convergence between the goals of growth and redistribution.

Other blessings will follow. It will be open to the State to choose their own institutions, and try out their own social and economic experiments. One State may, within its ambit, adopt an overtly socialist economic programme; a neighbouring State may fall back on *laissez faire* modalities. The prerogative for these decisions will belong to the States, and by allowing them a free reign in economic matters, the Centre will in fact contribute to greater national harmony than would be the case otherwise. Once diversities begin to be respected, and no artificial homogeneity is sought to be thrust from above,

people may in fact feel the urge to trace more intensely than hitherto the roots of unity.

In the final analysis, it is a matter of attitudes. I am not describing an Arcadia. The alternative economic system I am advocating will admittedly have its problems; there will be, in the initial phase, confusion over jurisdiction, difficulties over readjustments of roles, and other manifestations of cultural lag. For the Union Government in particular, the abdication of powers and responsibilities to the Planning Commission and the States will be a matter of considerable concern and anguish: the perils involved in letting the States run more or less free will be greatly speculated upon. But, as that non-revolutionary economist John Maynard Keynes was heard to remark some forty years ago, the difficulty lies not in the new ideas, but in escaping from the old ones.

R. B. R. R. KALE MEMORIAL LECTURES

Lecturer	Subject	Year
1. V. G. KALE	<i>Modern Tendencies in Economic Thought and Policy*</i>	1937
2. G. S. GHURYE	<i>The Social Process †</i>	1938
3. B. R. AMBEDKAR	<i>Federation Versus Freedom †</i>	1939
4. K. T. SHAH	<i>The Constituent Assembly *</i>	1940
5. A. V. THAKKAR	<i>The Problem of the Aborigines in India †</i>	1941
6. V. L. MEHTA	<i>A Plea for Planning in Co-operation †</i>	1942
7. S. G. VAZE	<i>The Formation of Federations;</i> Rs. 1.50	1943
8. JOHN MATHAI	<i>Economic Policy *</i>	1944
9. S. R. DESHPANDE	<i>A Statistical Approach to Vital Economic Problems *</i>	1945
10. J. V. JOSHI	<i>India's Sterling Balances *</i>	1946
11. C. D. DESHMUKH	<i>Central Banking in India: A Retrospect †</i>	1948
12. D. G. KARVE	<i>Public Administration in Democracy †</i>	1949
13. H. L. DEY	<i>Policy of Protection in India; Re. 1.00</i>	1950
14. M. VENKATRANGAIYA	<i>Competitive and Co-operative Trends in Federalism; Rs.1.50</i>	1951
15. A. D. GORWALA	<i>The Role of the Administrator: Past, Present and Future; Rs. 2.00</i>	1952
16. LAXMANSHASTRI JOSHI	<i>Indian Nationalism *</i>	1953
17. W. R. NATU	<i>Public Administration and Economic Development †</i>	1954
18. P. C. MAHALANOBIS	<i>Some Thoughts on Planning in India *</i>	1955
19. S. K. MURANJAN	<i>Reflections on Economic Growth &amp; Progress; Re. 1.00 †</i>	1956
20. B. K. MADAN	<i>Financing the Second Five-Year Plan; Re. 1.00 †</i>	1957
21. V. K. R. V. RAO	<i>Some Reflections on the Rate of Saving in a Developing Economy *</i>	1958
22. K P. CHATTOPADHYAY	<i>Some Approaches to Study of Social Change; Re. 1.00</i>	1959
23. B. VENKATAPPIAH	<i>The Role of the Reserve Bank of India in the Development of Credit Institutions; Re. 1.00</i>	1960
24. B. N. GANGULI	<i>Economic Integration: Regional, National and International; Re. 1.00</i>	1961
25. A. AFFADORAI	<i>Dilemma in Modern Foreign Policy; Re. 1.00</i>	1962
26. H. M. PATEL	<i>The Defence of India; Re. 1.00 †</i>	1963
27. M. L. DANTWALA	<i>The Impact of Economic Development on the Agricultural Sector; Rs. 1.50 †</i>	1964
28. PITAMBER PANT	<i>Decades of Transition—Opportunities &amp; Tasks*</i>	1965
29. D. R. GADGIL	<i>District Development Planning; Rs. 1.50</i>	1966
30. S. L. KIRLOSKAR	<i>Universities and the training of Industrial Business Management; Re. 1.00</i>	1967
31. E. M. S. NAMBOO- DIRIPAD	<i>The Republican Constitution in the Struggle for Socialism; Rs. 1.50</i>	1968
32. J. J. ANJARIA	<i>Strategy of Economic Development; Rs. 2.00</i>	1969
33. RAJNI KOTHARI	<i>Political Economy of Development; Rs. 2.00</i>	1971
34. V. V. JOHN	<i>Education An Investment*</i>	1972
35. K. N. RAJ	<i>The Politics and Economics of "Intermediate Regimes"; Rs. 3.00</i>	1973
36. H. K. PARANJPE	<i>India's Strategy for Industrial Growth—An Appraisal Rs. 5.00</i>	1974

\* Not Published. † Out of print. No lecture was delivered in 1947 and 1970 (Postage extra)