



# Sharing *the* wealth and federalism in India

BY PRAN CHOPRA

**Federalism** in India has taken on a new tone. The states are behaving in a much more assertive manner than they have historically. Especially on fiscal matters, they're not happy to automatically accept decisions taken at the centre.

This became obvious last July when the Finance Commission (see box) gave out its 'awards' to the various states. Part of the role of this supposedly impartial body is to redress the inequalities between the richer and poorer states. But neither rich nor poor states are entirely content with their allotments.

The richer states argue that they are, effectively, being 'punished' for doing a better job of developing their resources.

The poorer complain they haven't been given enough to allow them to catch up.

And then there are the border states, who say they need more cash to pay for the extra expenditures they must make to defend the country's borders.

This level of dissatisfaction is quite new in Indian federal relations. But what it represents is less a reflection on the Finance Commission's decisions than a shift in the political balance between the centre and the states.

The causes of the shift go back much further than the current Finance Commission. In fact, the emergence today of this level of discontent indicates how far and fast federal politics have moved under the impact of the most basic drive in Indian politics: the intensely participatory processes of the world's most pluralistic mass democracy.

## ***The days of the single-party state***

From 1947 to the mid-1960s India was, to all intents and purposes, a single-party state. The electorate may have been divided into numerous linguistic, religious, and geographic entities. But only a few of them were politically developed enough to have formed political parties of their

own. And in very few cases were these parties in the majority position (whether at the local or state level).

Even in those rare cases the Congress Party had some presence—because it was the party that had led the freedom movement and had the most revered national leaders, such as Mahatma Gandhi and Nehru. The Congress was in an absolute majority in quite a few states and local governments; it was the largest single party in many, and at least a minority in most.

Aside from these natural advantages the Congress was immensely aided by India's first-past-the-post electoral system, under which a party can win a seat even with only, say, a third of the vote—if the opposing two-thirds vote is scattered over three parties or more. Though the Congress rarely polled more than about forty per cent of the vote, its share of seats rarely fell below sixty per cent.

***The Indian Finance Commission*** is composed of five members, most of them economic and financial experts. It is appointed by the President every five years, and the present commission is the eleventh since 1947.

*The Commission draws its authority directly from the Constitution, not from the governments of the day, whether at the federal centre or in the constituent states. Its principal mandate is to award their shares to the governments at both levels, and also among the states, out of the proceeds of a number of constitutionally specified federal taxes and excise duties. It also determines how much extra assistance should be diverted to the resource-poor states, naturally at some cost to the better off, to help them improve their resources—what in a number of other federations is called equalization grants.*

*The total amounts of transfers to the states the Finance Commission handles are sometimes smaller than those transfers handled by the Planning Commission. Both draw*

*only upon the resources of the federal government for transfers to the states. The federal government is obliged by the Constitution to share the proceeds of certain taxes according to a fixed formula specified in the Constitution and distributed on the recommendation of the Finance Commission. But the additional amount the federal government may give a state through the Planning Commission is discretionary and depends upon how it views the state's "Five Years Plan", though distribution among the states is according to certain principles which have evolved over the years.*

*The terms of reference of each Finance Commission are drawn up by the federal government, but it draws up its own criteria for apportioning shares of the centre, the states, and different of groups of states defined by its view of their needs. Technically, its recommendations are only advisory, but because of its origins and the status it has acquired through its competence and impartiality, they have never been questioned in the past.*

For just short of two decades Congress remained in power in this way in a majority of the states—and at the federal centre for three decades. This had a powerful centralizing effect on the federal system. The Congress headquarters, known as the “central high command” could persuade many states to fall in line with its own agenda and policies on matters that are in the domain of the states under the Constitution.

The centre also had another constitutional lever—and a particularly tough one—against states ruled by other parties. The Indian Constitution gives the centre the power to oblige state governments to do or desist from doing specified things and to dismiss them if they fail to comply. This power is meant to be used only in certain emergency situations. But so long as it was in hegemonic power the Congress felt bold enough to misuse it, distressingly often, against non-Congress parties. (In fairness, it should be noted that non-Congress governments at the centre have, in more recent times, done the same to Congress state governments).

Constitutional remedies for such abuses were frequently debated but were found to be difficult to formulate without ending the use of this extraordinary power—even in circumstances where it might be needed (and most parties agree such circumstances could exist).

### ***The regions begin to affirm themselves***

But then democracy began to do what democracy does. It gave political tongue to the many entities, and the opportunity to diverse regional parties to consolidate their own clientele behind them sufficiently to defeat Congress. As early as 1957, one of them became large enough to form the world’s first democratically elected communist government (Kerala State). By the mid-1960s many states had passed into non-Congress rule. And the centre did so for the first time in 1977.

For the past quarter century Indian politics has been characterized by the alternation between parties, at the centre as well as in the states. Today the federal centre is ruled by an alliance formed by almost a score of non-Congress parties.

Many of them are also in power in one or another of the two dozen states. The Congress is in power in only three states. The BJP, a party of a marked Hindu orientation (that it is now trying to broaden its appeal to liberal Hindus and non-Hindus) rules in two states and is the lead element in the central coalition. Left wing coalitions rule three. And thirteen states are ruled by parties or combinations which are not in power in any other state—though some are partners in the central government or alliance.

In the electorate as whole, which now numbers more than six hundred million registered voters, the political empowerment of the lower and poorer strata of society has considerably increased. This has led to the most widespread shift of political power anywhere by democratic means—for all that it is incomplete as yet.

The concentration of power in the hands of the federal government is now considerably reduced, in large part because the federal governing coalition’s survival now depends upon continued support from state-based political parties.

### ***The current situation***

What is happening to the present Finance Commission is a part of that process. So is the rejection by the states of a proposal by the federal government early this September that it should have wider powers to send military forces to the states.

Also, in the month of September the states flexed their muscles by demanding that they should have more say in the appointment of state governors. What principally motivated the states is the fact that the dismissal of a state government in the manner described earlier requires a recommendation to this effect by the governor of the state.

In parallel to these changes at the upper levels of the federal structure there have been new developments at the grass-roots level. A few years ago two unanimous amendments to the Constitution created elected legislative and executive bodies for towns and villages, with their powers and economic resources defined in the Constitution

itself. Each state now has to institute an internal finance commission for the division of resources between the state and sub-state levels.

These major political and constitutional changes have brought with them their own new challenges. The main one is that the unending multiplication of parties has produced some side-effects. First it has fragmented the electorate, and aggravated the defects of the first-past-the-post system. Second, governments get formed which do not have a majority in the house and survive only because their opponents cannot get together, or are kept from doing so through the governments’ leverages. Third, governments can fall too easily, even when those who combine opportunistically to bring them down are known to disagree on the alternatives. This has caused serious instabilities in the executive processes of governance and in the continuity of policies.

A serious debate is now taking place on remedies—in public as well as within the recently appointed (and first ever) Constitution Review Commission. Among the suggestions: that a candidate should be declared elected only when he or she has polled at least half the votes plus one, if necessary through a run off election open only to the leader and runner up in the first round.

Another idea the Review Commission is considering would be that a government should be sworn in only when it has won at least half the votes plus one in the legislature—and a government should be replaced only when an alternative wins the vote in the same way.

In the meantime, or so the hope goes, the town and village level third tier of democracy will have imparted sufficient political education to the vast multitude of voters to help them vote only for reliable and stable candidates, parties, and governments. (6)