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THE POLITICAL PROBLEMS OF MULTI-LEVEL GOVERNANCE

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As we have tight deadlines and it takes me 500 words to just clear my throat when I speak extempore, I thought it best to read out my remarks to this distinguished audience instead of relying on my preferred mode of communicating through a stream of consciousness.

My task has been rendered infinitely easier by Prof. Vijay Joshi's utterly brilliant introduction to the dilemma of democracy and development in India. Letters of gold have rather gone out of fashion in the 21st century but I think that would be the only real tribute we could pay to Vijay's perceptive insights, which I hope Europaeum will bring to a wider audience.

Essentially, he argued that twenty years of economic reforms have led to what he delicately called "two-tier development". I prefer to be more blunt: India is prospering; Indians are not. Accelerated growth is leading to accelerating disparities. But for all our talk of "inclusive growth", our authorities seek reassurance in Prof. Simon Kuznets' renowned Presidential Address to the American Economics Association on 29 December 1954 where, in his capacity as perhaps the most reputed expert ever on National Income trends and statistics, he elaborated the argument that while faster growth does indeed lead to widening inequalities of income and wealth, this does not amount to any lack of equity for growth is a tide that raises all boats.

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The Indian experience would indicate that growth is a tide that raises all yachts – for the benefits of growth are so disproportionately appropriated by such a tiny sliver of our population that the Asian Development Bank have recently reported that the percentage of Indians earning over Rs.10,000 a month (approximately 150 pounds sterling per mensem) constitutes 0.00009% of our population. We begin paying income tax at around an income of 200 pound sterling a month; so that is a fair measure of India Shining.

By measuring our progress on the GDP growth dimension without refracting GDP growth through the prism of the Human Development Index, we give ourselves the dangerous delusion of burgeoning super-power economic status without seeing that as the economy goes forward, the people are being left behind. This delusion is then reinforced by the obscenity of a singular National Poverty Line that divides all Indians into one of two categories: Below Poverty Line (BPL) if your income/consumption is under a dollar a day at purchasing power parity; APL – Above Poverty Line - if you cross the one-dollar cut-off. In consequence, much of our poverty alleviation is about taking people just across the threshold from this side to the other. And then not taking into account the vulnerability factor which leaves the poor on the other side of the threshold vulnerable, at the least set-back, to coming hurtling down again to BPL status. Also, it means self-righteous economists excessively decry “leakages”: much of the leakage is to the vulnerable who regard themselves as poor where the authorities have decided that all you need is a dollar a day on the basis of a survey taken years ago to determine whether you actually are, or feel, poor or not. The only economist to have categorised the deprived as “extremely poor”, “poor”, “marginally poor” and “vulnerable”, Dr. Arjun Sengupta, died, alas, a few days ago – and I would like to dedicate these remarks to his memory.

The strategy of “inclusive growth” rests on simultaneously accelerating growth for the few who are on the high growth trajectory while dramatically and repeatedly lowering direct taxes, so that instead of stashing away their ill- or well-begotten gains in Swiss banks and obscure island tax havens, the obscenely wealthy are incentivised to park what they choose to call a “reasonable share” of their income and wealth in the Government Treasury. What has been Switzerland’s loss has been the Government of India’s gain. For tax receipts have boomed as never before in our history resulting in budget expenditure that could not, even at the start of this Millennium Decade, have been dreamt of by the most optimistic of Prof. Laffer’s acolytes in our Liberalisation and Globalisation brigade.

This huge increase in Government expenditure has, indeed, translated into such a huge increase in Government outlays on social sector and poverty alleviation programmes that the Central Government alone is provisioning 15 times more for such programmes than it did 15 years ago – an increase in financial outlays that more than matches the acceleration in GDP growth rates. I doubt that this record can be matched by any other country in our common race towards the UN's Millennium Development Goals.

And yet, where India stood at 134 on the UN Human Development Index in 1994, 15 years later, in the latest UN HDI published in 2009, that is, last year, India still ranks at 134. Outlays clearly bear no relationship to outcomes. When I asked my successor Minister of Panchayati Raj whether his Ministry had analysed the reasons for this disastrous performance, he said, "No", and then helpfully added that we had actually risen from 138 in 1998 back to 134 a decade later.

To inequality among persons is added inequality between regions. The Oxford Institute for the Study of Multi-Dimensional Poverty have, in a recent report prepared in collaboration with UNDP, confirmed that many of the poorer Indian states are far worse off than sub-Saharan Africa on every dimension of poverty, as Vijay Joshi indicated yesterday. Why? Why do outcomes bear so little relationship to outlays?

The answer lies in the democratic deficit. The answer lies also in the federalism deficit. This despite the fact that India ever since the first day of its Independence has continuously and consistently been the world's largest democracy; and ever since Rajiv Gandhi's local government reforms also become the world's most representative democracy. Thanks to Rajiv Gandhi giving Constitutional sanction and sanctity to local self-government, through the longest and most detailed amendments ever to our Constitution, we now have, as Dr. George Mathew indicated this morning, close to 300,000 institutions of elected democratic local self-government in virtually every nook and corner of the country, to which we have elected a staggering 3.2 million representatives, of whom no less than 1.2 million are women. 86,000 of these elected women representatives are working as Chairperson or Vice Chairperson of their respective local bodies.

Additionally, we have guaranteed representation in proportion to their population to the historically disadvantaged Scheduled Castes and Scheduled Tribes. Optionally, for what we choose to call the "Backward Classes", an expression which would be an insult anywhere else in the world but is a badge of pride because it is a passport to privileges in our still-benighted country, States may reserve seats and posts for them in proportion to their population.

Thus, Panchyati Raj in India is an experiment in democracy without precedent in world history and without parallel in the contemporary world. We have more elected women in India alone than in the rest of the world put together. When, in the coming Winter Session of Parliament, the Constitutionally guaranteed share of women in our local bodies is going to be raised to 50 per cent, the number of elected women representatives will zoom to between 1.6 and 1.8 million. Moreover, this massive endeavour in promoting gender empowerment and gender justice has been undertaken without social or political disruption and with no objection from the male population in a society which more effectively than any other had institutionalised gender-discrimination against women over five millennia of recorded history.

Then, what has gone wrong? Why we are still inflicted with both a democratic deficit and a development deficit that cripples the bulk of our people to the point where two decades into economic reforms, some 900 million Indians eke out a bare living at a consumption level of less than Rs. 20 a day?

Entirely because, begging Vijay Joshi's pardon, ours is NOT a federal Constitution. Indeed, at its very launching on 26 November 1949, the day the Constituent Assembly adopted the Constitution, the true Founding Father of our Constitution, Dr. B.R. Ambedkar, described the Republic he had conjured up virtually single-handed as a "Union of States with federal features".

The nuance is critical to understanding both the miracle of Indian democracy and its existential dilemma sixty years on. A federation is the coming together of sovereign entities who decide to pool their respective sovereignties in exchange for the assurance that the Federal Centre they create will not encroach on such rights and privileges as they reserve for their constituent States.

In India, the Union precedes the States. The States are the creation of the Union. They can be expanded, contracted, amalgamated, changed, or abolished only through central Parliamentary legislation by at least a two-thirds majority and half the Members present and voting. State Assemblies may make their recommendations; but the Centre can, and has, refused to act on such recommendations, even for decades. Thus, all powers enjoyed by our States are not powers retained at the time of federation but only powers devolved on the States by the Union. This is the social and political compact on which our Union of States rests. Call it "federalism" if you must, but always remember that there is nothing in common, in terms of either origin or evolution, between, say, the Confederative Republic of Brazil or the Federation of the United States of America and the Republic of India.

No wonder then that States are jealous of hanging on to such powers as they have secured from the Centre and zealous in invoking the written provisions of our Constitution to resist any dilution of these powers.

This is the principal roadblock that Panchayati Raj has run into in attempting to bring to fruition over the last 18 years the vision of grassroots democracy first articulated by Mahatma Gandhi, then given legal shape by Jawaharlal Nehru through State-based municipal legislation, and finally given Constitutional status by Rajiv Gandhi.

While States have been conscientious about implementing the mandatory provisions of our Constitution in respect of democratic local self-government, that is, mandatory provisions relating to the constitution of such bodies; regular and timely elections; independent State Election Commissions to prevent electoral abuse and promote fair electoral practice; State Finance Commissions to make recommendations for what the Constitution calls the “sound finances” of the local bodies; local audit arrangements; the establishment of District Planning Committees to commence the planning process at the bottom rather than impose it from above, etc., the recommendatory provisions relating to the devolution of Functions, Finances, and Functionaries – the three Fs that constitute the sine qua non of effective local self-government – are left entirely within the purview of State legislatures and State governments to implement or go slow on.

With a few honourable exceptions, a slowly growing number I should in all fairness add, States have proved most recalcitrant in actually devolving the three Fs to the local bodies. In consequence, the federal relationship between the Centre and the States has emerged as the biggest stumbling block in securing grassroots development through grassroots democracy.

Thus, six decades after Independence, our rulers voluntarily continue to inflict on our people the single most disastrous legacy of British Imperialism – the steel-frame of our civil services. For a little over a quarter century of my misspent life, I was one fleck of the rust that has gathered on our steel- frame. Having seen it from within, I deplore the initial post-Independence decision to entrust the Civil Service with development functions that were no part of the Imperial agenda. Rajiv Gandhi made an off-the-cuff assessment that 85 paise in the rupee is absorbed in administrative expenditure by this system of delivering development through the bureaucracy and technocracy backed by comprador NGOs. The Planning Commission have recently estimated that Rajiv Gandhi was completely wrong: the actual administrative costs, they say, absorb not more than 83 paise in the development rupee. Our economist

Prime Minister has doubted that even this is accurate; so, in view of his holding an honorary doctorate from this esteemed seat of learning (which badly needs patching), let us conservatively estimate the administrative cost of delivered development at, say, 70 paise in the rupee. Even at three-quarters or even two-thirds of the development rupee, this is a horrendous waste of resources. It is the principal cause of outlays bearing no relationship to outcomes.

Vijay Joshi rightly drew attention to the absence of “good governance” being the principal cause of the failure to deliver “inclusive growth”. I agree - but go much further. We will never get inclusive growth without inclusive governance. We need not only government of the people, by the people and for the people at the grassroots, we need this so that we might secure development of the people, for the people and by the people at the grassroots. This means dismantling the whole system of delivering development through administrative silos in favour of promoting participative development through effective devolution, on the principle of subsidiarity, of the processes of development to elected representative institutions at the grassroots, responsive to felt local needs by being made responsible to local communities – the Gram Sabhas, or Village Assemblies, which are written into the Constitution and are the only living example of Athenian democracy. Instead of relying on several hundred thousand generally inefficient and generally venal civil servants to benevolently deliver development from above, we need a systemic revolution that promotes participative development and the delivery of public goods and services through our army of 3 million elected representatives to meet the basic human development needs of the billion Indians who live in festering villages and distressful slums. Just give our elected local government representatives the tools, and they will do the job for themselves.

This self-evident proposition is being thwarted by the federal relationship between the Centre and the States. But it can be overcome without disturbing the Constitutional order.

This is because between 75% and 90% of all social sector and poverty alleviation funding emanates from the Centre through what are archly called Centrally Sponsored Schemes and Central Sector Schemes. Guidelines for both CSS are drafted by the Centre. So also is Plan funding the right and responsibility of the central Planning Commission under our economic czar, Dr. Montek Singh Ahluwalia, deputy chairman, Planning Commission, yet another recipient of an honorary Oxford doctorate (It makes me truly proud to be a Cambridge man!)

All we need to do to guarantee the sound finances of the rural panchayats and the urban nagarpalikas is to decentralise the planning process in conformity with Article

243ZD of the Constitution and align the flow of Central funds to the local bodies in strict accord with Article 243G, which speaks of empowering the local bodies to function not as implementing agencies of State governments but as “units of local self-government” with respect to the 29 subjects recommended for devolution listed in the Eleventh Schedule for rural development and the subjects listed in the Twelfth Schedule for urban development.

Alas, the Centre is too mindful of States rights, too careful of preserving the country’s reputation for federalism, to take such drastic steps in opposition to the will of State governments.

In consequence, inclusive growth is - and will remain - an illusion. But democracy in India is real. There is far more participation, and far more enthusiasm for voting, in India than in more developed democracies. However, while every five years it really is the masses that determine who will form the government, in between those five years it is the classes who determine what that government will do. There is far greater elite capture of the higher echelons of our democracy than at the bottom – Mr. Chairman Sunanda Datta-Ray to please note.

Crony capitalism and crony governance are such a threat to the stability of our polity that already 158-220 districts (the figure varies from year to year and Home Minister to Home Minister), that is, between one quarter to one-third of the country, are convulsed in Left-Wing Extremism. These districts lie in the heart of India – so we cannot really blame the Pakistanis or the Chinese, as is our wont. The cry of these dispossessed hits at the heart of the most widely accepted assumption of our contemporary nation-building, that development is desirable. No, say these tribals, conscientized by six decades of rampant democracy, development is disruptive; we want no part of it. You cannot, they say, displace us to get at the minerals below our soil and the forest produce above it or harness our rivers for electricity that never reaches us. We want no part, they say, of your development. Give us the opportunity of making our own development, based on our felt needs and our priorities - but funded by your moneys. Otherwise, for God’s sake, leave us alone.

The challenge of federalism in India lies in answering that cry.

Thank you.