Chapter 1

INTRODUCTION

Significance of the Study

The state, as a unit of planning, occupies a pre-eminent position in the Indian federal polity. It is an autonomous administrative-cum-political unit with its own legislature, executive and judiciary. Also, many types of information vital for economic planning are conceived, collected and classified at the State level. In the federal scheme of distribution of powers and functions and sources of revenue, it has its well-defined domain of jurisdiction and hence, its own annual budget. On account of all these, state level planning assumes great significance. Planning in India being a concurrent subject, the states deal with subjects such as agriculture, irrigation, power, education, health, rural development etc.

Nevertheless, academic interest in state level planning has been far less than that in aggregate national planning. Besides, whenever state level planning had been studied, the major emphasis used to
be placed invariably on the imbalances in the existing Centre-State financial relations and the constraints imposed by such relations on the planning initiative at the state level. This has been so in the case of both studies of a general nature and also those dealing with particular states. Thus, financial aspects of planning in the States, especially questions relating to Central plan assistance, have received the exclusive attention of economists mainly due to the widely held belief that in the prevailing scheme of Centre-State economic relations in the country, the States have absolutely no alternative to formulating uniform plans conforming to the national priorities.

While the necessity for formulating state plans within the national framework and keeping in view the national objectives and priorities is unassailable, the country being a union of states, it needs to be examined whether the states have really been doing so. The facts that in India, the introduction of planning was not preceded by a structural socio-economic change (in the sense of levelling up of the
socio-economic terrains of the country) and that at
the inception of planning, the states were charac-
terised by socio-economic diversities of various sorts,
would themselves a priori give the impression of
different patterns of development followed by
different states. This would, in other words, mean
the tendency of certain historical patterns to
persist in spite of the declared intentions of the
planners to set new patterns. To the extent that this
is the case, the scope for planning at the state level
may progressively decline not due to the process of
excessive centralisation as is usually alleged but
due to the die-hard nature of the past patterns.

Review of Literature

Since discussions on state finances significantly
impinge upon states' planning issues, studies on
state finances merit our serious consideration in
this context. A review of such studies will undoubtedly
unravel the evolution of thinking on the issues relating
to planning at the state level.
An observation made by R.N. Tripathy in 1967 appears to be meriting overwhelming attention in the context of planning at the state level.\textsuperscript{1} Dilating on the slackness on the part of the State Governments in their efforts for maximisation of resource mobilisation and fiscal discipline, he rightly concludes that the burden of financing state plans falls overwhelmingly on the urban sector while the rural sector refuses to make its due contribution.

However, the first systematic attempt to study states' finances in India was made by Venkataramanan\textsuperscript{2} in 1968. In this study, the imbalance in the approach to the study of States' financial problems has been succinctly pointed out. The observation of the author that "... much less attention has been paid to the aspects of state expenditure than to state taxes"\textsuperscript{3} unambiguously points to the neglect of state level planning. It is through the public expenditure programmes that we try to give the intended direction and orientation to the economy.

Venkataramanan questions the rationale of the prevailing expenditure classifications such as
'development' and 'non-development', and 'plan' and 'non-plan'. This classification, according to him, has the danger of endowing certain schemes with more than necessary legitimacy and distorting our view of public expenditure. He deplores the widely prevalent tendency to reckon all cases of non-development expenditure as "some kind of a second class expenditure". As a matter of fact, the expenditure categories and functions of modern Governments are so overlapping that it is often impossible to categorise total governmental expenditure into developmental and non-developmental.

Apart from the subjective element that is likely to creep into the classification, there is a real snag here. The fact that an increasingly higher proportion of the total expenditure is incurred for developmental purposes cannot ipso facto mean development. Equally or perhaps more important is the efficiency with which the resources are spent. More resources inefficiently spent may not promote development while less resources efficiently spent will do it.

In a thought-provoking analysis, Porwal also maintains that a comparison of development expenditure
with non-development expenditure does not provide a real picture of the development process. Development can be understood only in terms of projects implemented or programmes completed. This calls for such measures as cost-benefit analysis, programme budgeting and performance classification. However, he maintains, with specific reference to Rajasthan, "the classification of expenditure in the state is essentially on departmental basis". The accounts pertain, not to the "services and purposes" but to the "activities of the administrative departments".

An important study of state finances was done by Srish Chandra Patnaik in 1970. The analytical focus is on the growth of regional finance of Orissa from its formation as a separate province in 1936 to the end of the Third Five Year Plan, in the framework of fiscal federalism in India. A rather unique significance of the study is that it brings into sharp focus "the financial problems of the state arising out of the implementation of the five year plans and offers a federal solution". Two other important observations are: (1) the revenue receipts of Orissa are not generally responsive to inflation; and
(2) inflation results in the escalation of cost of development and non-development services. These are applicable to other states also, given the well-known fact that the majority of the elastic sources of revenue are with the Union Government while the states are left with relatively less elastic sources. Also, the author questions the prevailing narrow view of deficit financing in India, the government resorting to the printing of notes to meet its budget deficits. As the State Governments cannot print notes, it is held that they cannot take recourse to deficit financing. Needless to say, this is a restricted view. Patnaik rightly maintains that the states' practices such as dishoarding cash balance, dissaving in the form of liquidating their short-term investments, use of trust fund receipts, and borrowing from banks including overdrafts from the Reserve Bank of India are tantamount to printing money.11

In his analysis of state finances, Christine Wallich (1982)12 contends that the formulation of all state budgets is done on standard lines. The tripartite accounting classification consisting of (1) Consolidated Fund; (2) Public Account; and (3) Contingency Fund does not enable us to understand the development process.
The above studies, as is evident by now, are on state finances and are not on state level planning as such. Even as we concede that finances are an essential component of planning, the latter has more dimensions all of which must be taken care of for making planning a success.

Studies in state level planning are few and far between. In the following paragraphs, we propose to make an appraisal of the major works in this regard.

In a pioneering work on the planning process in India, Hanson (1966) makes certain illuminating observations about the planning issues pertaining to the States.\(^{13}\) He reminds us of the fact that the states were formed not for suiting the requirements of the planning process. In fact, "their competitive self-assertion makes rational planning on an all-India scale immensely more difficult".\(^{14}\) However, he recognises their existence as "the most important fact of Indian Political life".\(^{15}\) He brings into sharp focus the appalling vagueness\(^{16}\) regarding the formulation of the state plans till the mid-sixties. There are no concrete norms or guidelines governing matters such as the size, sectoral composition, etc. of the state plans.
Nevertheless, he concedes that "while it is easy to criticize these vague and muddled formulation, it is difficult to device alternative ones".

The Administrative Reforms Commission had recommended in 1967 that the states should be vested with powers to do detailed sectoral planning, including formulation and implementation of individual programmes and projects. In fact, the ARC had provided useful guidelines in this regard. It had recommended setting up of State Planning Boards "for formulating plans and for evaluating performance". The composition of the Boards was clearly indicated. There should be four full-time members and one part-time member. The Chairman would be one of the full-time members. Ministers could not become members. It was observed by the Study Team of the Commission that "the scope of State Planning agencies is not as comprehensive as that of the national planning agency..... The state plans ....confine themselves mainly to three major areas of development, viz, (i) agriculture, (ii) economic infrastructure, and (iii) social services. ...We assume that the scope of the state plan would continue to be the same". One serious limitation of the recommendations and guidelines of the ARC is their rigidity in the face of dynamic processes.
In his comprehensive study of Uttar Pradesh's finances since Independence, P.K. Bhargava (1969) notes the tendency for centralisation of policies even in matters which are exclusively assigned to the states and in which the states are visualised to exercise full initiative.\(^{19}\)

Against the backdrop of the ARC exercises, Vithal (1972)\(^{20}\) makes an important contribution regarding the planning organisation at the state level. He points out the deplorable lack of planning expertise at the state level which can be attributed to the fact that in the federal distribution of work, states' planning domain is such that "not much expertise was required under the first three plans". However, the need for it has been increasingly felt from the Fourth Plan onwards. The author is of the firm view that if the states are given more powers in plan formulation, the requisite expertise is bound to be built up. The serious distortions taking place at the local level are ascribed to the "extraneous time-scales" being imposed on local authorities. Vithal's paper merits serious consideration from the point of conceding greater scope for planning initiative at the state level. However, the observation
that at the state level, the planning organisation must "ultimately" be linked up with the Finance Department should be accepted with great caution. Of course, the author has a point here "since the operative form which the plan takes is the budget". But, then, there is the grave danger of planning becoming highly "officialised".

In an attempt to explain the way in which state level five year plans are drafted and to identify the major bottlenecks adversely affecting the plan performance, Divakara Rao (1982) enumerates the points that are to be borne in mind while formulating the state plans. These points are (a) the progress achieved by the State in the earlier plan periods and its relative position at the all India level; (b) a comparison of the GDP growth rates with those of other states in the recent past; (c) measures to eradicate poverty and unemployment in the state; (d) assessment of existing potentialities such as the social and economic infrastructure; (e) the growth rate that might be feasible during the plan period; and (f) the broad objectives of the National Plan.
A serious defect observed in the state plans is the adoption of the capital-output ratio postulated in the National Draft Plan for the country as a whole. This ratio is simply applied to work out the total investment requirements of the states for the five-year plan period. The unrealistic nature of this practice hardly needs elaboration considering the fact that there are considerable inter-state variations in the socio-economic structure and the consequent likelihood that the capital-output ratios differ from state to state.

Another defect of the state plans pointed out in the paper is also worthy of serious consideration. At present, there is no objective basis for deciding the break-up of investment for public and private sectors and also for State and Central sectors. It is simply based on the proportions worked out for the country as a whole in the National Draft Plan. Therefore, the investment outlays shown against the Central as well as the private sector may not have any relevance to the investments actually made in those sectors in the state. Again, none of the states
employs methods such as the input-output technique so that projections of physical resources for the plan period are not being made. Hence, unlike in the case of the national plan, it has not been possible to make balancing of the physical resources with the financial resources. No wonder, it is widely held that state plans are intended to serve primarily to enable the state governments to get more money from the Centre. Once the money has come, the plan is not scrupulously adhered to.

In a highly thought-provoking paper, Ajit Kumar Singh pointed out in 1972 that due to "the overpowering position of the Planning Commission", all state plans follow more or less uniform pattern. Each state plan can be regarded as a "miniature National Plan." The paper deals with the nature and scope of state plans. As the writer rightly maintains, there has been increasing consensus in favour of giving greater powers to the states in the formulation of their plans. Singh is making out a convincing case for endowing the states with more planning responsibilities in view of their possessing "vast political, economic and administrative power to influence the development of the
economy within their region". This, he concedes, calls for a major realignment of states' boundaries purely on economic consideration. The ultimate purpose should be to facilitate regional planning which has been increasingly becoming popular in view of the glaring spatial diversities of the country. In fact, with the increase in the popularity of state level planning, the problem of regional disparities has also been increasingly engaging the attention of planners in the country.

While arguing for the need for a study of the planning process in the Mysore State, Nagaraj (1975) makes a broad mention of the cavalier manner in which State plans are formulated. In fact, this is a general study, and not a detailed study of planning in Karnataka (the former Mysore State). The State governments have a central co-ordinating unit or department at the headquarters with nucleus planning cells in major development departments. At present, state level planning is 'departmental planning' "without reference to the practical conditions and without taking into account inter-sectoral balances". In fact, this way of 'doing things' is the very negation of planning.
Bhambri (1976) succinctly brings out the crucial manner in which the Union Government in India depends on the State Governments for implementation of several national programmes of development. Quoting Paul H. Appleby who maintained that the Government of India was unduly dependent on the States and that the Centre was "fundamentally lacking in administrative authority", Bhambri highlights the importance of state as a planning unit. At the same time, "the Politico-administrative evolution of the Indian States is characterised by a diversity of experience". State level administration takes place in the context of national uniformity and local diversities. While agreeing that the State Governments play a significant role in plan implementation, it is debatable whether the Centre is administratively weak. Moreover, being a journal article, this also is not a detailed study of state level planning.

According to Rakesh Hooja (1976), the state is "the key link" in the planning process in India. It is the "most important tier of all". Nevertheless, planning at the state level has remained "relatively
undiscussed". After narrating the manner in which the state government departments suggest projects, the author caustically remarks that "hasty, ad hoc, fund-based projects on the guidance from above are the rule of the day... Few departments care to work out all the implications of a scheme". Nobody would disagree with the author when he says that only the Planning and Finance Departments seem to carefully scrutinise proposals; other departments functioning as mere "post offices transmitting proposals up and allocations and targets down". However, it must be remembered that, rather than being a detailed study, it only makes certain general observations, albeit absolutely convincingly. Of course, within the compass of a journal article, one cannot be expected to deal with all the relevant issues involved in state level planning.

There is a general impression that the fiscal diversity of Indian States is a post-1967 phenomenon created by political parties other than the one ruling at the Centre coming to power in a large number of States. This impression is sought to be convincingly removed by Rajendra Jain through a systematic study. According to Jain, "notwithstanding the fact that the
same party was in power both at the centre and in the states, diverse fiscal methods were followed with the result that the trends in tax revenue, expenditure, and public debt became a strange medley of confusing issues". It is high time we realised that the core programme of the Indian plan strategy depends, to a very great extent, on financially sound state governments. Similarly, the observation that the role of the Finance Commissions should be appreciated in terms of their successful efforts at co-ordinating the finances of the Union and the States is incontrovertible.

Somasekhara (1984) has done perhaps the most comprehensive study on state level planning. The analytical focus is on the techniques, procedures and management. The significance of state level planning has been recognised only from the late sixties onwards; till then "state level planning in its true sense was non-existent". During the Fourth Plan, the Government of India declared that the states would have greater liberty in formulating their plans. It advised them to immediately set up specialised planning machinery.
Somasekhara points out that the state plan documents do not describe the technical aspects of the plan, i.e., the techniques of planning and the planning procedures. One is here reminded of the observation made by Prof. D.R. Gadgil in 1966 that "the state plans are prepared basically in the same manner as the annual state budget". Besides, the scope of planning at the state level is limited. The Centre plans for all the sectors of the economy, viz, Central and State, and private and co-operative whereas the state plans relate mainly to additional departmental outlays of the State Governments' sector. Thus, only a third of the total plan falls within the purview of the states. Further, 90 per cent of the states' outlay is distributed under three heads, viz, (1) Agriculture and Community Development; (2) Irrigation and Power; and (3) Social Services. However, while conceding that states' sphere of direct planning is obviously limited, one cannot but maintain that the states' planning role must be considered primarily in terms of giving the desired sense of direction to the economy. In this vital sense, one finds it difficult to totally accept the view that
"at the state level, there is not much scope for evolving policies". In our view, this is not a sufficiently large perspective. Planning is a multifaceted process involving broadly four processes, viz, (1) formulation, (2) implementation, (3) monitoring, and (4) evaluation. And, in all these four processes, there is sufficient scope for the states to take initiative.

Objective of the Present Study

Keeping the above perspective in mind, our attempt here is to make a critical study of state level planning in India with Kerala as a case study in depth.

The selection of Kerala for a detailed case study is based, in addition to the author's familiarity with the socio-economic conditions in the State, on the fact that the socio-political climate obtaining in the state immediately after its formation in 1956 was uniquely conducive to the spread of ideas about economic planning. Comparatively high literacy level, the uniquely high political awareness, growing influence of the leftist parties with an ideological commitment
to planning, a long tradition of public expenditure and social welfare programmes -- all these could ideally prepare a propitious ground for the germination and growth of a process aimed at basic changes in the socio-economic system.

Besides, planning in Kerala has not so far been subject to a systematic appraisal. Of course, recently (during 1984-86), there took place a raging controversy over the fiscal crisis of the State Government. In the controversy, two leading partners in the ruling coalition of that period, viz., the Kerala Congress(M) and the Congress(I) were ranged against each other.

The then Finance Minister (belonging to the Kerala Congress) who had set a record of sorts by presenting without any difficulty, whatsoever, eight budgets in the Kerala Assembly for the various coalitions led by the Communist Party of India (CPI), the Communist Party (Marxist), and the Congress(I) and thereby earned the title of an "all-weather Finance Minister" whose armoury was "so well-stocked with double-edged arguments" that he could present a budget
for the Marxist-led government with as much ease as he did it for a Congress-I led government, blamed the state's economic ills on the lopsided nature of the Centre-State financial relations. In a white paper presented at a convention of his party, he took the Central Government to task for its discrimination against Kerala. That naturally provoked the Congress(I) which immediately took arms in defence of the Centre. In a study done on its behalf, the crisis was attributed to the policy adopted by the Kerala Congress of wooing its political base, viz., the cash crop and trading lobbies of central Travancore. That policy, according to the Congress(I) spokesman, consisted of the provision of large-scale grants and subsidies to the predominantly wealthy rubber growers and non-collection of sales tax and agricultural income tax.

It must be noted that the controversy, which was in the nature of a war of attrition generated more heat than light, for the exercise was carried out with a view to finding scapegoats with no honest and sincere attempt made to understand the problem in its proper
perspective. The participants in the controversy were prompted by short-term political considerations rather than any concern for the economic health of the State. Whereas, in an article on the subject, the present author had taken the position that (i) the crisis was not an overnight development and had been the outcome of the particular pattern of planning followed in the State, (ii) it could not be blamed on a single political party, for, as almost all major political parties had shared power in the state at one time or another, none could absolve itself of the responsibility and totally blame the others for the debacle and (iii) the Centre had neither discriminated against nor specially favoured Kerala and hence could not be singularly blamed for the fiscal mess that the State found itself in. The reflection of these views can be found in the present study also.

Methodology and Data Base

The present study purports to make an assessment of the plan performance of Kerala till the end of the Sixth Plan.

It may be borne in mind that the sphere of States' direct planning exercise is limited to the State segment
of the public sector. While the Central sector is completely outside the scope of States' decision making authority, the private sector within the State can be influenced only indirectly through the various policy measures adopted by the Government from time to time. Our enquiry is limited to the state segment of the public sector, wherein the state enjoys and exercises functional freedom in planning.

The study is based entirely on secondary data. The important sources of such data are

i. Five Year Plans and Annual Plans of Kerala;

ii. Annual Budgets of the Government of Kerala;

iii. Various reports of the (Kerala) State Planning Board; and

iv. the Reserve Bank of India Bulletins.

The data collected from the above sources have been tabulated and cross-tabulated so as to make it suitable for analysing the problem at hand.

A serious lacuna in the plan documents of the State is the incomplete nature of the information on the financing of the State plans. Source-wise details on plan finances in terms of targets and achievements
are available only for the first three plans; from the Fourth Plan onwards, only targets are given. This vital item of information prepared by the Finance Department of the State Government for discussion with the Planning Commission, had it been shown in the plan documents, would have facilitated our understanding of the methods of plan financing to a very great extent.

In Kerala, as in other States and at the Centre, the budget is prepared by major heads of account which fall either under the Consolidated Fund of the State or the Public Account of the State Government. The system followed is an object classification, the objective being financial accountability to the State Legislature. A serious drawback of this system is the emphasis on the accountability criterion mostly in terms of the financial aspects of expenditure rather than on the economic or functional or performance criteria. The basic objectives of financial administration are legislative control, administrative accountability and booking and auditing transactions.

Hence, the budget data as such cannot be used to analyse the impact of the budgetary expenditure on the economy. Such an analysis requires the reclassification
of Budget data into economic and functional categories. The National Council of Applied Economic Research has done such a reclassification of the Kerala Government Budget for the year 1957-'58.\textsuperscript{47} The Department of Economics and Statistics of the State Government made reclassifications for two periods, viz., 1962-'63 to 1967-'68\textsuperscript{48} and 1975-'76 to 1980-'81.\textsuperscript{49} Certain limitations of these reclassifications, from our point of view, may be noted. First of all, they are not available for all the years under consideration. Secondly, they are not comparable. For instance, for 1963, only economic classification is available. Thirdly, only for some years (1957-'58, 1962-'63 to 1965-66 and 1975-'76 to 1978-'79), Accounts are available; for others, only Budget Estimates and Revised Estimates are available. Fourthly, there are variations in the items included in the different categories. Thus, these reclassifications do not facilitate a time-series study. Hence, we reclassified the figures for the period 1957-'58 to 1984-'85 into functional categories based on the methodology suggested in the United Nations Manual for Economic-Functional Classification of Government Transactions (1958). Accordingly, the expenditures have been
classified under three functional heads, viz., (i) General Services, (ii) Economic Services and (iii) Social Services. Such reclassifications are done in the case of both revenue expenditure and Capital expenditure with a view to obtaining a glimpse of the priorities set and followed by the State Government.

There are two approaches to the study of budget expenditure, viz., (i) normative approach and (ii) positive approach. The first approach concerns itself with the requirements of achieving an optimal provision of public goods and services, while the second aims at an economic assessment of the observed pattern and the level of budget expenditure and the impact thereof. In the present study, we have adopted the positive approach.

A word of caution regarding the comparison between development expenditure and non-development expenditure seems to be warranted. A high proportion of expenditure incurred for developmental purposes should not ipso facto push one to the hasty conclusion that development is, in fact, taking place. A definite conclusion can emerge only from a detailed study of the projects completed and the targets achieved.
Regarding the level of budgetary expenditure (i.e. budgetary expenditure taken as a proportion of the State domestic product), a few limitations and technical problems may be noted. Though it is an indicator of the scope of the public sector, it must be remembered that public expenditure undertaken through the State budget does not encompass the entire public sector in the State. The public sector of the State comprises the Central sector and the state sector. The former is completely outside the purview of the State budget. Even in the State sector, it does not include the autonomous enterprises and corporations and the expenditure incurred by local bodies except the grants provided to the last two categories of institutions. However, as an instrument of government policy for giving desired orientation to the economy, budget expenditure is crucially significant.

Again, the total budgetary expenditure includes transfers and subsidies while the State domestic product excludes them. The level of government's total budgetary expenditure as considered by us here would, therefore, present a slightly exaggerated picture of the State's share of the state output. We have not,
however, excluded transfers and subsidies because to
do so would understate government expenditure.53

Structure of the Thesis

Chapter 2 is divided into three sections. Section 1
is devoted to a discussion on planning under different
systems. For this purpose, we have considered three
categories of countries, viz, (i) advanced capitalist
countries, (ii) Soviet-type economies, and (iii) non-
Soviet-type developing economies. Section 2 is on
Centre-State relations and their bearing on state level
planning in India. In Section 3, we make a few
preliminary observations on the Kerala economy.

In Chapter 3, we give a brief account of the
planning strategy at the Centre during the first two
Plans and show how the strategy followed in Kerala
differed therefrom. Also included is the main thrust
of the arguments emerged from a very serious discussion
on the strategy of development for Kerala held in 1960
in which the participants were the top-ranking
economists and leading politicians of the day. We
have also mentioned the recommendation of the National
Council of Applied Economic Research based on a well-
designed and exhaustive techno-economic survey of the State. The strategy evolved out of the academic discussions and the NCAER study is furnished so as to verify whether that was ever tried in the course of planning in the State.

Chapter 4 is devoted to an analysis of the sectoral allocation of State plan expenditure.

The state's plan performance in terms of physical targets and achievements and the various problems involved on the implementation front form the theme of chapters 5 and 6. In these chapters, we take up for detailed examination irrigation and power (Chapter 5) and Social Services (Chapter 6) which together accounted for 61 per cent of the aggregate plan expenditure incurred over the period 1951-52 to 1984-85.

The picture relating to the allocation of plan expenditure alone may not reveal the importance of the various sectors of the economy, for such expenditure constitutes only a small proportion of the total budgetary expenditure (revenue and capital) of the Government. Even as early as 1957-58 (the first year
after the formation of the state for which budget figures are available), this proportion was only 29.8 per cent and declined to 19.3 per cent in 1984-85. Whereas total budgetary expenditure as a proportion of the state domestic product increased from 11.2 per cent in 1957-58 to 23.6 per cent in 1982-83, plan expenditure as a proportion of the State domestic product registered only a small increase (from 5.5 per cent to 7.6 per cent) over the same period.

On account of the substantially increasing total budgetary expenditure and the low proportion of the total expenditure incurred on the plan account, therefore, we have considered in Chapter 7 the trend in total budgetary expenditure (revenue and capital, both separately and combined) from 1957-58 to 1984-85 so that we get a panoramic picture of the overall budgetary expenditure of the State Government.

Chapter 8 contains an analysis of the major aspects of resource mobilisation for the state plans.

The major findings of the study are summarised in Chapter 9.
Notes and References


Another important study of this genre is Kameshwar Mallik, The Resource Mobilisation and Indian Five-Year Plans, Bihar Granth Kutir, Patna, 1979. See especially the Foreword.

2. K. Venkataramanan, States' Finances in India: A Perspective Study for the Plan Periods, George Allen and Unwin Ltd., London, 1968. Also see Venkataramanan, "States' Tax Effort in the Third Plan", The Economic Weekly, Vol.XVII, No.12, March 20, 1965. This article should be noted for the following instructive statement, "...the performance of states in taxation and in plan implementation need not be direct and proportional. A state may raise the targetted additional resources and yet find itself not fulfilling the plan, if administrative arrangements and other factors stand in the way. Conversely, though with lesser likelihood, states may be implementing the plan satisfactorily even though they may not have fulfilled their taxation targets".

3. Ibid.

4. Ibid.


6. Ibid. For a detailed discussion, also see K.S. Sastry, Performance Budgeting for Planned Development, Radiant Publishers, New Delhi, 1979, pp. 1-61. M.J.K. Thavaraj, Financial Management of Government, Sultan Chand & Sons, New Delhi, 1978, B.B. Lal, Financial Control in a Welfare State, Publications Division, Ministry of Information and Broadcasting, Government of India, 1965. "The modern trend is that budgeting should not only give the money values but the respective quantitative values represented by the money values, and similarly, any report on the execution of the budget should give not only the money values but also the corresponding budgeted quantity/achievement and the actual quantity
achieved, or in other words, the work expected to be performed and the actual work performed. This is called performance budgeting," Lal, *Ibid.*, p.281.

It may be mentioned that the observation made by Gulati in 1965 that "the present technique of annual budgeting is not suited to the requirements of long-term planning" still holds good. See, I.S. Gulati, "Long-Term Planning of the Budget: The Need for Advance Tax Planning", *The Indian Economic Journal*, Vol.XIII, Number Two, October–December, 1965.

16. As an example of this vagueness, Hanson quotes from a Planning Commission publication. "Outlays for the Third Plan for each State will have to be arrived at after study of needs and problems, past progress and lags in development, likely contribution to the achievement of major national targets, potential for growth and the contribution in resources which the state is able to make towards its development plan. In assessing needs and problems, such factors as population, area, pressure on cultivable land, extent of commitment
carried over from the Second Plan, commitments on account of large projects and the state of technological and administrative services available, will have to be taken into account. Due attention will have to be given both to national and to state priorities". Government of India, Planning Commission, Economic Development in Different Regions of India, 1962, p.3; Hanson, op cit, p.371. In fact, this vagueness is still the hallmark of our plan documents. In stating the objectives, for instance, we are indulgent and include all pious wishes and ambitions.


18. Quoted by Vithal, Ibid. Also see Ravi Zutshi, "Depoliticised Centre-State Interactions. A Federal Issue", Indian Journal of Public Administration, Vol.XXV, No.1, January - March 1979. "At the state level, the professional and technical competence... is seen as being of no consequence and the talent has gravitated to the Central Government leaving the states at the mercy of mediocrity. In fact, planning has been so centralised that the State Planning Commissions or Planning Departments have very little input or influence on planning at the national level".


22. "At the conference table, unlike the corporate representatives, the state in most cases comes up with demands based on needs rather than on the basis of a planned, researched alternative" - Ravi Zutshi, op cit.


24. Ibid.
25. Ibid.

26. K.N. Raj, "Planning from Below with Reference to District Development and State Planning", EPW, Vol.VI, Nos.30,31, and 32, Special Number, July 1971. "The territory of a State is of course not necessarily - or even usually - co-terminus with a region defined as an area with common economic or geographical characteristics. But since it represents an area of administrative authority that might either be parts of a larger region or has within it several regions, it is only through the active association of states at all stages that the problems specific to various regions can be introduced into the planning framework and suitable solutions found for them".


28. Ibid.


32. Ibid. Preface.

33. Ibid, p.5.

34. Ibid., p.12. This point seems to be generally overlooked. Jain's contribution in this regard seems to be highly praiseworthy. See, for instance, the observation that "...the striking feature of the pre-Independence era was that due to absence of the economic unity of the country, there had been two independent financial systems working: one on the pattern of federal finance in the provinces and the other in Princely States which were following, in some sense, an archaic system of finance, in which even the system of budgeting did not exist". -- Ibid, (Emphasis added).


40. *Ibid*, p.38. Raj also believes that "they (Plan efforts in India) have left little scope for flexibility or initiative at the state level (except through exercise of political pressure on the Centre wherever possible)". K.N. Raj, *op cit*.

41. "Bad Shape of the Economy. A State Minister Puts the Blame on the Centre's Fiscal Policies", The Hindu (Daily), Tuesday, October 30, 1984.

42. *Ibid*.


46. In addition, the Government also maintains a Contingency Fund for making advances for urgent and unforeseen expenditure which are recouped to the Fund by debit to the Consolidated Fund after obtaining Supplementary Grants.


51. Ibid.
