

**LAL BHADUR SHASTRI NATIONAL ACADEMY OF ADMINISTRATION
(LBSNAA), Mussoorie**

Phase-V Programme

Union-State Relations: Reminiscences

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4th June 2018

In my professional life, I had a glimpse of Centre-State relations from many angles. As an IAS officer, I encountered State-Centre issues while working at the state level, central level, and global level. During my stint in the central bank I saw those issues from another angle. Of course, in the Finance Commission, Centre-State relations were key to our work. I will narrate some behind the scenes events. Hopefully, they will entertain you and incidentally enlighten you!

State Level

In 1969, I was Deputy Secretary (Planning) in Government of Andhra Pradesh.; I came across a letter written by Chief Minister Brahmananda Reddy to the Prime Minister, Indira Gandhi. The Planning Commission wanted, as usual, a team of officers from Andhra Pradesh to go to Delhi to discuss our State's annual plan. In his letter, Brahmananda Reddy asked the Planning Commission to send their comments in writing. He said that he

doubted that the discussion would be fruitful, so why waste tax payer money on airfare by sending officers to the Centre for mere advice?

How could a Chief Minister say that to Prime Minister? The Prime Minister was politically weak at that point of time and she was dependent on Brahmananda Reddy's support. Further, the allocation of Plan funds to different States was determined by a formula called the Gadgil formula. In 1969, Professor Gadgil, as Deputy Chairman, Planning Commission, enabled Union Government to decide on criteria for and terms of allocation of Union Government's transfers on account of Central assistance to State Plans. So, there was not much discretion with the Planning Commission to give extra money to the State.

Going back to Brahmanada Reddy's comments, a compromise was eventually reached and a small team of officers travelled to Delhi. But it was a telling incident.

As Deputy Secretary, I was going to Delhi for Annual Plan discussion. Finance Secretary, Ramesan, gave me Note on financial resources. I was not comfortable. He said: "do not worry about truth; Delhi knows nothing more than what we tell them." Of course, I begged him to tell truths so that I can be confident about when I had to lie.

In 1972, Andhras wanted separation from Telangana; and there was agitation in Andhra. Army was called in and President's rule was imposed.

By the end of 1973, a political solution called Six Point Formula restored normalcy. As per the Formula, the Government of India allocated funds for accelerated development of backward areas in the three regions and for planned development of State Capital. The Union Government wanted to give guidelines for use of funds since they were giving the money. By then, we had smooth Union-State relations. So, Anand Sarup, Adviser, asked me to write the minutes of a meeting that was virtually not held, explaining Union's stand, States stand, and agreed guidelines.

Vengal Rao garu became the Chief Minister after these developments. We were not keen to have a Planning Board at the State level, but Mr. Vengal Rao garu said that since the Government wants us to have it, let us have it. Vengal Rao was very successful Chief Minister, for many reasons, including Emergency and support of Prime Minister.

Centre

I joined the Government of India in 1976 in the Ministry of Finance. I was handling matters relating to the World Bank from the Government of India.

From Ministry of Finance, Union Government, I was required to coordinate negotiations of loans with World Bank. Our negotiating team from India had representatives of the Union Government and in a few cases representatives of State Government also. Some of the projects funded by

the World Bank had to be implemented by State Governments, even though the loan agreement was between the World Bank and the Union Government. Most of the time my problem was to negotiate, not just a common position between India and the World Bank, but a common position between the the Union and the State Governments. And that coordination between the union and the state was more difficult than negotiating with World Bank team.

But that was not all. Even within the Union Government, the Planning Commission preferred system optimisation, while the concerned Ministry wanted sector optimisation or project optimisation (so, for example, the Urban Development Ministry wants to optimise its particular project or its particular sector rather than the system). In this game, the Finance Department of the State Government went along with the Planning Commission of the Government of India. The Sector or project authorities of the State Government went along with the Union Government. With all these different priorities and alliances, I had to do more bargaining with our own team than with the World Bank team.

World Bank

From 1978-83, I was Advisor to the Executive Director representing South Asia.

Once, M.G. Ramachandran, Chief Minister of Tamil Nadu, came on a visit to the World Bank to discuss funding for its State projects. MGR, along with his Secretary Venkatesan, met Vice President David Hopper. I was at the meeting, along with Mrs. Ann Hamilton, Chief of India Division in the World Bank. David Hopper said that since the World Bank had to lend to the Government of India, rather than directly to the state, naturally it was the Government of India that would decide the priorities. Of course, the State Government, particularly Tamil Nadu, had its own priorities. So, Hopper wanted to know how MGR would reconcile the two sets of priorities. Hopper spoke in English. MGR understood English but replied in Tamil, in just two sentences.

Venkatesan's translation was long and he went on for quite a while. Venkatesan explained how the priorities may have been different, but the goal was the same, he talked about areas of convergence, etc. etc.

After the meeting, Ann Hamilton took me aside. "Obviously," she said: "Tamil is the most eloquent language in the world. It required so many sentences in English to translate two sentences in Tamil". Since I know Tamil, I knew what MGR said. He had said in Tamil: "This is a tricky question. Answer very carefully." Venkatesan then invented the entire translation.

By and large, in my experience, I have seen that the Chief Ministers and the Ministers from India, to whichever party they belong generally don't air their differences when they meet multi-lateral institutions and other dignitaries outside the country. That has been the norm, generally.

State

In 1983, I joined as Secretary (Planning) in Government of Andhra Pradesh. The congress party had won the recent elections nationally, while NTR's Telugu Desam Party had won in the state. I went to Delhi for annual Plan discussions with the Planning Commission to discuss and get approval for Plan for the State. We were to discuss what resources were to be allocated to what Government schemes in the State. The government wanted resources allocated to new schemes also as these reflected the priorities, promises, and pet schemes of the current NTR Government.

As expected the Planning Commission suggested we provide for on-going schemes and incomplete schemes fully first, before taking up new schemes. They argued on the basis of efficiency.

What could I do? I explained that dynamics of planning suggest that we balance new and old projects, depending on the circumstances. But, the Planning Commission officials were adamant. I tried justifying our position some more using analytics and logical arguments, but nothing I said was working. Then I bluntly pointed out that if the people of Andhra Pradesh

wanted on-going schemes, they would have elected an on-going government. They had elected a new government which had new priorities. The new government should have the freedom to alter the priorities on the basis of the mandate. I also pointed out that the Government of India often changed its priorities even when the same Government was in power.

That seemed to have worked: where analytical arguments failed. After this, the matter was amicably settled.

Once in Planning Commission, I was told how expenditure was in excess in AP as contrasted with Tamil Nadu. I sought help: and said, "Sir, give us a Chief Minister who cannot talk – like MGR; and transfer NTR to Tamil Nadu. We will improve, with that help from Centre!"

We had an unusual experience in the National Development Council. The NDC is the apex body that meets periodically to discuss priorities for developmental issues. It was, perhaps, the only body where the CMs of the State, FM and select Ministers of Centre met.

One NDC meeting was held in 1984. Indira Gandhi was PM and NTR was CM. We, in the planning department, had to take guidance from NTR and prepare a carefully drafted speech for NTR to deliver. NTR read the draft and approved it. As per practice, we sent it to the Union Government in advance of the meeting, but for circulation in the NDC meeting.

Just before the meeting began, Planning Commission officials asked me whether NTR was delivering the speech that had been circulated. I told them that he would because he rehearsed the speech just that the morning. I had seen him do it. But I was puzzled – it was a curious question.

At the meeting, we all settled down, I was sitting with the other officials behind my CM. When the States had to make their speeches, Andhra Pradesh was asked to speak first (as per tradition, in alphabetical order). We watched in stunned silence as he spoke about the Centre's actions in dismissing the elected Government in Jand K, and other political controversies. Finally, after all the drama, he walked out. A few of the CMs followed him. We also made to follow our CM, but he indicated that we should stay. Soon after, I and other of NTR's officials were all summarily (though politely) kicked out of the NDC meeting

Apparently, he suspected that he would have been made the last person in speaking order if the centre had an inkling about his intentions.

Reserve Bank of India

In 1996, I joined as Deputy Governor, Reserve Bank of India. Soon after I joined, I requested Dr. Rangarajan to inaugurate a Conference of State Finance Secretaries. I made it a point to invite Secretary (Economic Affairs), Secretary (Expenditure) of Government of India, Comptroller and Auditor General, and Planning Commission officials. We wanted to make

sure that Union Government did not feel that we were trying to deal with the State Government behind the back of the Union Government. This Conference has been continuing since then.

Finance Secretary, Union Government, Montek attended one of the meetings. He said: "Venu, I see that State Finance Secretaries are of outstanding quality." I told him: "Montek, yes, they are very good. They have to manage difficult Chief Ministers and difficult situations in the State Governments. State Governments are more careful in selecting their Finance Secretaries, than Government of India in selecting its Finance Secretaries."

That was a sort of joke, but the point was: 'do not underestimate State Government officials.'

After some time, Vinod Rai, Finance Secretary of Kerala at that time (later CAG), told me about a suggestion he made to Government of India to convene a similar Conference. Apparently, the Finance Secretary at that time responded: "We in Government of India do not want to take any chances with State Secretaries. All of them may gang up against us."

Finance Commission

I joined as Chairman, Fourteenth Finance Commission (FFC) in February, 2014. Soon, we appointed Dr. Pinaki Chakraborty as Economist to

work in the Commission. He wanted some guidance on the overall framework. I told him: "Dr. Pinaki when Commissions are appointed, Government selects a Chairman based on what Government wants the Commission to say. If Government appointed me as Chairman, it means that they want a truly independent view in the current context."

Let me explain the context in which the FFC was appointed.

From a political point of view, there were at least four Chief Ministers who felt that they had a stature to be the Prime Minister of India.

In terms of ideology, the discussion was no longer between capitalism and socialism, but about Bihar model or Gujarat model or Tamil Nadu model of development.

In terms of fiscal balances, the State Governments observed fiscal discipline and actually improved their fiscal position, while the Union Government's fiscal position deteriorated.

The Terms of Reference did not make either direct or indirect reference to distinction between Plan and Non Plan. Earlier insistence on taking account of only the population of 1971 was diluted.

In brief, the overall context was in favour of a fundamental rebalancing of relations between Union and the States. The composition and the Terms of Reference reflected the intention to consider such a rebalance.

The recommendations were welcomed as game changer by P.M., F.M., CEA, NITI Aayog etc.

The President, Mr. Pranab Mukherjee, said: "I read your report. Initially I was unhappy. When I read it carefully, I was very happy. You have addressed all fundamental issues. Congratulations!" That is a happy ending for me.