

Reforms in the North East- A Puzzle?¹

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(I)

The word ‘conundrum’ is defined as a kind of riddle based upon some fantastic and fanciful resemblance between things quite dissimilar. It is a puzzling question in which the answer often lies also in a puzzle; a paradoxical, insoluble, or difficult problem; a dilemma. This is what always comes to my mind whenever I try to think about reforms of the North East. Reform is indeed a strong word in India’s north east. It is a region mired in the past, trapped in a time warp from which it tries to come out and yet cannot, because its idea of what reform should constitute differs entirely from what reform means to the rest of the world. Sometime back I was in Shillong. Keeping with its tradition of Chief Ministers playing musical chairs with astonishing frequency, the Chief Minister of Meghalaya had changed once again, and in protest against what it called ‘the politics of money’, a little known local organisation had called for a road blockade from 6 PM to 6 AM. There were no volunteers on the road enforcing the blockade, yet the blockade was total and absolute. Shortly thereafter, there was a consecutive 2 days bandh to protest against the extraction of uranium from the state, followed by week-long road blockade from 7 PM onwards everyday. For those who are not familiar, a bandh or a blockade in the north east is always total, irrespective of who or which organisation calls it and for whatever purposes. Any bandh or blockade just ends up paralysing life and economy and putting off the prospect of any meaningful reform by yet some more time. Just as any blockades in the north east is always total and complete, so also, perhaps, is the blockade of mind. As a senior bureaucrat friend from the region vented his anger against the organisations calling for the blockade to me, “I don’t understand these people. Instead of calling for blockades and bandhs, they should have demanded schools and colleges and healthcare and jobs for themselves in return for uranium from the state. But all they can think is yet another blockade, as if we didn’t have enough of these already to have choked our economy. These bandhs and blockades are squeezing the small room we have to move around to explore avenues for growth and reform.”

The dictionary defines ‘reform’ as improvement by alteration, correction of error, or removal of defects and replacement of the existing conditions by better forms or conditions. It therefore implies an appreciation and acceptance of the fact that the existing conditions are not conducive to growth and therefore of the need for change. Reform is a process in which every citizen should have a stake and should participate directly or indirectly. The prerequisites of reform are visionary leadership who can rise above narrow short term considerations or petty personal aggrandisements, political stability and willingness to make the necessary sacrifices -- of the comfort of a few individuals or groups who are benefiting from the existing situation (there will always be people who have a stake in perpetuating the existing conditions in the name of so called freedom of choice or preservation of ‘ethnic’ or ‘cultural’ or other supposed identities), of the established way of life or of belief system, dearly held but one that has outlived its utility. Reform - political, social or administrative- is actually about embracing a new philosophy and substituting the old value system by a new one, reflecting and adapting to the dynamic needs of a

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vibrant society. Reform is about looking forward and not behind. Reform is about transforming the lives of impoverished masses to whom access to the means to rise above their condition is denied. Reform in short is to break free from the vestiges of the past and to create the conditions where equal access to the means of growth is made available to all, on the basis of entrepreneurship, innovation and hard work, and the more the deprivation in a society, the more radical would be this break from their past, and this break may not be entirely without pain. Going by these standards, we are yet to see any meaningful trend of reform in the north east.

India as a nation that was on the brink of economic and political disaster largely as a result of the pseudo-socialist politics followed by the successive Congress governments since independence, was forced to abjure the ways of the past and to embark upon a radical reform path in 1991. In the last 15 years, economic reform - and the reforms of the administrative machinery that was incumbent for the success of those economic reforms - has seen the pathetic Hindu rate of growth give way to nearly double digit figures, and in the process pulling more than a quarter billion people above the poverty line. It has seen the different sectors of economic activity opening up one by one by shedding the burden of the past and embracing modern values shaped by hope and enterprise. It has seen the controls that throttled the economy being loosened and an unprecedented openness and optimism driving national life and the unfulfilled dreams of half a century gathering an unprecedented momentum towards their fulfilment. Never before in our history has change, conceived and directed partly by the leadership, impacted the lives and aspirations of so many people. 15 years of reform have transformed the socio-economic landscape of many a part of the country. But has it succeeded in making an impact on the north east? Have the same hope and optimism been able to make an inroad into our beautiful north-eastern landscape? If so, is there any evidence of this that we can examine objectively?

If we ask this question to the politicians of the north east or the mandarins of the venerable North Eastern Council, apex body coordinating the funding for development projects in these states, we shall readily get a long list of political and administrative decisions taken during the last 15 years purporting to serve the need for reforms in the north east. It is the bureaucrats and the politicians who have been running the show in the north east all these decades (for a change we are leaving businessmen aside). But bureaucrats have never been change-agents. Their passion for the routine administration, their sense of satisfaction upon a supposed power to control the lives of the men on the street, their stubborn refusal to embark upon experiments and to make the rules a little more flexible and their perpetual delay in making decisions--- all these stand as formidable impediments to reform and change. As regards the politicians, I am reminded of the words of Confucius:

“The character of a ruler is like wind and character of the common people is like grass; the grass bends in the direction of the wind.”

By looking at the direction of the grass, one could make out the way the way the wind was blowing all these 15 years. Would it then be worthwhile to measure the direction of the grass? At least there is no harm in making an attempt at this.

The region was earlier in the periphery not only of the country’s geographical boundaries, but also in its mindset. For long, the rest of India did not bother about the north east, did not even care to inquire about its problems. The school textbooks romanticised the region, truly, as one of unparalleled beauty and most of India’s knowledge about the north east was limited to Cherapunjee. It was never present in the consciousness of the country in the way the other states

had been and until recently, the pathetic neglect of its infrastructure and almost total lack of economic opportunities never generated any concern in New Delhi or elsewhere. Meanwhile, neglected and marginalised, the north east continued to grow in its own way. During the last 4 decades, the original 4 states that used to comprise the region were split up and made into seven states, which for reasons not very apparent except for sharing a geographical area with similar features, have been branded together and referred to as ‘the Seven Sisters’. Contacts with the rest of India also gradually developed leading to larger movement of people in and out of the region in search of income, job and livelihood -- even though such movements have remained largely unidirectional – from the region, where life and opportunities have remained standstill as they were some 50 years ago, to the other states of India, where the liberalisation of the economy have thrown up challenges, prospects and avenues for everyone to seize and climb the ladder of individual growth and development. People who have once come out of the northeast in this way, even though they were deeply rooted there by virtue of their culture, ethnicity or language, rarely want to go back to the region. Not that people cannot prosper while staying and working within the region, in fact, in any of the state capitals in the region, like Shillong or Guwahati, you can see swanky cars, the latest fashions, sprawling malls, the latest gadgets and gizmos just as in any other city of India, side by side with potholed roads, primitive public transport systems and a mindset that belonged to the past century and one that takes pride in that fact. But islands of affluence in midst of an ocean of poverty and deprivation in the rural areas do not indicate economic prosperity and development, they only indicate an inherent inequity in the society and testify to the fact that only a few had access to the means of such growth, while the vast majority continues to languish in poverty, having no access to the means - education, enterprise and opportunities - by which they can pull themselves out of the morass of their poverty and deprivation. I am again tempted to quote Confucious:

“In a country well governed, poverty is something to be ashamed of. In a country badly governed, wealth is something to be ashamed of.”

North east, without a shadow of doubt, has always been badly governed, with a leadership that lacked not only any vision or imagination, but also any integrity for the most part.

(II)

North-East India is the easternmost region of India consisting of the contiguous Seven Sister States and the state of Sikkim and account for 8.06% of land and 3.73% of the population of India. The region mostly comprises of mountainous terrain that form part of the eastern Himalayas except for the plains of the Brahmaputra and Barak river valleys in Assam. The region is rich in endemic flora and fauna, though there is not much by way of natural resources, except for Assam which is rich in oil and tea (the first oil-fields of India were discovered in Assam). The major industries in the region include oil refineries, tea, timber, transport and tourism. The region has a rich and complex ethnic and cultural heritage – with nearly 200 different tribes with their own dialects and differences. It has strategic importance to the nation, sharing borders with China, Bhutan, Myanmar, Bangladesh. The region had once been a rich part of Indian history and civilisation – but while talking about reforms, they often become impediments rather than propellants of reforms.

There are special provisions in the Constitution of India to preserve the ethnic cultural, religious identity of the people in the region and to maintain the demographic uniqueness of the

region under article 371 and also under the Sixth Schedule to our Constitution, under articles 244(2) and 275(1) containing provisions for administration of the Tribal Areas in these States. All the states in this region are included within the list of special category of states, earmarked for special treatment by the Central Government in terms of liberal economic assistance in the form of grants and loans under soft terms. The North Eastern Council was constituted in 1971 as the nodal agency for the economic and social development of these states, the North Eastern Development Finance Corporation Ltd was incorporated on August 9, 1995 to finance projects for the development of north eastern states and the Ministry of Development of Northeastern Region was set up in September 2001 at the Centre. Apart from the political leadership of the north eastern states themselves, these are the earmarked engines for reform and development of the north east.

The budget for the Ministry of Development of Northeastern Region during 2006-07 was Rs 1362.79 crore: plan budget for Rs 1350 crore and non-plan budget for Rs 12.79 crore, about half of which is for salaries and other contingent expenses for running the show. Besides, the individual states get liberal assistance from the Central Government, in the form of Finance Commission Transfers and Planning Commission Transfers. There is a "Non-lapsable Central Pool of Resources for Development of North Eastern Region", conceived in 1996 under "New Initiatives for North Eastern Region" announced by the Prime Minister stipulating that at least 10% of the budgets of the Central Ministries/ Department would be earmarked for the development of North Eastern States. Being Special Category States, the pattern of assistance is 90% grant and 10% loan. The broad objective of the Non-lapsable Central Pool of Resources scheme is to ensure speedy development of infrastructure in the North Eastern Region by increasing the flow of funds for new infrastructure projects and schemes in the Region. Both physical and social infrastructure sectors such as Power, Roads and Bridges, Education, Health, Water Supply and Irrigation and Flood Control - are eligible for funding. Funds from the Central Pool can be released for State sector as well as Central sector projects/schemes. Till the end of 2000, the North eastern Council had funded projects worth about Rs 5000 crore, without much visible development of physical or social infrastructure in the region. The gross devolution and transfer of Central resources to the region during the period 1990-98 has been more than Rs 5000 crore. The per capita devolution of Central Plan and Non Plan funds to the north east has been amongst the highest in the country. If only funding could solve the problems economic backwardness of a region, North Eastern states today would be in the forefront of the developed states in India.

Public Finance is one of the most widely used tools to judge the economic, and also the social development of a state, as every activity undertaken by a state leaves its footprints in the state's finances. A critical analytical examination of the finances of the state governments can thus bring out the results of the massive expenditure of a scale as indicate above, incurred by the states; it can also highlight the improvements in real terms in the economic variables over a period of time and bring out the shortcomings and deficiencies in the policies and priorities of the state governments. In my analysis in the next section, I shall select a few economic and financial indicators to evaluate the way the wind of change had blown during the last 15 years across the north eastern hills and plains, by looking at the way the grass had been bent. The grass is often a victim of reforms; as the American democratic socialist Michael Harrington wrote in one of his essays,

“That the poor are invisible is one of the most important things about them. They are not simply neglected and forgotten as in the old rhetoric of reform; what is much worse, they are not seen.”

For the purpose of our analysis to evaluate the effect of economic liberalisation and reforms in the north eastern states, we have selected two reference points in time, 1997-98 and 2005-06. Recalling that the reform process in India had started in 1991, 1997-98 lies about half way in the progress of reforms in India, by which time reform process should have taken hold of the economy of the region. The effects then would be more pronounced in 2005-06, which I shall try to explore. Also, for the analysis, remembering that reforms are possible only in a stable political set up with rule of law as the first prerequisite, I have left out the two states most affected by insurgency, Manipur and Nagaland, from our analysis. Sikkim has been left out also, as it does not share the same problems and concerns with the rest of north east India. My analysis will be mainly focused on the five major areas of management of state finances: A. Resource Management; B. Expenditure management; C. Debt Management; D. Management of Fiscal Imbalances and E. Management of Fiscal Liabilities. The corresponding tables are given in the annexure. The data in these tables have been collected or compiled from the Finance Accounts and Civil Audit Reports of the Comptroller and auditor General of India for the above states for the years 1997-98 and 2005-06.

(III)

The finances of the state government are classified under two heads of accounts, revenue and capital. Revenue account is meant for running the day to day activities of various state ministries and departments; receipts to this accounts come from various tax and non-tax sources and the expenditure incurred from this account is mostly of maintenance nature. The capital account is meant for creation of capital assets in the economy capable of generating an income and hence employment; receipts to this account are mostly from borrowings. Capital account thus creates future wealth for the economy and revenue account maintains it. One of the fundamental principles of sound financial management of government resources is to have a surplus in the revenue account; if not, at least a balanced revenue account so that the state's revenue expenditure which does not result in any creation of wealth for the economy can be met out of the state's own revenue resources and no diversion of funds from the capital account need to be made. Such diversion would directly affect the economic development of the state as the borrowings are mainly intended for capital purposes, i.e. for creation of productive and income-generating capital assets in the economy.

Looking at Table A: Resource Management, we note that the revenue resources of all these states have been growing in tandem with the growth in their GSDP (Gross State Domestic Product) as well as their total expenditure, all these growing almost at the same rate during 1997-2006. The average growth in GDSP of these states has been 18.23% during this period, far above the national average. But this is only a disguised reality; the high growth in state income is not due to any reforms ushering in an unprecedented economic boom and leading to many folds increases in the production of goods and services in the region. It is only due to more central assistance coming into the region. During the same period, the revenue receipts of these states constituted more than a third of their combined GSDP on the average; about 80% of these revenue receipts again came by way of Central transfers, tax transfers from the divisible pool of

taxes as well as Central grants. No wonder the GSDP grew at the same rate as the revenue; the GSDP growth was actually reflecting the increased assistance and devolution of resources from the Centre. The states did not produce more or generated more income. Had they done so, the ratio of their own taxes to GSDP would have registered substantial increase over the period. The actual increase, as we can see from the same table, was only by 1.28% over the 8 year period. The Own Tax: GSDP ratio remained a hopeless 3.77% in 2005-06; only Assam, and to some extent Meghalaya, had somewhat more respectable figures of 6.86% and 4.39% respectively.

The states total revenue resources consist of its own tax and non-tax receipts, Central tax transfers under recommendations of the Finance Commission as well as grants-in-aid from the Centre. States own tax and non-tax revenues constituted only 15.47% of its total revenue receipts in 1997-98 on the average for all these states; in 2005-06 this was 21.98%. But this figure varied widely across the states; from 10.56% for Mizoram to 38.94% for Assam in 2005-06, up from 29.1% in 1997-98. Except for Assam, the improvement was not significant for any of the other states. The total transfers from the Centre by way of grants-in-aid and the states' share of divisible pool of taxes continue to constitute the bulk of revenue receipts of these states (84.52% in 1997-98 as compared to 78.02% in 2005-06). Again, this figure also varied widely across states, from 61.06% for Assam to 89.41% for Mizoram in 2005-06. By and large these states have remained overwhelmingly dependent on the Central resources for their revenue, and hence also for their expenditure. Reform, if any, have not yet succeeded in making them dependent any the less on Central resources.

“To be poor and independent is very nearly an impossibility”,

as the nineteenth century British journalist William Cobbett had said. The plethora of insurgent outfits fighting for independent states in the region need to be reminded this – resource sufficient to sustain the populace in an essential prerequisite for an independent state; in case of these north eastern states, their own total revenues constitute no more than 11% of their total expenditure needs at the current level of expenditure.

Looking at the trends of expenditure, again we do not find any evidence of reforms in these states. Table B at the annexure shows the data relating to expenditure management in these states. In absolute terms we note the expenditure increasing many folds, but when related to a common denominator, they look the same, confirming the old adage,

“The more things change, the more they remain the same.”

We have earlier seen that the growth total expenditure has been the same as the growth in revenue receipts and that the revenue receipts constituted about a third of the GSDP of these states; the total expenditure also constituted the same ratio to GSDP (33.58% in 2005-06).

As noted earlier, the budgets of the Government are classified into revenue and capital accounts. For expenditure purposes, each component is again classified into plan and non-plan expenditure or developmental and non-developmental expenditure, even though such classification has no constitutional basis. A plan has both revenue and capital components; while the capital portion of plan expenditure of the states is mostly financed by plan loans from the centre under article 282 of the constitution under recommendations of the Planning Commission and also by other capital receipts, Centre provides non-plan loans to the states under the recommendations of the Finance Commissions, covered by article 275 of the constitution. The distinction of expenditure into developmental and non-developmental has no constitutional backing as noted earlier; it is made only for the purpose of analysis. The classification

expenditure into plan and non-plan is often done to get access to funds available under the plan component which are more abundant than those under non-plan. It also helps show larger plan outlays. In the absence of any clear guideline for classification of expenditure between plan and non-plan on a rational basis, the distinction continues to remain ambiguous and sometimes irrational also. All expenditure under non-developmental heads are non-plan expenditure, whereas non-plan expenditure may have a developmental component. The division of expenditure into plan and non-plan is indicated in the budget itself. Plan expenditure is generally made for taking up new development projects in the state. Therefore the extent of expenditure on plan projects will also indicate the level of new developmental projects initiated by the state during a year.

Looking at table B, we note that about 62% of the total expenditure on the average is constituted by non-plan expenditure and the rest 38% by plan expenditure. Given the trends in other major states, this proportion is not bad in itself. What we want to point out that there is no evidence of any reform here, as this proportion has also remained practically the same during the 8 year period from 1996 through 2006. But what causes concern is the division of total expenditure between revenue and capital accounts. As explained earlier, the level of capital expenditure will indicate the creation of income generating capital assets in the economy and therefore to the possibility of increases in future earnings out of present investment. It is the capital expenditure made on infrastructure like roads, power, communication etc. that really lift a state out of economic backwardness. In the 5 north eastern states, the level of capital expenditure was 18.56% on the average in 2005-06 and this was 17.65% in 1997-98; in case of Assam it was less than 10% throughout the period. Worse, capital expenditure as a percentage of GSDP has declined from 10.64% in 1997-98 to 6.20% in 2005-06. Looking at these figures only, we can say with reasonable certainty that there was no meaningful reform undertaken in these states during this period, because any effective policy of reform has to have creation of infrastructure as one of its cornerstones.

The infrastructure in the entire north east is among the poorest in the country, as anyone who has visited the region has experienced. It again defies logic why more than 80% of the total expenditure has to be revenue expenditure to maintain the existing capital assets and run the developmental projects which have not yielded much in terms of development over the last 6 decades; if there was some marginal improvement in the living standards of the people due to these projects, such improvement is yet to be reflected into concrete measurable outputs and figures. (One would certainly like to inquire what is happening to the plethora of projects with substantial capital components initiated at the behest of the Ministry of Development of North-eastern Regions.) One certain conclusion we can draw from this is that the ministries and departments of the governments in these north eastern states are heavily overstaffed, without enough productive work for all, as bulk of the revenue expenditure is incurred on salaries and wages, office contingencies and the like and that the revenue leakages are substantial. If one only picks up any audit report of the Comptroller and Auditor General of India for these states for any year, one would find plenty of evidence about the leakages of revenue due to unproductive, wasteful, irregular or infructuous expenditure, blockade of Government money and government funds due to frauds and misappropriations. Thus it does not require any jugglery of figures or complex mathematical analysis to arrive at the conclusion that there are lot of unproductive expenditure on salaries and wages on manpower that is idle or redundant, that a radical reform and restructuring of the administrative machinery should be the first and foremost task of any Government in the north east, with the realisation that some hard decisions may have to be taken

if necessary and that populism is a sure prescription towards catastrophe, because economic backwardness, if continued unabated, would inevitably lead to social and political turbulence and more insurgency and instability. And if any policy of reforms cannot address this vital issue eating into the innards of the state apparatus, then it would not be worth its name and the state would be better off without such half hearted reform measures. A couplet of Ghalib comes to my mind:

*“Aur ley aye the bazaar se agar toot gaya
Saghar –e-jam se mera jam- e- sifaal accha hai.”*

And if the expensive wine glass that I have bought from the market breaks so easily, then my earthen goblet is much better than the costly glass of Jamshed.

Change is always painful; and any reform is bound to have consequences one would not like. Reform measures are never pleasant, as history has taught us in different countries in different situations. The trouble is that if that deters one to initiate reforms, one should be prepared for even more painful consequences. As the nineteenth century anarchist philosopher Pierre Joseph Proudhon had said,

“There are no such things as minor reforms, or minor economies or minor wrongs. The life of man is a battle, that of society a perpetual reformation; let us therefore reform and go on reforming unceasingly.”

In the Government accounts, transactions are grouped under various heads of accounts which are grouped under different sectors. The expenditure heads are grouped under General Services, Social Services and Economic Services. Expenditure on General Services are classified as non-developmental expenditure, while expenditure under social and economic services are generally classified under developmental expenditure. We shall get an idea about the money actually spent on the development projects that should reach the people only if we could consider the expenditure on social and economic services, consisting of capital expenditure and part of the revenue expenditure that is not incurred on salaries and wages. As table B would show, the Non-Salary and Wage expenditure on Social and Economic Services constituted about 32% of the total revenue expenditure in 2005-06 for all the states on the average. Given the fact that revenue expenditure was 81% of the total expenditure in 2005-06 for these states, the non-salary expenditure on revenue account was a quarter of the total expenditure. Combined with capital expenditure, the total non-salary developmental expenditure amounted to 43.7% of the total expenditure. The silver lining was the increase of non-salary expenditure on revenue account from 17.65% to 31.64% over the period 1997-2005, and it is more heartening to note that all states contributed to this increase.

We have talked about the non-salary expenditure. But how much exactly is the expenditure on salary and its senior brother, pension? Table C shows that 11% of the GSDP or 35% of the revenue receipts of the states on the average are spent on salaries and 2% of the GSDP and about 7% of the revenue receipts are spent on pensions. Salaries and pensions of the government servants thus gobble up 42% of the total revenue receipts, equivalent to 13% of the GSDP. After paying the salaries and pensions, there remains another essential obligation, payment of interest on the outstanding debt which takes up about 13% of the total revenue receipts or 4% of the GSDP. Thus 55% or more than half the revenue is spent on paying the huge army of government servants and paying for past profligacy, and not much is left for spending on

development of the states. But at this point, we need to have a close look on the debt burden of the states.

Data pertaining to debt management by these states are shown in table D at the annexure. We recall that debts are necessary for any Government so that capital intensive infrastructure projects can be created and income generated in future years out of the capital assets created with borrowed funds. In the process, the state need not invest any resources of its own to create some permanent assets and discharges the debt servicing obligations, i.e. repayment of principal and payment of interest charges, out of the income generated from those assets, at least theoretically. The breakeven depends on a number of factors, including the prevailing interest and inflation rates, the expected return from the assets, the gestation period etc. Thus public debt can be a useful instrument of income generation without spending one's own resources, if it is utilised properly for the creation of income-generating assets. In the process, the state acquires capital assets, creates employment at the cost of external resources and raises its own level of income without creating any additional burden on its own resources.

But if the borrowings are used for meeting revenue expenditure, no additional income is generated and then the debt servicing obligations gradually eat into the state's own resources, and over a period of time the state borrows more and more only to discharge these obligations till the time the obligations exceed the total borrowings. It is then that the state had to use part of its own revenue to discharge its debt and falls irreversibly into the debt trap. The net funds from the borrowings then become negative. As table D shows, this has already happened in the case of Assam and Tripura, while Meghalaya, Mizoram and Arunachal Pradesh have succeeded in managing their debts better and increased the net funds availability over the eight year period from 1997 to 2006. Especially for Assam, it would indeed be very difficult to come out of this situation without some generous help from the Centre and without taking some drastic and hard economic decisions.

Thus we conclude that borrowings, and the borrowings have mostly been made from the Centre, have been used to meet the revenue expenditure needs, in other words, for payment of salary and wages to the huge number of unproductive staff as already surmised earlier, and in the process the states have been deprived of the much needed capital infrastructure assets which alone could have propelled them out of their backwardness. Now probably we begin to understand why even heavy doses of investments have failed to have an impact upon the development of the region in a visible manner and why things are the way they are.

(IV)

The analysis can be taken further to identify the factors that make a state financially healthy and strong and ensure its continued development. For development purposes, it is necessary that a government should try to expend the level of its activity. It would then be necessary to know whether the means of financing these activities are sustainable, i.e. they meet the increased expenditure needs without substantially adding to the debt burden of the state. If the government wishes to expand the level of its activity, it would be pertinent to examine the flexibility of the means of financing, i.e. either by increasing the revenue or by borrowing, and finally whether the expanded levels of activity expose the government to more risks in the process and makes it vulnerable to be influenced by the sources of funding. This last factor can possibly be ignored for the north eastern states, as the source of funding is almost entirely the Central Government.

State governments increase their levels of activity primarily through the five year plans which translate into annual development plans for the states and are provided for in the state budgets. Broadly it can be stated that non-plan expenditure represents the maintenance of the existing levels of activity, while plan expenditure entails expansion in the level of activity. The first set of factors that measure the sustainability, flexibility and vulnerability of state governments is related to the management of fiscal imbalances by the governments. These have been shown in Table E at the annexure. Fiscal imbalances are primarily concerned with measurement of various deficits, like revenue or capital deficit, budget deficit, primary deficit and finally the gross fiscal deficit (GFD).

Given the division of the budget into revenue and capital components, we have the Revenue Deficit (RD) and Capital Deficit (CD) which represent the excess of expenditure over receipts under the revenue and capital accounts respectively (in case of surplus in these accounts, it would be the excess of revenue over expenditure). The conventional budget deficit is the algebraic sum of the revenue and capital deficits. But this often does not reflect the resource gap in the economy as it includes borrowings under capital receipts. The net resource gap in the economy is reflected by the Gross Fiscal Deficit (GFD) which is to be bridged by borrowing of one sort or another. A consistently high GFD will necessarily mean a high debt burden on the state. GFD is calculated as the difference between the total revenue receipts including grants from the Centre and non-debt capital receipts, and the total expenditure including loans net of recovery. GFD is a fairly good indicator of the state's overall financial performance. GFD less the interest payments is defined as the Primary Deficit (PD). Primary deficit reflects the resource gap created without the liability due to interest charges on the past borrowings; in other words, this reflects the deficit due to the current policies of the Government without any liability inherited from the past. The less the PD, the less is the availability of funds for capital investment.²

Looking at Table E, we see that while all the five states had substantial deficits in their revenue accounts in 2005-06, among these states, only Assam had substantial fiscal deficit as well as primary deficit in its accounts in that year. The other states mostly had fiscal surpluses in their accounts.

Table F depicts figures related to the management of fiscal liabilities, in other words, management of outstanding debts, of these states. The total outstanding debt of these states at the end of the year was a staggering Rs 3108 crore and it has been increasing at an average rate of nearly about 27% every year since 1997-98. The ratio of Outstanding Debt : GSDP indicates the level of indebtedness of the state and indicates whether the state has fallen into a debt trap from which it would not be able to come out on its own. A high ratio leaves little room to the state for financial manoeuvring and indicates to the lack of flexibility in its finances. From table F, we note that the outstanding liability of all these states as a percentage of their GSDP has increased from 35.72% to 45.80% on the average during the eight year period 1997-2006. But this figure varies widely across the states; For Mizoram and Arunachal Pradesh, the outstanding fiscal liability is dangerously close to their entire GSDPs, while for Meghalaya it has been increasing at an alarming rate during the above period. Only Assam seems to have partially succeeded in

² Sustainable primary deficit to GSDP ratio in time t is calculated using the formula $\frac{PD_t}{Y_t} = \frac{D_{t-1}}{Y_{t-1}} \left(\frac{gt-it}{100+gt} \right)$ where PD represents primary deficit, D represents debt, Y represents GSDP, g represents rate of growth and i, rate of interest in time t, both being expressed in per cent.

containing this rate somewhat. For all these states, the outstanding debt is several times their own resources, indicating that these states will never be able to reduce their debt burden on their own. Coupled with the fact that many of these states had negative net availability of borrowed funds, it would require more than just financial prudence to come of this messy scenario that arises as a cumulative result of profligacy and mismanagement for the past several years, but even that financial prudence is nowhere in evidence, let alone any meaningful reform of the financial and administrative systems.

We have almost come to the end of our analysis and shall consider only two more parameters of financial performance, viz. Balance from Current Revenue (BCR³) and Return on Investment (ROI⁴). A positive BCR shows that the State has surplus funds from its revenues for meeting plan expenditure. As table G will show, except for Assam and Tripura, no other state had any positive balance from current revenues in 2005-06 . And for all these states, Return on Investment had all along remained negligible, between 0.04% and 0.09% on the average during the period 1997-2006. The huge investments made with the help of Central funds, in effect paid by the other states of the country, have miserably failed to yield any concrete results, defeating the purpose of such investments.

(V)

“Reform, like charity, must begin at home”, Thomas Carlyle had said, “Reform is not pleasant, but grievous; no person can reform themselves without suffering and hard work, much less a nation.”

As I have stated in the beginning, the first prerequisite for initiating any reform is to admit the fact that things are bad enough for a change to be brought in by conscious effort and to own up one’s share of responsibility for the mess. But so long as the politicians, bureaucrats, thinkers and decision-makers in the north-east (some among them consider it a blasphemy for any outsider to say anything about the north east as they treat it their exclusive jurisdiction and prerogative) continue to self- congratulate themselves for creating a closed society, in the name of preserving the distinctive identity for the region by refusing to open up their economy to outside and driving merit, innovation and entrepreneurship way outside the region, and in the process putting a premium on laziness and inefficiency, nothing can change the situation in the north east. Identity is a strange word in the modern flat world we live in; too strong an emphasis on identity leads inevitably to isolation, which however magnificent it might seem, is ultimately life threatening.

We must realise that we live in a world where words and ideas like existentialism, roots or identity crisis are now passé. It’s a world connected not by lofty thoughts of thinkers and philosophers in different countries, but by fibre optics cables laid underneath the Atlantic and the Pacific and the Indian Ocean floors, connecting continents and countries the world over, where innovation and creativity of individuals in one part of the world travels through these wires almost instantaneously to other continents countries, where these ideas are converted to saleable

³ Balance of Current Revenue (BCR) = State’s Own Revenue Receipts + Share of Central Taxes + Non-Plan Grants - Non-Plan Revenue Expenditure.

⁴ ROI is the rate of return on investments made by the state mostly on the state public undertakings like the state electricity boards, state road transport corporations etc., most of which are sick and a burden on the government funds, as well as investments made by the state on large capital projects like power or irrigation projects etc.

products and services that lift millions out of poverty. We live in a world where Governments cannot reserve non-existent jobs for its citizens that it cannot create or pay for, and where governance is limited only to finding the ways and means to pay the huge army of government servants their salary for the month. To survive in this world that we live in, one needs hard work, entrepreneurship and of course, electricity, because without power, you cannot transmit your productive ideas to where they can be turned into saleable products.

Recently I was in Guwahati, capital of Assam and Silchar a district town in Assam, and from both these places, I needed to send some urgent messages and data to my office which I didn't succeed in sending from either of these places. The cyber kiosk at Silchar didn't have any power during the 6 hours between 10 AM and 4 PM when it had closed, and the cybercafé at Guwahati didn't have continuous power for twenty minutes that would have taken my 15 MB attachment to upload without a broadband connection between 6 PM and 9 PM when it had downed its shutters. As the anguished owner of the kiosk at Silchar told me, "How can you do business in this place when you have no power anytime during the peak hours? I am winding up from the next month." The café-owner at Guwahati was more philosophical and looked at life with equanimity, "When was it ever better than this?" It does seem more than a little incongruous that in twenty first century, in a capital city and a district town inhabited by more than a lakh people each, a message cannot be transmitted over the internet due of lack of power, when the rest of India is dreaming to be a superpower! Thus my first reform message to the administration in these states would be POWER. Power is to be provided to the towns and villages, at all costs and this should be the top and only priority till the time it is achieved. If we want to take advantage of technology, power at affordable costs is an essential prerequisite. This is to be followed by roads, modern roads that do not wear out every rainy season, providing a lifeline for the corrupt contractors and PWD babus for milking the government funds continuously with impunity. On a trip from Agartala, the capital of Tripura to Silchar that should have taken no more than 8 hours at the worst, it took us 18 hours due to some landslides and bad stretches that looked like miniature canals on the way. If this be the condition, no market would come to the north east to absorb its produces and pay back the producers. Power and roads, if nothing else can be achieved. If only these two things are accomplished, the other imbalances would work themselves out. And oh yes, at the same time, it is an absolute necessity to shed the flab and limit corruption if it can't be eliminated. It is imperative to curtail the huge army of government employees in these states that do not give the worth of their salary. Vacant posts need to be abolished and there should be a moratorium on all future recruitments. The babus should be made answerable and accountable for what they are supposed to do. Otherwise they should be allowed to leave. There's no need for any compassion here. They do not deserve any.

25 years ago, when I was a kid, my parents took me to a village in the Cachar district of Assam to visit some relatives. It had taken us 3 hours to complete the 28 km journey by a bus from what was the nearest sub-divisional town at that time. I still remember the journey, in a jam-packed bus full of bidi-smoke and chatter of the village folks who let me and my little brother have a place to seat and be comfortable. But 7 years ago, when I had decided to visit the same place again during the month of July from the same town that had then become a district headquarters, the road leading up to the village had ceased to exist; I had to get down at a place 5 kms away from the village and walk the distance through mud and slush; that was what the road had turned to during the rains. Later, when I had demanded of some bureaucrat at Guwahati if somebody should not be held accountable for this state of affairs even after more than half a century of independence, he had looked at me with a look that doubted if I was a creature from

the Mars! No, I have no sympathy for the corrupt, lazy and callous civil servants in the north east. As anyone living in the north east and having anything to do with any state government office will readily testify, no file ever moves unless you grease the palm of all the people right from the peon to all the way upwards! They are like parasites living on the society and the sooner they are gotten rid of, the better it is for the society. Whoever stays should follow a strict code of conduct, ethics and work culture and must remain accountable and answerable for his actions. But before that, they should be properly trained, by all means. Let the private sector step in otherwise and provide services that the government today is providing, minus the inefficiency and corruption.

Reform doesn't come easily without its share of the pain and sacrifice, as I have been emphasising repeatedly. The mindset that at every step anticipates outsiders coming in droves and swamping the indigenous culture and wiping out the ethnic identity of the north east has to change for good. In the eighties, there was talk of bringing railway lines to Meghalaya. The Khasi Students Union as well as other bodies in Shillong had then opposed it vehemently as they could only think of plains people getting better access to Meghalaya. The idea that it would also bring market and opportunities closer would not move them away from their stand that would be considered mindless in any other part of the world. Today one can only lament the missed opportunities and ponder what would transformation would have taken place if the railway was there twenty years ago, but let the past mistakes not be repeated. As I have said, the world is no longer the same. Today governments are unable to provide the huge resources for the much-needed infrastructure that they have miserably failed to create during the last 6 decades, and now cannot create any employment for their citizens. Modernisation of Economy would therefore demand investments to be attracted from outside, essentially from the private sector that will extract its own price. One should be prepared to pay that price for past mistakes and missed opportunities. Governments can only ensure that the price is compatible with the benefits that will accrue to the people.

What about taking some hard decisions to augment resources for the plan projects? Constitution exempts people belonging to the sixth schedule areas from payment of income taxes. Without going into an academic debate about the wisdom of the Constitution makers and the validity of their assumptions and considerations behind such exemptions even 6 decades later, some simple questions need to be asked. Who pays income tax anyway? People having income above **Rs 2 lakh**. Certainly these people do not fall under the poor category, and at time when the tax net is being widened in the entire country making more and more people to pay their taxes voluntarily, the resource-starved states of the north-east can only ill-afford to keep these group of people outside the tax net. A simple survey will tell them how much tax they are losing by doing do, and then they should use their own taxing power under the state list to impose an appropriate tax, something like a tax on vocation or profession, but more or less at the same rates as income tax. The only hurdle is that the people who have to decide upon this are the beneficiaries of the existing system, and it is hardly likely that they will let needs of the state take precedence over their personal considerations. There could be similar other avenues for increasing tax yield that also need to be explored.

As regards Debt Management, states should design a strategy for debt management and lay down norms for fiscal management by each department so that recurrence of acute debt problem can be avoided. For the existing debt, however, the Centre must provide them with a liberal package linked to their financial performance. A few other important items of the reform agenda would be:

- Modernisation of agriculture and horticulture by persuading the farmers to give up primitive agricultural practices like shifting cultivation; by providing fresh incentives to attract investment in this area and by increasing the credit flow from the nationalised banks in this area. For the latter purpose, the Government should provide the necessary guarantees to the banks who might not be too willing to direct credit in the rural areas;
- Privatisation of loss making public enterprises like the state electricity boards or state road transport corporations and withdrawing subsidy from them; the sick electricity boards may be handed over to the NTPC or NHPC as some states had done, of course without their non-essential manpower, again a hard decision that need courage to implement;
- Harnessing the immense hydroelectric potential of the region; increasing generation and availability of ‘clean’ hydro-electric power. Obviously this would require private sector participation and investment;
- Promoting tourism in the region: Tourism is a highly potential area for increasing the state income in the north-eastern states endowed with exquisite natural beauty of its green hills and scenic landscapes. But tourism will need creation of quality infrastructure with standard hotels and attractive packages for which again private sector need to be roped in from outside. It has tremendous potential for employment and income generation;
- Reviving handicrafts, village and small scale industries by aggressive marketing and by directing bank credit with government support;
- Exploring markets in the neighbouring economies and identifying products that can be supplied to these markets; and, of course, what I have emphasised earlier also,
- Expanding the IT education, infrastructure and application; providing incentives for innovation in this area; creating avenues for ‘sunshine industries’ in the region.

(VI)

I am sure the people who have managed the show for so long were not fools, but they had serious constraints. I don’t challenge their knowledge and the wisdom of their decisions, they must have taken the best decisions under the given circumstances keeping the welfare of the region uppermost in their minds. If those decisions didn’t make any difference to the lives of the people they were meant to improve, there must have been sound reasons for that. But that logic doesn’t appeal any longer. Today people want action, not explanations.

As I have been emphasising repeatedly, the battle for reform is to be fought and won first in the mind, like any other battle. Reform does not mean replacing an old technology or a old system with a new one, but replacing an old mindset with new vision and imagination, with new values and new concepts. It is necessary first to unsettle the mind and unlearn a lot of old ideas, and then trigger the process of filling the void with new ideas, however crazy they might seem at times, to widen the horizon of the mind and then act. Then no obstacle remains formidable any more. Again a couplet of Ghalib is coming to my mind:

*“Hota hai nihan gard mein sehra mere aage,
Ghista hai jabeen khak pe darya mere aage”*

Expanses of desert are mere patches of dirt before me, and in the dirt I see the rivers raising their heads before me.

And when the new day dawns, we shall indeed be keeping some space for our glorious past, for our distinctive ethic and cultural identity and for our past faith and creeds in our magnificent museums:

*“Nayee duniya mein kuchh beetey dinon key bhee nishan hongey,
Ajaibkhanon mein rakhengey eemano ko deeno ko.”*

(Firaq Gorakhpuri)
