falls in private investment in priority industries by transferring public resources. It is one of shortage of resources for investment in Plan schemes, in both the public and private sectors, clue mainly to the diversion of a large part of the economy's savings into private non-Plan expenditure and, since the Chinese aggression, into the defence build-up. The failure to regulate private investment and to channel savings into the Plan in adequate measure was reflected in the need to have two versions of the Third Plan — a physical plan and a financial plan. It can be seen once again in current exercises in the preparation of the Fourth Plan, in the desperate attempts to equate an aggregate of physical programmes to a certain financial figure when it is plain enough that it will cost much more.

Financial Devolution

IS the purse-string perhaps the strongest bond that binds the Central and State Governments together? In our brand of federalism, about one-quarter to one-half of the total revenues of each State is derived from the Centre, by way of shares in taxes centrally levied and collected and grants-in-aid. The revenue heads left entirely to the States are relatively inelastic and prohibition has closed one lucrative source. On the other hand, apart from Plan outlays, the States have to cope with other financial pressures such as growing debt charges and the demands of their employees for scales of pay commensurate with that of the Central Government. In the circumstances, pleas for larger shares are presented quinquennially before each Finance Commission.

The latest recipient of the pleas is the Fourth Finance Commission, now at work. It has heard, for instance, from the Madras Government that the Stales' share of Union Excise duties should be raised to 50 per cent (from the present 20 per cent) and that "population" should be the sole criterion governing its allocation; from the Maharashtra Government that "collection" should be the sole basis for the division of the income tax; and from the Rajasthan Government that the factor of "area" should also be considered for the reason that geographical size adds to the administrative as well as developmental responsibility of a State.

The arithmetic of devolution which, judging from its terms of reference, is the principal concern of the present Finance Commission, covers grants-in-aid also. Properly interpreted, this would involve principles extending beyond the simple rules of division. The accepted role of grants-in-aid is that of a final dole for meeting what has frequently been termed the "residual fiscal needs of the States". This is a devise for ironing out, to some extent, the wide disparities between the more and less advanced States; but it could also make a mockery of autonomy since it permits the Central Government to assume financial responsibilities that should rightly belong to the States. The last Finance Commission pointed out that "there is a general feeling that the contents of the autonomy of the States are being diluted not only by the prescription of detailed directives on subjects within the State list but also by unilateral financial decisions taken". In the five years since that pronouncement was recorded, the feeling appears to have grown, *in* a strongly-werded memorandum to the Fourth Finance Commission the Madras Government has gone to the extent of saying that planning itself "entails a measure of limitation on the freedom of the States because it visualises a pattern of utilisation of resources which cannot be deviated from without risking the failure of the Plan", and that "no further restrictions on States should be found necessary". The Memorandum further argues: "the promotion of a sense of independence and vigour in planning at the level of the State, with realistic regard to local conditions and circumstances Is a desirable end in itself and from this standpoint too the present arrangements for canalising Central assistance for the Plan, call for a radical review".

The principle that Central assistance for State plans should be marginal in character is no doubt unexceptionable. But as facts pertaining to financial resources stand, a large quantum of Central assistance is unavoidable. The Madras suggestion that financial assistance should be for non-Plan expenditure, thus leaving the States' own resources free for Plan financing really does not; solve the problem. Actually, it would deprive the Centre of the one important means of direction and co-ordination of developmental outlay that it now has. But the review and adjustment of Centre-State fiscal relations, new made every five years, should not only be far more frequent but also more extensive, to include plan formulation and implementation. The suggestion of the two previous Finance Commissions for extending the Commission's role and functions either by merging it with those of the Planning Commission or by endowing it with more powers is extremely pertinent now. The Central Government has chosen to ignore the problem — which is certainly no alternative to solving it.

The Ones That Get Away

|T took courage of a type for the Home Minister to talk of his anti-corruption campaign within a fortnight of the no-confidence motion debate in the Lok Sabha. The debate was precipitated by the Government's alleged failure to take suitable action against Bijoyananda Patnaik and Biren Mitra even though an enquiry by the Central Bureau of Investigation had established a *prima facie* case of corruption against them. Those who read records of the debate and reports of the CBI's findings and the views of the Cabinet sub-committee on them, leaked out through the enterprise of an Opposition Member, could not but agree that the substance of the Opposition's charge had been established. Not only did the defence of the Government by the Prime Minister and two Cabinet Ministers fail to carry conviction, but the disparaging remarks of the Education Minister on the CBI's report seemed to indicate that members of the Government are not above running down a Government agency to save the skins of their partymen.

And yet on Sunday last Nanda was seriously telling his listeners on the All-India Radio that "the (anti-corruption) measures adopted and *even more the climate generated* arc acting, to an extent, as a deterrent on the activities of the wrong-doers" (emphasis added). True to form, the Home Minister talked of corruption among businessmen and among Government servants, described in details the steps taken to detect corruption among these two categories of persons and gave statistics of the number of businessmen and Government servants sent to jail or fined or dismissed or punished in other ways; but as far as he was concerned corruption among Ministers might never have existed.

Within days of the debate on the 'Orissa affair' the Deputy Home Minister was telling Parliament that the Government had found no substance in allegations of corruption against an ex-Deputy Minister in the Central Government, Just that and no details about who conducted the enquiry and whether those who had levelled the charges had been given any opportunity to present their case.

The pattern will repeat itself and Nanda's "war on corruption" will increasingly become a sad joke unless the Government musters political courage to lay down procedures which wilt ensure that charges against the men at the very top, the Ministers, will be enquired into with the same objectivity with which the Government claims those against Government servants and members of the public are at present. The Santhanam Committee on Corruption had laid down such a procedure, but Nanda didn't mention it at all in his broadcast though he had much to say about the "speedy action" taken by the Government on the Committee's other recommendations.

Weekly Notes

Dear Money and Export Finance

THE dear money policy, it. appears, is beginning to impinge on export finance. Complaints are being voiced by exporters that costs of both pre-shipment and post-shipment credit have gone up. Further, even availability of pre-shipment credit is becoming restricted in view of the reluctance of banks to expand credit if that means paying penal rates to the Reserve Bank.

These points were brought out recently at the seminar on Engineering Goods Exports in Bombay. According to press reports, the Reserve Bank representative at the seminar referred to the rationale behind the current credit policy, *inter alia,* in terms of the scarcity value of capital in the economy. This is true, of course, but how relevant is it to the problem of export credit? Economic and efficient use of money would certainly call for its employment in export finance, given the scarcity value of foreign exchange!

The Chablani Working Group, which was not unaware of the overriding requirements of credit control — if anything, it was much too conscious of it —had pleaded for cheaper post-shipment credit facilities and for the initiation of steps to that end. But instead of accepting these suggestions, the authorities seem to have done the opposite. That they are seized of the problem is evident from *the* reference by the Governor of the Reserve Bank to it in a speech in Calcutta. His argument was that the monetary measures were designed to combat inflationary pressures and that correction of domestic inflation would help the export effort.

This is unexceptionable in principle, but two questions may be raised: first, how effective have the credit control measures been in correcting the price rise? and, second, even if they are successful, will not the process of correcting inflation take time to make its impact on domestic costs? Meanwhile, export costs keep rising because of inadequate credit and its higher cost. The problem of insulating export credit rates from domestic rates—incidentally, the U K is faced with a similar problem—does not brook any further delay.

Oily Fertilisers

THE much publicised Bechtel fertiliser deal was known, in quite some time, to have run into difficulties. Initiated partly as a substitute for an American Bokaro, partly as a demonstration of American interest in a basic industry, and partly as a massive diversification by established petroleum suppliers, it never really had much of a chance. What chances Bechtel had were not exactly improved by the kind of feasibility report which its high-power team submitted. Technical expertise in this country is limited and what is available of it is not fully utilised in New Delhi; but it did not need much expertise to uncover the intrinsic worth of the report.

True, the fertiliser industry is going through rapid technological changes, due mainly to the increasing use of naphtha in place of coal. Both Fertiliser Corporation and FACT have relatively little experience of naphtha-based designing and production but that experience and the pool of talent which they have built up is not so nominal as to be ignored. The chief attraction of the Bechtel proposal was its package supply of foreign exchange for all the live plants mooted. The terms of the deal, it now appears, arc both stiff and restrictive; the idea obviously is to prevent Government from turning the screw after the deal is struck,

Bechtel wants *a*t least 50 per cent equity participation and management control for a number of years, it estimated the total cost of five plants at Rs 200 crores, reduced, it under pressure to Rs 175 crores, of which the foreign exchange component would be Rs 87 crores, which is on the high side even for almost exclusive American procurement. Bechtel undertakes to raise the entire foreign exchange provided it is guaranteed a recovery of the total investment within five years of commissioning of plant. For this purpose, it would, among other things, require the Government TO maintain fertiliser prices at a sufficiently high level. Besides, and this is crucial, Bechtel demands that it must have the right to import one-half of the project's crude oil requirements and its oil associates, mainly ESSO, should have counterpart participation in new refineries. It is already upset over the. loss of the Madras refinery to the Iranian—independent American consortium but would be mollified with a stake in Haldia. In short, Bechtel wants the door opened really wide, much wider than the Government apparently intended to or the foreign exchange position allows or will be justified in view of available domestic talent and competitive independent offers.

Some valuable time has already been lost. Nangal expansion has been awaiting a decision on Bechtel while FACT is confident of putting up at least one 2-lakh tonne plant, if not two. Imperial Chemicals and Gulf Oil of Texas are also *in* the held. The main raw material, naphtha, is surplus. Foreign exchange for the equipment is the chief hurdle, and the U S might tighten up on assistance to fertiliser plants when the Bechtel deal finally peters out All said and done, nevertheless, crude oil and refineries can hardly be smuggled in under cover of fertilisers.

Tinkering with the Superstructure

HPHE Indian genius, it has often been remarked not unjustly, naturally inclines to sophistication and theoretical nicety. Reading the latest Annual Report of the Ministry of Education, one is truly impressed with the schemes of educational refom that cover its pages. Institutes of Education have been set up in the States to improve the quality of primary and middle school education with a new Department of Teachers* Education to