GOVERNMENT OF JAMMU AND KASHMIR

SPEECH

OF

SHRI GHULAM NABI AZAD
CHIEF MINISTER, JAMMU AND KASHMIR

AT

THE FIFTY FOURTH MEETING

OF

NATIONAL DEVELOPMENT COUNCIL
DECEMBER 19, 2007

VIGYAN BHAWAN
NEW DELHI

THE FIFTY FOURTH MEETING

OF

NATIONAL DEVELOPMENT COUNCIL

DECEMBER 19, 2007

Hon'ble Prime Minister, Hon'ble Ministers of the Union Government, Hon'ble Deputy Chairman Planning Commission, Hon'ble Chief Ministers, Lt. Governors, Ladies & Gentlemen.

1. I fully share and endorse the basic theme and thrust of the 11th Five Year Plan on faster, more broad based and inclusive growth. This is the only way to reduce poverty and focus on bridging various divides that continue to fragment our society. While faster growth of economy in a sustained manner is imperative, this process must result in broad-based benefits and equal opportunity for all.

2. The fact that a lot of suggestions made by the state governments during the discussions on Approach Paper have been incorporated, encourages me to make a few comments. I would make three basic points; one policy issue, one conceptual issue and one operational matter relating to the plan.

3. The first issue relates to employment. Even as there is a lot of discussion in the Plan, employment is not central or intrinsic to the plan formulation. True, there are a number of schemes and programmes that will increase the man-days of employment. Yet the strategic thrust and policy intervention is somewhat missing. There does not seem to be a clear-cut strategy for employment generation, as there is, for instance, for growth in output.

Given the shrinking policy options, especially in fiscal policy, I think we need to explore the possibility of using monetary policy for the purpose of employment generation. Currently, the way monetary policy, is being conducted, the unemployment costs of fighting inflation are turning out to be high. I think this is the time to develop a framework for conducting monetary policy that is oriented to dealing with unemployment.

5. In the prevailing cycle of high growth, and high unemployment, RBI ought to choose employment targeting: target employment growth subject to an inflation constraint and devise a set of monetary policy instruments to achieve that target.

6. To my mind, the issue is not the impact of inflation on the poor, per se, but rather, the impact of monetary policy designed to reduce the rate of inflation and to keep it low, compared with the impact of monetary policy designed to generate more employment. The relevant question is this kind of monetary policy bad for the poor?

7. The answer to this could well turn out to be the determining factor in making growth inclusive. Indeed, the single most important thing to differentiate inclusive growth from its earlier avatars of growth with equity et al. would be the use of monetary policy measures for creating employment.

8. For this the RBI may have to develop new tools or re-invent those that were part of the standard central bank tool kit in the developing world in the 1950s, 60s and 70s. These include quantitative regulation of financial institutions, such as the direct credit allocation regulations; price-based regulatory incentives for lenders, such as asset based reserve requirements; direct lending to financial institutions specializing in employment generation; and last, but far from least, macroeconomic policy tools, such as open market operations and the direct calibration of interest rates.

9. So much for policy. In operational terms, this is the perhaps the first five plan formulated by the Centre, the success of which

almost entirely depends on the states. While I think it is a good development, it is also a very onerous responsibility. This is so because in many states, and J&K being one of them, the institutional capability to deliver in terms of spending this kind of resources is not very high. It is absolutely imperative that we start right from today the process of institutional capacity building and institutional reforms. Only then will we spending the allocated money in an appropriate manner.

10. There is also an issue of equity. I have been highlighting at the previous meetings of the NDC, the need for a serious look at redesigning flows under the centrally sponsored schemes with a view to ensuring that all States take advantage of these schemes in an equitable manner. While relative absorptive capacities of the States is indeed an issue, the fact of the matter is that resource-poor States have a serious problem in providing for their share of funds for implementing these schemes and also maintaining them after completion.

11. I fully appreciate that CSS cannot be designed to meet the specific requirements of individual states. But it is possible to provide some relaxation to the special category states. There is an urgent need to modify the financing pattern of all centrally sponsored schemes for the special category states in such a manner as to provide that these states would be expected to contribute only 10% of the cost as their share. This will help them to take full advantage of these schemes within the constraint of resources facing them.

12. Similarly, large schemes need some degree of state specific customisation. Take the case of Bharat Nirman, a particularly

relevant scheme for States like J&K where cost of developing road networks in far flung and widely dispersed habitations is prohibitively high. However, we have not been able to make adequate progress as the scheme does not provide for the cost of land acquisition. There may be a case for making a special dispensation in this regard for the special category states if the scheme is to be implemented in a more effective and meaningful manner.

3. I fully endorse the proposal for more than doubling of the outlays for agriculture and allied sectors in the Eleventh Plan vis-à-vis the Tenth Plan. In particular, I welcome the introduction of the Rashtriya Krishi Vikas Yojana (RKVY) which is designed to give more flexibility to the States and incentivise them to spend more on agriculture and do so on the basis of properly designed and integrated District and State Plans for agriculture and allied sectors.

4. Yet, in the larger context, my concern is that the state governments should not become mere implementing agencies for the central plan or the centrally sponsored schemes. They have to concentrate and deliver on their own state plans and district plans. We have seen that the "free plan resources" available to the states has been shrinking during the 10th five year plan. There is a real danger that this trend will get accentuated further. We have to ensure that we strike a balance in this somewhere so that the specific local needs of a state are met, even as we equalize generic services across states.

5. Finally, I fret about the future of state finances. As Chief Ministers

we are, of course, all delighted to be getting all this money to spend under the 11th five year plan. With Christmas only a week away, Mr Ahluwalia is already beginning to look a Santa Claus for the states!!!! But, what happens after the 11th plan period is over. Most of these resource rich schemes will be transferred to the states as non-plan expenditure without a corresponding revenue source. This will result in massive non-plan revenue deficits and at that stage we will be forced to borrow to finance this gap. May I suggest that we create some kind of a sinking fund right now, when the going is good, to take care of the liabilities that are bound to arise.

16. While on the issue of future liabilities, I also feel that we need to take the liability arising out on the pay commission in to account more directly and clearly. It is not so much of an issue for the Center, but for states like ours it will be back breaking. To leave it open ended now, in the hope that the Finance Commission will pick up the tab later is postponing the inevitable. If we don't account for it now, all states will be forced to provide for it by major diversions from the capital to revenue. This will have a adverse bearing on the output and employment generation. And also it will eat away into the meagre maintenance expenditure, which will end up having zero O&M expenditure and 100 per cent salary component. So, it is best to sort out the matter now.

17. While on the issue of maintenance expenditure, once again it seems to have been given a step motherly treatment. Unlike the earlier plans, the new element, which will ensure the success of this plan, is how the Public-Private-Partnership is structured and delivered. While the Plan is taking this route for delivery and

creation of new assets, little thought has gone into how to use the PPP for maintaining the assets that have been created. There is an imperative need to use PPP model innovatively for the maintenance of capital assets. For all the capital assets that we would create under the 11th Plan, let our motto be very simple: "We create, you maintain" or "Public creates, private maintains".

18. From the perspective of J&K, given its specificities, my effort is to maximize the flexibility with the overall givens of this national plan framework. This is being done by introducing the concept of:

a. Functional sub-plan, in terms of maintenance plan within the overall state plan done in a PPP framework.

b. Operational sub-plan, in terms of completing all the ongoing works, which have been going on for more than one plan period.

c. Sectoral sub-plan, in terms of three sectors -- Power, Health, Education and Connectivity. For all other sectors we will make no new capital expenditure allocation.

d. Leverage financing, by using borrowings to garner more resources from flagship programmes like the Bharat Nirman, Sarva Shiksha Abhiyan, National Urban Renewal Mission and the National Rural Health Mission.

19. This approach will ensure "intensive" rather than "extensive" expenditure planning and should help the state maximize the output from every unit of financial resource expended. It will also ensure the maximization of capacity creation with maximum employment.