To Our Readers

Now that every single economic factor seems only to make India shine brighter, it is perhaps time to take a look at the sustainability of the whole thing. Over the last few weeks, economists who know what they are talking about and others who believe they know what they are talking about have all put themselves on one side or the other of the fence. It has been argued for instance, that much more money needs to be pumped into infrastructure especially in agriculture, railways etc. than what is being done today. Several schemes, ranging from the simple to the complex have been suggested. And even the workability of these schemes has been analysed threadbare.

One point, nevertheless, on which everyone seems to agree is that sustainability of the current rate of growth will certainly not be there until and unless the States manage to overcome their chronic indebtedness and unless they also manage to channelise a substantial chunk of their resources to development. In most States, the result of political expediency, apathy, and sheer mismanagement has resulted in 97% to 98% of the States budgets going towards payment of salaries and interest. As a result, education, agriculture, public health, medical facilitie, to name only a few, are all practically at a standstill. In many States, people get paid salaries for maintenance, but there is no money to buy spare parts or effect repairs of any kind to machines as well as to buildings and other infrastructure.

It has been suggested that it might be possible - given the political and administrative will - to set up milestones for each State which they have to achieve if they wish to get their debts to the Centre restructured, or even waived. As each State achieves a milestone, it might be rewarded in terms of such a waiver (Onkar Goswami writing in the Financial Express). The point to ponder here is whether the States have the capacity at all to achieve such milestones. At the level of the States, more important than anything else is a capacity for astute financial management and a very strong administrative will. As of date, in most States this would appear to be missing. And especially in an election year, the tendency to build electoral castles on the thin air of empty treasuries, is something that is only to be expected.

Is there, then, no way that one could work out a break in this vicious cycle? Perhaps there is, if one considers the possible inputs from the large community of chartered accountants who could at least be relied upon to help prepare a fair view of a State's financial health within a short time. In order to do that, professionals will have to be employed at each and every level of the State Governments, practically working as a shadow finance department for a very short and limited period of time, and to consolidate the financial statements so prepared. Without that basic benchmark there is, we believe, no way that any milestone can be realistically identified, far less achieved.

This is not to say, of course, that the States are totally inactive in these respects. They are not, but the efforts are few and far between, and certainly not integrated. What is really necessary is, to use professional terms, to do comprehensive due diligence exercises on the State's finances and, after obtaining such reports, for the States to set up their own achievable targets - election to election, and from indebtedness to financial health.

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