

# Rethinking of Special Category Status to Poorer States in India

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## ABSTRACT

There are twenty nine states and seven union territories in India. Some States have been provided some benefits by the union government as they fall under the Special Category States. In 1969, the Fifth Finance Commission acting in line to the Gadgil formula, had accorded Special Status to three states namely Assam, Nagaland and Jammu & Kashmir on the basis of hilly terrains, having international boundaries, backwardness and social problems prevailing in these states. As per formula such states get preferential treatment in federal assistance and tax breaks. These states also get excise duty concessions and thus, help to attract large number of industrial units to establish manufacturing factories within their territories. Now many other states have been categorised under this term like Himachal Pradesh (1970-71), Manipur, Meghalaya and Tripura (1971-72) Sikkim (1975-76), Arunachal Pradesh and Mizoram (1986-87) and Uttarakhand (2000-01)

## INTRODUCTION

The government of Bihar has been demanding to rethink on the issue and accord Special Status to Bihar and in the course of time other states followed the line. Resultantly, union government constituted a committee headed by Mr. Raghuram Rajan, now RBI Governor, to suggest ways to identify indicators of the relative backwardness of the states for equitable allocation of Central funds. The committee has proposed an index of backwardness composed of 10 equally weighted indicators for monthly per capita consumption expenditure, education, health, household amenities, poverty rate, female literacy, percentage of the scheduled caste / scheduled tribe population, urbanisation rate, financial inclusion and physical connectivity. The 10 states that scored above 0.6 (out of 1) on the composite index have been classified as least developed the 11 states that scored from 0.4 are less developed and the 7 states that scored less than 0.4 are relatively developed. As per panel report Odisha, Bihar, MP, Chattisgarh, Jharkhand, Arunachal Pradesh, Assam, Meghalaya, Uttar Pradesh and Rajasthan are least developed while Goa is most developed. If the recommendations are accepted most backward states will get larger share of central funds.

### Concept of special category state :-

According to constitutional provision regarding special status there are some of the temporary and transitional provisions for a fixed period<sup>2</sup> Parliament's power make laws for matters in state list under article 369 was for a period five years only. Similarly, the power of the president in cases of preventive detention under article 373 was only for a year, The most important and politically perhaps the most controversial have been the temporary provision with respect to the state of Jammu & Kashmir in article 370. Under this article, the power

of parliament to make laws for the state of jammu & kashmir Shall be limited to matters specified in the instrument of accession and may extend to any others only with the concurrence of the states.

Article 371 to 371UI contain special provision in respect of the states of Nagaland, Assam, Manipur, Andhra Pradesh, Sikkim, Mizoram, Arunachal Pradesh and Goa in each case, the idea is to satisfy the regional, tribal or other susceptibilities and protect the interests of the local people.

In 1969 when the Gardgil formula for sharing plan assistance among state was devised, three states were labelled special-category to bring those on a par with the development levels of other states. Gradually, this number grew to eleven.<sup>3</sup> The concept of a special category state was first introduced in 1969. The 5th Finance Commission decided to provide certain disadvantaged states with preferential treatment in the form of central assistance and tax breaks. Initially three states Assam, Nagaland and Jammu & Kashmir were granted special status but since then eight more have been included Arunachal Pradesh, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Sikkim, Tripura and Uttarakhand.

#### **Conditions to categorize states for special status:**

The special status is given to certain states because of their inherent features like they might have a low resource base and cannot mobilize resources for development. Some of the features required for special status are.

- (i) Hilly and difficult terrain,
- (ii) low population density or sizable share of tribal population;
- (iii) Strategic location along borders with neighbouring countries;
- (iv) Economic and infrastructural backwardness; and
- (v) Non-viable nature of state finances.

The decision to grant special category status lies with the National Development Council, composed of the Prime Minister, Union Ministers, Chief Ministers and members of the Planning Commission, who guide and review the work of the Planning Commission. Since this has to deal with funds transfer from Centre to state, the two bodies involved at the core are Planning Commission and Finance Commission, Below is an interesting split up of their respective roles and brief calculations that is done by them.

The Planning Commission allocates funds to states through central assistance for state plans. Central assistance can be broadly split into three components.

- Normal Central Assistance (NCA)
- Additional Central Assistance (ACA)
- Special Central Assistance (SCA)

NCA the main assistance for state plans, is split to favour special category states the 11 states get 30% of the total assistance while the other states share the remaining 70%. The 12th Finance Commission recommended that the Centre give only grants, and leave it to the states to raise loans as they wanted. Since then the sponsored schemes and external aid. For general category states, external aid is passed on in the exact mixture of loan and grants in which it is received at the Centre. And for them, in the case of centrally-sponsored schemes, only 70% of the central funding is given as grant.

Allocation between non special category states is determined by the Gadgil Mukherjee formula which was finally revised in 2000. Gadgil formula was formulated amongst the states. It was named after the then (1969) deputy chairman of the Planning Commission Dr. DR Gadgil. The central assistance provided for in the first three plans and annual plans of 1966-1969 lacked objectivity in its formulation and did not lead to equal and balanced growth in the states. The National Development Council (NDC) meeting held in October 11, 1990 discussed and approved a new revised formula. This formula came to be popularly known as Gadgil-Mukherjee formula after the name of the then (1990) deputy chairman of Planning Commission Dr. Pranab Mukherjee for determining the allocation of central assistance for state plans in India. The new revised formula as approved by NDC is given in the following table. Criteria for inter - state allocation of Plan Assistance.

Criteria	Weight (%)
Population	60
Per Capital Income	25
Fiscal Management	7.5
Special Problems	7.5
Total	100

Special category states also receive specific assistance addressing features like hill areas, tribal sub-plans and border areas Beyond additional plan resources special category states can enjoy concessions in excise and customs duties, income tax rates and corporate tax rates as determined by the government. The Planning Commission also allocates funds for ACA (assistance for externally aided projects and other specific project) and funds for Centrally Sponsored Schemes (CSS). State wise allocation of both ACA and CSS funds are prescribed by the centre.

The Planning Commission allocations can be important for states, specially for the functioning of certain schemes but the most significant centre- state transfer is the distribution of central tax revenues among states and this is done by the Finance Commission. Functions of the Finance Commission can be explicitly stated as. Distribution of net proceeds of taxes between centre and the States to be divided as per their respective contributions to the taxes. The Finance Commission decides the actual distribution and the current Finance Commission have set aside 32.5% of central tax revenue for states. In addition, it recommends the principles governing non-plan grants and loans to states. Examples of grants would include funds for disaster relief maintenance of roads and other state-specific requests. Unlike the Planning Commission, the Finance Commission does not distinguish between special and non special category states in its allocation.

Benefits:

As per Gadgil formula, a special category state gets.

- Preferential treatment in federal assistance and tax breaks
- Significant excise duty concessions
- Thus, these states attract a large number of industrial units to establish manufacturing facilities within their territory leading to their economy flourishing. The special category states do not have a hard budget constraint as the central transfer is high.
- These states avail themselves of the benefit of debt swapping and debt relief schemes (through the enactment of fiscal responsibility and budget management act) which facilitate reduction of average annual rate of interest. Significant 30% of the Centre's gross budget goes to the special category states.
- In centrally sponsored schemes and external aid special category states get it in the ratio of 90% grants and 10% loans. For the rest of the states as per the recommendations of the 11th Finance Commission, in case of centrally sponsored schemes only 70% central funding is there in the form of grant. The rest of the states receive external aid in the exact ratio (of grants and loans) in which it is received by the centre.

#### **The basis of the demands:**

Four states, apart from Bihar, Chhattisgarh, Jharkhand, Orissa and Rajasthan have been making this demand for the last 10 years. Inclusion of Bihar may also invite sharp opposition from these states if they are also not given the same status, point out government officials.

Orissa, West Bengal, Bihar, Tamil Nadu are racing for the special status to demand the special status for his state. Bihar chief minister Nitish Kumar went a step ahead and conducted Adhikar rally on 17th March, 2013 in New Delhi. After Bihar Chief minister Nitish Kumar, his Odisha counterpart Naveen Patnaik stepped up the demand for special category status for the state saying it was a genuine right and no one can ignore Odisha's demand.<sup>5</sup>

Though not so easy, it is also not so difficult to plead the case in favour of Bihar. As we are aware, the basis for according special-category status to the initial three states was socio-economic backwardness and harsh terrain of the states. Though, Bihar does not have harsh terrain, it has the case of socio-economic backwardness.

According to the report of state Directorate of Economics and Statistics (SDES) per capita income in Bihar during 2006-07 was meagre RS.9,702 - the lowest in the country. Similarly according to the report of Reserve Bank of India (RBI) per capital expenditure was also at the bottom of the list. The state spent only Rs. 1,352 per capita in 2006-07. Per capita GDP of the state in 2000-01 stand Rs. 3649.80 as against the all India average of RS. 11625.20.

The density of Population in Bihar is 880 according to the 2001 Censs Report Cumulative per capita grants from the Centre to the state has been Rs. 488. 30 during the period 2000-01 to 2002-03 which is the lowest in the country. Be it per capita development expenditure or per capita social sectorexpenditue, Bihar ranks last on the national map. Per capita development expenditure for 2007-08 of Bihar is only Rs. 2294 as against the AI India figure of Rs 4308. Per capita social sector expenditure of Bihar is only Rs. 1465 as against the All India average of Rs. 2492. (Source: State Finances- A Study of Budgets of 2007-08, RBI). Bihar inhabitates the largest population in the country living below poverty line.

In nutshell it may be summarized that on all the ceonomic and social indicators Bihar fares very low tanks to the scarcity of resources after bifurcation and also due to almost no-functional government for the last 20-25 years badly affecting the growth scenario of the state.

Are these not enough evidences to argue in favour of Bihar in order to get the illusory special-category status to the state!

Nitish kumar in his letter to the prime Minister has rightly emphasized the growing regional inequalities and has correctly sought for immediate redressal of the endemic backwardness of Bihar" The menance of naxalism, which has incidentally been the most ignored aspect of the internal security set up in India, is a direct function of the socio-economic regional imbalances and inequalities.

Bihar has ben the most vocan in demanding the special category status to the least developed states. Now the Raghuram Rajan panel in its report has placed Bihar next to Odisha as the most backward state in India. But the battle which seems to be very tough not easy to win. The Chief Minsiter of Bihar tried its hard to persuade the union government and presented a copy of demand signed with over one crore of people of Bihar. The party delegation called on Prime Minister led by JDU on July 14,20011. Several MP various parties including Sharad Yadav, Rajan Prasad Yadav Raghuvansh Prasad Singh, Shahnawaz Hussain and Bholu Singh had also raised the special status issue in the Lok Sabha. The ruling JDU also demonstrated at Delhi on 17th March 2013.

Raghuram Rajan's report is under scanner like Gadgil-Mukherjeeformula by the minorities as well as some other group of expers. The general secretary of ICIF Abdul Raquib said to ignore the deprived population of muslim community in the report of Raghuram Rajan committee is worongful. It will affect the integrated development of the country. If muslims are ignored. Amitabh Kunda expressed.<sup>6</sup>

Union cabinet minister for foreign affairs Salman Khurshid promised to keep this issue before the planning Commission. After publication of the report LOS has constituted a committee to review the whole issue ?<sup>7</sup>

Some other critics like Dr. R. Ramakumar of Tata Institute of Social Science, Mumbai is in the view that Raghuram Rajan report is a political decision secondly the weightage given to each variable is faulty.

It is also said that Chief Minister Nitish Kumar's demand for special category status would be difficult to meet for any government as Bihar does not qualify under the parameters set for such states. They said bowing to such demands would spark off similar demands from other states and make it difficult to balance them. Adding more states would mean that states would end up getting less from the central pool meant for such states and lead to development distortions. "Kumar has been campaigning for special category state status to enable the state to attract private investment and have access to core central funds to upgrade the state's infrastructure to fast track development. Experts said the National Development Council had already rejected the demand. They said funds were not an obstacle for the state that has notched rapid growth.

The quality of spending has improved under Kumar's rule but it cannot demand special category status just because it is poor" said the expert. "Bihar does not qualify under the special category states category. It is meant for a specific category such as a hilly terrain and geographically difficult area where supply of public services is difficult." said a former finance commission member. According to him Bihar has been given more funds in the 13th Finance Commission awards than in previous years keeping in view the developmental needs of the states." India comprises apart from six UTS, 18 states in general and 11 in special category. All the north eastern States, J&K, Himachal and Uttarakhand are in the special category. The special category states have some distinct characteristics. They have international borders, hilly terrains and distinctly different socio-economic developmental parameters, according to a study undertaken for 13th Finance Commission. The study says these states have geographical hindrances in infrastructural development.

Public spending plays a vital role in the gross State Domestic Product. The NE states are also late starters in development. Hence the Centre sanctions 90% in grants in plan assistance to states in special category. Proneb Se, Principal adviser in the planning Commission, said when three new states - Jharkhand, Chhattisgarh and Uttarakhand-were carved out only Uttarakhand was given special status because of its difficult terrain, development pattern and proximity to an international border "There is not much economic logic to accord special status to Bihar.

It is to be recalled that the inter-ministerial Group formed by the Prime Minister Dr. Manmohan Singh in September, 2001 to examine the request of Bihar for according it special category status has rejected the plea on the basis of five conditions - hilly and difficult terrain, low population density and sizeable share of tribal population, strategic location along with neighbouring countries, economic and infrastructural backwardness and non-viable state finances. CM Nitish Kumar criticise the IMG for reaching pre-ordained conclusion.

The overall discussion to accord the special category status to poorer states is the need of our and the whole criteria may be redefined and the centre should rethink over the issue, so that the poorer states may get the benefit of it, which will ultimately benefit in the inclusive development of the nation. It is disappointing that even after the report of the Raghuram Rajan's Committee, centre has not stepped up to special status to the deprived state.<sup>8</sup>

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