Special Status for States – RSTV: In Depth

Rajya Sabha TV programs like ‘The Big Picture’, ‘In Depth’ and ‘India’s World’ are informative programs that are important for UPSC preparation. In this article, you can read about the discussions held in the ‘Big Picture’ episode on “Special Status for States” for the IAS exam. You will find the accompanying video at the end of this article.

Historical Background

- Recognizing that some regions in the country were historically disadvantaged in contrast to the others, the 5th Finance Commission in 1969 introduced the concept of Special Category Status. There are a few states which have been given the special category status. The 5th Finance Commission sought to provide certain disadvantaged states with preferential treatment in the form of central assistance and tax breaks. Central Plan Assistance was given in the past by the National Development Council (NDC) to some states.
- This formula was named after the then Deputy Chairman of the Planning Commission, Dr. Gadgil Mukherjee. Initially, just three states: Assam, Nagaland, and Jammu & Kashmir were granted special status. During the 4th 5-Year plan (1969-1974), the states of Assam, Nagaland, and Jammu & Kashmir were given special status. These states got a total share of 9.26% of total plan assistance. Thereafter from 1974-1979, 5 more states were included under the special category. These include: Himachal Pradesh, Manipur, Meghalaya, Sikkim and Tripura. In 1990, with the addition of Arunachal Pradesh and Mizoram, the states with Special Category status increased to 10. The state of Uttarakhand was given Special Category Status in 2001. Until 2014-2015, Special Category Status meant that these 11 states received a variety of benefits and sops. Apart from the state of Andhra which has been in the news for its demand of the Special Category Status, Bihar, Odisha, Rajasthan and Goa have also been demanding Special Category Status. MP’s from Andhra Pradesh have caused repeated disruptions in Parliament during the budget session of Parliament this year 2018.
- After the dissolution of the Planning Commission and the subsequent constitution of the NITI-Aayog, the recommendations of the 14th Finance Commission have been implemented, meaning that the Gadgil formula-based grants have been discontinued. But this has been compensated by the increase in devolution from the divisible pool to all states from 32% to 42%. The Centre says that the 14th Finance Commission effectively removed the concept of Special Category Status after its recommendations were accepted in 2015.
- In the present circumstances, it is believed that no more states can be given the status of a Special Category state.

  The Constitution of India does not include any provision for the categorization of any state in India as a Special Category State. However, a wide range of safeguards are available to as many as 12 states that have been listed under Articles 371, 371-A to 371-H, and 371-J. Article 371-I deals with Goa, but does not include any provision that can be termed special. These 12 states are:

- Maharashtra, Gujarat, Nagaland, Assam, Manipur, Andhra Pradesh, Telangana, Sikkim, Mizoram, Arunachal Pradesh, Karnataka and Goa.
- Post independence, a considerable geographical, social, economic and cultural disparity was revealed among all India states. Some states had better education, health, social and economic conditions while others like the north-eastern and the hill states displayed a lack of development and an absence of government policies. But on the other hand, these states held an enormous importance to India in strategic and geopolitical terms. In the early 1960's, the then government had no concrete plan for the development of these states. Being economically weak, the states were unable to manage the development work on their own along with their limited resources and strengths. Under the circumstances, the Centre was left with just two options:
  a) either to club these states with their developed neighbours or,
  b) to provide assistance to uplift their conditions
  The second option was chosen and the states were put under Special Category Status to assist their development. Even when the 5-Year plans were implemented, no rules were followed by the Centre in the beginning while supporting the economically weaker states. Due to this, each region witnessed a different quantum of development.
- The Special Category issue was first raised in the National Development Council meeting in 1969. The D R Gadgil committee gave a formula which was evolved in 1969. This formula lays down the allocation of Central Assistance for state plans in India. Before this, there was no definite formula to grant funds to the states and only scheme-based grants were given. The National Development Council approved the D R Gadgil Formula under which special category states like Assam, Jammu & Kashmir, and Nagaland were given preference. This meant that their needs were first met from the total pool of Central assistance. The remaining balance of the Central assistance was distributed among the remaining states on the basis of the following criteria:
- 60% on the basis of population
- 5% on the basis of tax effort
- 25% on the basis of per-capita state income, and
- 5% on the basis of special problems of individual states

There can't be any denying the fact that Special Category Status had catalysed the economic development of northern and north-eastern states. But there still exists a gap in their levels of development when they are compared with other states.

Why in the news?

- After weeks of making heated political comments, the Telugu Desam Party (TDP) decided to quit the NDA government, just days after it pulled out 2 Ministers from the

Narendra Modi government. The TDP said that they were forced to take the action owing to the Centre's refusal to grant special category status to Andhra Pradesh.
- The second leg of the Budget session (2018) of Parliament was virtually washed out. Continuous disruptions had led to no substantial legislative business being transacted in both houses. Members belonging to political parties from Andhra Pradesh led by the Telugu Desam Party (TDP), and the Y.S.R. Congress was creating an uproar in Parliament, demanding a special status for their state.

Benefits a Special Category Status confers:

- States which are granted special category status enjoy several benefits. These include a) preferential treatment in getting central funds b) concession on excise duty to attract industries to the state c) a significant 30% of the Centre's gross budget also goes special category states d) These states can avail the benefit of debt-swapping and debt relief schemes e) In the case of Centrally Sponsored Schemes and external aid, Special Category States get it in the ratio of 90% as grant, and 10% as loans. Other states, however, get 30% of their funds as grants f) Special Category States also get tax breaks to attract investment
- A Special Category Status catalyses the inflow of private investments and generates employment and additional revenue for the state. Besides, the State can create more welfare-based schemes from the new savings since the Center bears 90% of the expenditure on all Centrally Sponsored Schemes. Further, more grants from the Center helps in building state infrastructure and social-sector projects.
- The Constitution of India does not include any provision for the categorization of any state as a Special Category Status state.
- However, in the past, Central Planned Assistance were given to certain states on the ground that they are historically disadvantaged in comparison to others.

Criteria for Special Category Status

The erstwhile Planning Commission body, the National Development Council (NDC), granted Special Category Status to states based on a number of features, which included:

1. Hilly and difficult terrain
2. Low population density
3. Presence of a sizeable tribal population
4. Strategic location along international borders
5. Economic and infrastructural backwardness
6. Non-viable nature of state finances

Jammu and Kashmir was the first state to get Special Category Status and another 10 states were added over the years, with Uttarakhand being the last in 2010.

Differences between Special Category Status and Special Status:

- Special Status is guaranteed by the Constitution through an Act that has to be passed by 2/3rds majority in both the houses of Parliament. For instance, Jammu and Kashmir enjoys a Special Status as per Article 370. Jammu and Kashmir also enjoys Special Category Status. It is also the only state in the country to have a separate constitution. Many laws that are functional in the rest of India do not extend to the state. Apart from this, the Government of India can only interfere in issues such as, Defence, Foreign Affairs, Finance and Communication matters. Special Category Status (SCS) is totally different from the Special Status.
- The Special Category Status (SCS) is granted by the National Development Council, which is an administrative body of the government. It is a classification that the Centre gives to a state to assist in the development of states that face geographical and socio-economic disadvantages. In 1969, SCS was for the first time granted to Jammu and Kashmir and 10 more states were added over the years. The National Development Council (NDC) further laid 5 guidelines to grant the special status.
- The Special Category Status to Andhra Pradesh would entitle it to receive special benefits. These benefits would help the state attract more investment, which in turn would revive its economy, which according to the state, suffered a huge loss after its capital Hyderabad was given to Telangana. The Central Government has however said that Andhra Pradesh doesn't qualify for Special Category Status as it doesn't fulfil any of the conditions stipulated by the National Development Council (NDC). The Centre has therefore offered Andhra Pradesh a special package that it says is equivalent to the benefits of the Special Category Status.

Center-State Relations

- When there were talks about building a future India in the Constituent Assembly, nobody ever thought that the Centre-State relations would become a point of debate. But as our democracy and the multi-party system in the country strengthened, discussion over the rights of states gained momentum. The first article of the Constitution of India states that India is a union of states. Interestingly, the Union is not based on any mutual agreement between these states. But, that is not the matter of debate; the discussion has always been about what are the rights of the Centre and the states? And how are the resources of expenditure and revenue shared between them? This debate was not articulated at least not in the first few years after independence. This was because at both the Centre and the State level, there existed a single-party rule in the country.
- By 1970, the scenario changed. Coming out of the shadow of the freedom struggle, the horrors and the misery of partition, the country witnessed progress. More confident about its independence, the nation saw the expression of regional aspirations which took Centre-stage and started dominating the national scene.
- The Financial relations and sharing of financial resources between the centre and the states is explained in Chapter 1 of Part-12 of the Indian Constitution.

- In Financial matters, resources are divided between the Union and the States.
- In the Indian Constitution, this division is based on the 1935 Act. The States have the right to collect only a few types of taxes. While the Union Government is empowered to impose taxes on all the subjects in the Union List. The residuary powers are vested in the Centre. The proceeds of the taxes in the hands of the Centre are larger than that vested in the states.
- States collect taxes on subjects under the state list. State governments collect their share and spend to meet their needs. The Union government neither collects taxes nor does it completely spend it.

Specific Articles: Centre-State Relations

- The Constitution of India provides for a federal system. The federal system laid down in the Constitution specifies three types of relations between the Centre and the States: these include, legislative, administrative and financial. The legislative relations are mentioned from Article 245 to 254 of the Constitution. Article 246 has three lists, that clarify which subjects come under the Union List and which are under the States.
- There are also subjects under the Concurrent list on which both the Centre and the States can make laws. Article 256 to Article 263 of the Constitution explains the Administrative relations between the Union and the States. Article 266 mentions about the Consolidated Fund of India. Article 267 gives power to Parliament and the State legislatures to establish a Contingency fund of India
- Under Article 273, the Central government provides grants in aid on the export duty of jute and jute products from Assam, Bihar, Odisha and West Bengal. Article 275 states that during the period of emergencies, financial aid has to be provided to the states. There are many institutions for coordination between the Centre and the States.
- The Planning Commission was established in 1950; on 1st January 2015, it was replaced by the NITI Aayog. The National Development Council (NDC) was formed in 1952 and its work was to make states take part in policy-making. Under the State Reorganization Act, 1956, the country was divided into 5 parts and the provision of a regional council for each one was made. The National Integration Council was formed in 1986. The Finance Commission constituted under Article 280 is still the most important institution- it determines the revenue sharing between the Centre and the States.