

Planning Commission, Special Category States and Odisha

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I

Today, India is passing through critical phase. The democratic institutions are losing their legitimacy and they have fallen in the public esteem. Its popular edifice is cracking. Unity and integrity of the nation is threatened. Problems and conflicts abound. One of the most visible part of the conflict scenario is the Union-State relations. Political instability at the Centre, step-motherly attitude towards States run by parties other than the parties in ruling combine at the Centre.

India is the largest democracy in the world. It is also one of the Federations in the club of twenty-five. The federal scheme was the gift of the colonial rulers. The distribution of powers envisaged in the Act of 1935 intended a strong centre against the weak States. But the political pundits at the Constitution making forum also realised that India needed a strong Centre. A strong Centre does not mean holding all the reins of power. The Seventh Schedule to the Constitution prepared a three-list based distribution where the States were provided more responsibility but very little scope to augment their resources. There was no scope to build tax revenue and non-tax revenue was in pathetic condition.

The Constitution in Article 280 created a Finance Commission which was clothed with the

function of allotment of accumulated tax at the Centre among the States on the basis of their judicious decisions.

A Planning Commission was established under a resolution of the Parliament. It is a non-Statutory body. Of course, this institution was the brainchild of Pandit Nehru. When he visited Soviet Union in late 1920's he could acquaint himself with the role of planning in the national development. On the basis of his pleading in AICC a Planning Cell was constituted in the party of which he was made the Chairman.

In the Constituent Assembly his attempt to make Planning body a Statutory body was bulldozed by Patel and his admirers. Thus, Planning Commission became a post-Constitution forum. But this forum with Prime Minister as its Chairman became most powerful body and it relegated the Statutory body like the Finance Commission into a fact finding and statistics aggregating body. Eversince, the Planning Commission was created, it looked like a superior body and Finance Commission was turned into a lack-lustre forum headed by prominent ex-bureaucrats.

The Planning Commission is the central agency of planning. Its functions include- (a) formulation of five year plans for the most

effective and balanced utilisation of country's resources; (b) working out the priorities in the plan; (c) assessment for national resources and devising ways and means of augmenting them; (d) the determination of the best machinery to secure the successful implementation of the plan, and (e) periodic evaluation of the plan with a view to suggesting adjustments, if any.

Since its inception, the Prime Minister was its Chairperson. A Deputy Chairman was appointed who invariably was a Minister, may be the Minister of Planning. This continued till 1967. After three FY Plans, Mrs. Indira Gandhi caused a "Plan Holiday" from 1966 to 1969. The number of full time members varied from three to nine. Couple of Ministers including the Finance Minister initially became prominent policy makers. In 1977 the Janata Government reconstituted the Commission a decade after observations by the Administrative Reforms Commission which termed the Planning Commission till 1967 as "Parallel Cabinet" and at times as "Super Cabinet". In December, 1963, the Commission's founding Chairperson Pandit Nehru said in the Lok Sabha- "The Planning Commission has performed an essential task, without it we could not have progressed.... We are a federal structure and it has served to bring the various States together and have an integrated planning. If it had not been there, the Central Government could not have done their job because immediately difficulties would have arisen that the Central Government was encroaching on the rights of the States,"

The First Five Year Plan was launched with effect from April, 1951. The hidden agenda in the launching was to send a message to the electorate spread over different States, that the Prime Minister as the Chairperson of the Planning Commission was more aware of the problems of the States. His priority was equitable distribution of resources and removal of colonial distortions

which appeared as regional imbalance. The first general election commenced from December, 1951. Pandit Nehru was more apprehensive of the role of socialists in the election. Hence he circulated the idea of planned economic development to ensure equity and social justice. This precluded the socialist opposition from accusing Nehru as an agent of capitalism.

The Planning Commission prepared the blue print for development for three Five Year Plans during the Nehrurian era. The IInd Plan was known as Mohalonabis Plan as it laid stress on big industries and generation of employment as suggested by him. The 3rd Plan period experienced double shock-war with China and Pakistan. But the Commission always emphasized that both the Union and the States have exclusive powers in their own jurisdiction. About 65-70 per cent of allocation in the first two plans were in the States to augment agriculture, education, health, forest situation. These were most neglected areas during colonial era.

Whatever may be the economics of planning a political consensus was carved out by bringing another extra-Constitutional body like National Development Council. This had the single agenda of finalising objectives of planning and the other agenda of listening to the allocation made by Yojana Bhawan. The political crises in the States were nominal. The country was under the Congress System. The high command politics prevented state Chief Ministers to openly criticise the decisions of the Prime Minister and his/her Collaborators.

Shri K. Subba Rao, a former Chief Justice of India lamented that planning introduced not only a political complexion in the relation between the Union and the States but enabled the Union to tighten its financial grip over the States. He further complained that the Centre by giving grants

and loans on the advice of the Planning Commission, controlled the administration of the state subjects like education, irrigation, road making, animal husbandry, cooperation, industrial labour and employment etc. An example may help us to know the problem cited above. Out of total revenue to the states of Rs.73,140 million during the 3rd plan, the grants provided under the recommendation of Finance Commission under Article 275 constituted only 4.9 percent while the discretionary grant by the Union Government on the recommendation of Planning Commission Under Article 282 was 13 percent of the total revenue. The Finance Commission for its grants do not depend upon the Union Government as its Constitutional obligation. All the Finance Commissions headed by Shri Querishi, Shri Shanthanam, Shri Ashok Chanda and Shri PV Rajmanner only discharged their constitutional obligation. Under no circumstances the plight of the states either could be presented properly and if, presented properly was not taken into consideration. The role of non-statutory body like Planning Commission and Statutory body like Finance Commission during the first phase of the nation building process caused widening gap between and among the States leading to regional imbalance. In true sense it was a unionised federation. The federal balance was non-existing. Rather it can be stated as a strong centre with weak states. The several Constitutional and non-constitutional means adopted by the Union Government created anti-Centre opinion before the 1967 Election.

Another objectionable part was the rise of the centrally sponsored schemes relating to state subjects. There was a growing feeling among the states that there was lack of coordination, arbitrariness in the transfer of resources on such schemes, examination of minutest details by the Union, ignoring diversity existing at local level etc.

It was also alleged that due to introduction of central scheme distortions occurred in the size and nature of State Plan as fear of non-availability of matching grant from the Centre, the states dropped some of their own initiatives. Some States could see definite political agenda in such type of planned economic development model adopted in India. It is needless to mention here that the Planning Commission assumed a significant position over the Finance Commission and one of the prominent causes was that it was headed by the Prime Minister who belongs to one political group or party or have some definite mission to accomplish. The Finance Commission became a statistics aggregating forum. Despite enormous resources at its disposal the first four Finance Commissions only transacted limited Constitutional responsibility.

II

The post-Nehruvian era experienced deeper political complexity as all the proclaimed policies and three five year plans could not solve the twin challenges of poverty and unemployment. The party in power was targeted and the States where Congress misrule was more visible experienced rise of counter political forces on the eve of the Fourth General Election. The obvious targets of the new political opposition were one party dominant system, dominating role of the Planning Commission and elusive conduct of the Finance Commission. The political discontent halted the process of preparing the fourth plan objectives. This led to plan holiday from 1966 to 1969. Dr. D.R. Gadgil was appointed as the Deputy Chairman of the Planning Commission which was a visible deviation from the existing practice.

In 1969 considering the growing regional imbalance and political mudthrowing the Planning Commission took into consideration the

suggestions made by Gadgil, which later was called 'Gadgil Formula'. This formula was adopted for distribution of plan assistance during the Fourth and Fifth Five Year Plans. Thus it was obvious that the central assistance provided for in the first three Plans and the Annual Plans of 1966-69 lacked objectivity in its formulation and did not lead to equal and balanced growth in States.

The NDC approved the following formulas -

For the first time a new concept 'Special Category State' was identified and adopted.

- (a) Special category States like Assam, J & K, and Nagaland were given preference in central assistance. Their needs were met out of the total fund.
- (b) The remaining fund was distributed among the remaining States.

The formula adopted for this purpose were :

- (i) 60 per cent of the allocation on the basis of the population of the State.
- (ii) 10 per cent on the basis of tax-effort determined on the basis of individual State's per capita tax receipt as percentage of the States per capita income.
- (iii) 10 per cent on the basis of per capita State income, assistance going only to States where per capita income is below the national average.
- (iv) 10 per cent on the basis of spill over into the Fourth Plan of major continuing irrigation and power projects.
- (v) 10 per cent for special problems of individual States.

The nature and character of Indian Planning needs analysis. The Indian Constitution divides responsibilities between the Union and

State Governments. There was visible imbalance between responsibilities assigned to the States and the revenue resources at the disposal of the States to discharge the assigned responsibilities. The central assistance is given under Article 282. The States are largely dependent on the Union Government for financing their development plans because the extra resources on which the States could bank upon were largely in possession of the Union Government.

The Gadgil Formula was modified on the eve of the formulation of the VI Plan. The 10 per cent indicator for ongoing power and irrigation projects was dropped and the share of per capita income was increased to 20 per cent; to be distributed to those States whose per capita income was below national average. This formula continued for Sixth and Seventh Plan. This revised formula experienced a better flow of resources to poorer States than the earlier plans.

The NDC in its meeting held in October, 1990 discussed and approved a new formula. The New formula was known as 'Gadgil - Mukherjee' Formula. Pranab Mukherjee was the Deputy Chairman of the Planning Commission.

Under the new revised formula population was given maximum weightage by considering it as most important factor for the allocation of central assistance. But the weightage was reduced to 55 per cent. The share of per capita income was increased from 20 to 25 per cent. The rest 20 per cent weightage was given as 5 per cent for fiscal management and 15 per cent for special problems. Thus, under the new formula 85 per cent of the total central assistance was distributed on the basis of the agreed criteria. But the old formula allocated a weightage of 90 per cent as against 85 per cent of the new.

In 2000 new Gadgil Formula was taken up. As per 21st Century norm, 'Performance' was

given bigger credence. For performance the new weightage was fixed at 7.5 per cent. Within this criteria 2.5 per cent for tax effort, 2 per cent for fiscal management at the State level and 1 per cent weightage for undertaking population control measures. Further 1 per cent weightage was given for female literacy, timely completion of externally funded projects and land reforms undertaken accounted for 7.5 percent.

The 'Gadgil Formula' adopted since 1969 and revised couple of times were political arithmetic and it did not improve the conditions of poorer States and some of them through political equation could carve out special packages.

III

Indian federation consists of twentyeight states and seven Union Territories. Since 1969 a new concept 'Special Category State' emerged which benefitted some States to receive priority attention to solve their problems.

In 1969 while preparing formula for the distribution of central assistance on the basis of 'Gadgil Formula' the Fifth Finance Commission headed by Mahavir Tyagi helped in the creation of this concept. Initially the Commission accorded Special Category State Status to three States (Assam, J & K. and Nagaland) The basis of their choice was harsh terrain, backwardness and social problems prevailing in these States.

As per Gadgil Formula special category States get preferential treatment in federal assistance and tax breaks. These States get significant excise duty concessions and this helps these States to attract large number of industrial Houses to establish manufacturing Units. As on today, the following States enjoy this status - Arunachal Pradesh, Assam, Himachal Pradesh, J & K, Manipur, Meghalaya, Mizoram and Nagaland, Sikkim, Tripura and Uttarakhand.

According to an analyst, the main reason behind the categorisation is the development of that particular state where there are many problems due to hilly terrain, international borders etc. as there cannot be good industrial development and the finance of the State are also less, thus the Central Government comes into picture. 90% of the Central Assistance is treated as grant and the remaining 10% is considered as loan, unlike other states which get 30% grant and 70% loan.

To be more specific about the special category States and their characteristics, it is to be understood that they have international boundaries, hilly terrains and have distinctly different socio-economic developmental parameters. These states also have geographical disadvantages in their effort for industrial development. Public expenditure plays a significant role in the Gross State Domestic Product (GSDP). In this consideration the North-East is fittest as all the criteria are being fulfilled. They are also late starters in the development process.

The special category States enjoy special attention of the union development apparatus. The most important prescription for special category states is interest-free loan with rationalisation of public expenditure based on growth enhancing sectoral allocation of resources.

Moreover, for these states since the central assistance is high there is no hard budget constraint. Through the enactment of Fiscal Responsibility and Budgetary Management Act (FRBMA) these States are also availing themselves of the benefit of debt swapping and debt relief schemes which facilitate reduction of the annual rate of interest. The intention behind special category status to bring these States at par with the developed States of the Country.

It is beyond doubt that the planned economic development model adopted in India could not yield anticipated result even when First FYP evaluation team visited different sites people expressed their lack of awareness and there was no involvement.

With the changed political situation and the emergence of non-Congress opposition at the State level as well as half a dozen States coming under their rule, the planning machinery adopted a new strategy of resource sharing and also luring some states to aid-trap through the new concept of 'special category state'. As of now eleven states of which all the north-eastern States are included in this category. One visible aspect of designation of special category status indicates the areas where insurgency rather than underdevelopment is more visible.

Another aspect i.e., the special category status cannot be claimed by a State whatever may be the level of development and painful poverty unless the state has an international border. It is not properly understood how such an unconstitutional and undemocratic provision could be inserted into the pre-requisites and non of the state Chief Ministers raised their voice against this provision. This pre-requisite, ab initio, precludes more than a dozen States from staking their claim despite other requisites are very strong in their favour.

IV

Odisha is a poor State. This fact is well known outside the State. This is also evident from KBK scheme, prevalence of 40 per cent of the population belonging to SC and ST category, 118 Blocks out of total 314 are tribal dominated blocks.

The State has enormous resources and its potential is very high. But it could not be

exploited as there is resource crunch and the Union has not evinced interest in raising the standard of living of the people of Odisha.

Despite presence of fertile brains not a single Odia is included in the Planning Commission and Finance Commission. The voice of Odisha is not heard by the internal policy making bureau as the State has not got a powerful minister or a strong economic ministry at the Union level. The State is mineral rich. But the people of the State are poor. To bring changes in this scenario the State legislature had unanimously adopted resolution demanding special category status for the State. This Status is expected to make major changes in the economy, standard of living and industrial development of the State.

Now out of 30 districts, 20 districts are under Mao menace. Seven districts do not have an inch of rail track. The State is divided into tribal hill area and coastal plain. But integration between the two segments needs a strong communication network, generation of employment, massive implementation of anti-poverty programmes and political consensus on issues that affect the State.

The special category status will provide more assistance, cause debt swapping and debt relief and interest-free loan for the development of the State. Hence, though Odisha is economically suitable for the award it is not politically acceptable. This mindset must go. The undemocratic criteria that prevents Odisha from getting the status must be removed. Finally, if Odisha develops will India suffer ?

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