

Centre-Assam Financial Relations: A Critical Analysis

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Abstract: The path of development adopted by the Indian State is fundamentally capitalist in nature which generates severe regional disparities including Assam. Assam continues to remain an agriculturally and industrially backward state in spite of having rich resources. It led to the growing awareness among the Assamese people of being subjected to gross economic exploitation on a scale comparable to, and even sometimes worse than in the pre-independence days. The present paper examines the nature of constitutional provisions pertaining to Centre-State financial relations in India, including arrangements regarding taxation powers of different tiers of government in India. It also highlights the role of the Finance Commission and the Planning Commission in effecting fund transfers from the Centre to the states with special emphasis on Centre-Assam financial relations. In addition to this, it discusses the question of infrastructural underdevelopment of Assam in the post-colonial period which precipitates anti-Centre feeling in the minds of the people of Assam.

Key Words: *Centre-state relations, regional disparities, financial relations, Assam, underdevelopment*

I. INTRODUCTION

In Indian democracy the legislative, administrative and financial powers and responsibilities are demarcated between the Centre and the states with overlapping provisions in certain areas. This classification is to be seen primarily in the Constitution of India and thereafter in actual practice. Like the legislative and administrative powers, sharing and assignment of fiscal powers to the Centre and the states emanates basically from the Constitutional provisions. The Constitutional scheme gives an upper hand to the Centre vis-à-vis the states in terms of financial relations. As a result, a strained relationship develops between Centre and states in Indian federation. Along with Centre's continued neglect and indifference to state's socio-political and economic issues, one concomitant issue was the federal financial relations which were beset with the associated problems of centripetal division of powers regarding taxation, grants and sharing of revenues and resources between the Centre and states.

Peripheral state Assam depends heavily on the Centre, a result of centripetal Constitution, to discharge its responsibilities. It failed to evoke any systematic response from the Centre for a long period. It has been argued that Assam is an endowed region, gifted with many natural resources, but the endowments have not translated into economic growth and development. The path of development adopted by the Indian State is fundamentally capitalist in nature which generates severe regional disparities including Assam. Assam is located in a strategically sensitive region which faces perennial floods, political disturbances and severely underdeveloped infrastructure of roads, railways, communication, power, terminal and institutional facilities and abject poverty. Hence, Assam fails to draw worthwhile private investment for its economic development. It is argued that "colonial hinterland" state Assam has been experiencing a systematic exploitation of its rich resources, before 1947 by the colonial rulers, and since then by the Indian State and Indian capitalists. Thus, Assam continues to remain an agriculturally and industrially backward state in spite of having rich resources. It led to the growing awareness among the Assamese people of being subjected to gross economic exploitation on a scale comparable to, and even sometimes worse than in the pre-independence days. Therefore, it is quite significant to study the issue of Centre-Assam financial relation that affects Indian polity.

The regionalism has, indeed, values in the context of building the nation, or national cohesion provided the political system is accommodative of timely meeting the demands of the regions. The Indian federal-nation is a mosaic of people in which unified political identity is reconciled with socio-cultural diversities. It is a conglomerate of segments whose diverse identities are based on ethnicity, language, religion, region etc. Its hallmark is unity of polity and plurality of society. We should recognize the multi-regional character of Indian federation. The regions are our viable units. However, centralization of political powers in the hands of central leaders in the periods after independence creates reaction from regions whose interests seem to have been ignored. On the basis of these ideas the present paper examines the nature of constitutional provisions pertaining to Centre-State financial relations in India, including arrangements regarding taxation powers of different tiers of government in India. It also highlights the role of the Finance Commission and the Planning Commission in

effecting fund transfers from the Centre to the states with special emphasis on Centre-Assam financial relations. In addition to this, it discusses the question of infrastructural underdevelopment of Assam in the post-colonial period which precipitates anti-Centre feeling in the minds of the people of Assam. The present study is basically limited to understand the case of Assam only.

The paper is based on the sources such as government documents, Pamphlets, Leaflets, Documents published by the Central and State governments, Proceedings of the Assembly and the Parliament, Newspapers and Periodicals, and relevant articles and books. The data so collected from primary and secondary sources has been classified, compiled, analysed, checked and cross checked before preparation of the paper. Thus it is an endeavour to critically discuss the Constitutional provisions as well as its actual practice in respect of financial relations in Indian federation with special emphasis to the issue of Centre-Assam financial relation.

II. CENTRE-STATE FINANCIAL RELATIONS IN INDIA: CONSTITUTIONAL PROVISIONS

In India, there is constitutional demarcation of financial powers and responsibilities between the Centre and the states. The Constitution makes detailed arrangements relating to the distribution of taxes, the power of borrowing, and provision for grants-in-aid between the Union and the states. Through these arrangements, the Constitution places adequate financial resources at the disposal of the two tiers of Government to discharge their respective responsibilities. Article 265 of the Constitution specifically states that no taxes shall be levied or collected except by the authority of law. Entries 82 to 92B of List I in the Seventh Schedule refer to the taxation powers of the Union Government. Entries 45 to 63 of List II in the same Schedule specify the taxation powers of the State Governments. On the other hand the Union and the states have no concurrent powers of taxation. The residual powers of taxation belong to the Union vide entry 97 of List I in the Seventh Schedule (Sury 2008: 35). Constitutional division of taxation powers between the Union and the States have been made on the basis of economic and administrative considerations in India. Taxes with an inter-State base, and those in the case of which uniformity in rates is desirable, are vested in the Central Government. Taxes which are location-specific and relate to subjects of local consumption are with the States. The distribution of taxation powers between the Centre and the States is meant to minimize tax problems in a federal set up such as double taxation, tax rivalry among States, duplicate tax administration, and tax evasion (Sury: 38).

Although the taxation powers allocated to the Union and the States are mutually exclusive, all the taxes and duties levied by the Union are not meant entirely for the purpose of the Union. Revenues from certain taxes and duties leviable by the Union are totally assigned to or shared with the states to supplement their revenues in accordance with their needs. The framers of the Constitution realized that the sources of revenue allocated to the states may not prove sufficient in view of their growing welfare, maintenance, and developmental activities. Hence, specific provisions were made to set apart a portion of Central revenues for the benefit of states. These provisions indicate the flexibility of India's Constitution in terms of distribution of financial resources between different layers of the Government.

The framers of India's Constitution recognized the fact that the financial resources of the States may prove inadequate for undertaking welfare, maintenance, and development activities. They made elaborate arrangements relating to flow of funds from the Centre to the states. The disequilibrium between proliferating functional responsibilities of the states and their own resources is corrected by Central transfers effected through three main channels, firstly, Statutory transfers through the Finance Commission; secondly, Plan transfers through the Planning Commission; and thirdly, Discretionary transfers through Centrally Sponsored Schemes, relief for natural calamities, and relief and rehabilitation of displaced persons. Apart from these direct transfers, resources also flow to the states indirectly through the establishment or expansion of Central public sector enterprises; subsidized lending by banking and financial institutions; and subsidized borrowing by the states from the Central Government and the banking system (Sury: 46).

The funds transferred through the Finance Commission pertain to sharing of certain Central taxes, and grants-in-aid of revenues of the states. Although the Constitution provides for Central transfers, it neither indicates the share of the states in the divisible taxes nor prescribes any principles for the distribution of states' share among the states themselves. The precise manner of sharing taxes and the actual determination of grants is left to the deliberations of the Finance Commission. On the other hand, the Planning Commission makes an assessment of the existing resources of the individual states and the country as a whole and sets objectives in various fields and formulates plans for economic development in the light of requirements of each state. With the establishment of the Planning Commission in 1950, the Central Government invoked Article 282 for making grants to the states for plan purposes. Ever since the launching of the First Five Year Plan, these grants have occupied an important place in Central financial transfers to the states. These grants were intended by the Constitution makers to meet unforeseeable emergencies and were not envisaged as part of normal Centre-State financial relations. Thus, grants given under Article 282 are a subject matter of controversy. Another contentious issue related to Plan assistance pertains to Centrally Sponsored Schemes. In view of their national

importance, these schemes are launched by the Centre and implemented by the State Governments with Central assistance. The States execute these schemes under the guidance and supervision of the Centre. The States are generally unhappy with their inadequate involvement in the execution of centrally sponsored schemes which mainly pertain to subjects included in the State List. Sponsoring these schemes by the Centre is also considered an intrusion into subjects reserved for states. The states have also complained against centrally sponsored schemes on the ground that the system of matching grants involved in the schemes favours the richer states because they are better placed to provide matching funds to avail Central assistance.

Regarding the magnitude of Central transfers to the states, it is natural to expect claims and counter claims by the two levels of the Government. The States have often complained that resources allocated to them are inadequate to enable them to discharge their responsibilities. They complain against widening gap between their own resources and needs, a trend indicating their increasing dependence on the Centre for resources. They assert that their resources should be commensurate with their obligations and responsibilities. The regionalists feel that the Constitution of India with pronounced centralizing features could be termed 'quasi-federal' or 'a federation with a strong centralizing tendency.' Constitutional provisions, regarding taxation and borrowing powers of the Centre and the states, place the former in a commanding position. Not only the major sources of tax revenue belong to the Centre, its borrowing (internal and external) powers are also unlimited. Sanjib Baruah argued:

India's Central Government controls the great bulk of financial resources including income tax, corporate tax, import and export duties, and excise duties on major items. It controls the money supply and exercises control over the central bank besides the nationalized banks, currency, and foreign exchange. Except for taxes on agricultural income and property, and sales taxes on certain goods and services, all the major sources of tax revenue are in the hands of the Centre. The Constitution provides for a Finance Commission to allocate the proceeds of the centrally collected revenue to the states. But over the years an extra-constitutional body, the Planning Commission, has overshadowed the Finance Commission, further strengthening the hands of the Central Government as the arbiter of fiscal resources (Baruah 2010: 206).

Thus, in the area of distribution of fiscal resources, Indian federalism is probably at its weakest. The Constitution of India empowers the Central Government to exercise enormous powers in fiscal field. Therefore it has been criticized that, as far as financial arrangements are concerned, the Indian Constitution is a "carbon copy" of a colonial law, the Government of India Act of 1935. The States are certainly unhappy in this financial arrangement. Hence, the Assamese elite too sincerely felt that Assam's financial stringency continues because of the "step-motherly attitude" of the Centre.

III. CENTRE-ASSAM FINANCIAL RELATIONS

Financially Assam depends heavily on the Centre as a result of centripetal constitution. In spite of its rich natural resources the state is lagging far behind in economic growth and development. The capitalist nature of development adopted by the Indian State generates severe regional disparities including Assam. Assam is located in a strategically sensitive region which faces perennial floods, political disturbances and severely underdeveloped infrastructure of roads, railways, communication, power, terminal and institutional facilities and abject poverty (Hussain 1993: 67). "Instead of investing in the region's infrastructure and allowing market forces to do the rest", Subir Bhaumik argues, "the country's federal government pumped huge quantum of funds to sustain the region's economy"(Bhaumik 2009: 231). Terming Assam as "colonial hinterland" Tilottama Misra stated that "there has been a systematic exploitation of the rich resources of Assam, before 1947 by the colonial rulers, and since then by the Indian State and Indian capitalists who have continued the colonial tradition"(Misra 1980: 1357-1365).

The policy of strengthening the Centre at the cost of the States has led to serious consequences to the India polity. It led to the opinion that "Assam is being subjected to colonial or 'quasi-colonial' exploitation by foreign imperialists and by the Indian State and the big industrialists" and "has been progressively sucked dry of its natural resources" (Misra: 1980). Despite being the country's largest producer of tea, oil, plywood and forest products, Assam is one of the poorest and industrially most backward States of India. After decades of independence, Assam is 'lagging far behind the rest of the country in most important parameters of growth.' Its economy remained predominantly agrarian. Assam is affected by increased pressure on available land due to demographic transformation. In addition to this, Assam faces perennial floods. The failure to control the Brahmaputra and other rivers contributed decisively in keeping Assam agriculturally backward in spite of its fertile soil. The growth in agricultural sector in Assam was virtually stagnant leading to dependence on other States for food grains (Hussain: 68).

Among the industries, tea has been the biggest 'extractive enterprise' of Assam founded in the colonial period. It provides average daily employment to more than six lakh persons in the State which is around 50 percent of the total average daily number of labour employed in the country. The tea production in Assam constitutes more than 50 percent of the total production of the country. The total annual profit from the tea

gardens of Assam is several times more than the total annual revenue receipts of the State (Economic Survey, Assam 2011-12). But Assam is deprived of her legitimate share and benefits because of the practice of concealment of real profit of tea earned by the foreign as well as big Indian capitalists. "Owners have for years been content only to siphon off profits by manipulation of books, paying ridiculously low wages to employees and showing a loss in the annual balance-sheets." (Borgohain 2012: 45-46). Moreover, the overwhelming majority of the big gardens are under foreign and Indian companies which are controlled from London and Calcutta. As a result, a large share of profits from the Assam gardens flow out to foreign and Indian big companies. Amalendu Guha maintained that "The imperialist domination over Assam's economy hardly slackened even after independence." (Guha 1977: 329) Even the main office of the Tea Board is situated in Calcutta though most of the gardens it controls are in Assam. Besides, in the post-independence period majority of the gardens were bought over by Indian big capitalists such as Tatas and Birlas.

Another important natural resource of Assam is crude oil which has become a cause of contention between Centre and Assam in post-independence period. Assam has an estimated reserve of 1.3 billion tones of crude oil and 156 billion cubic metres of natural gas (*The Hindu* 2009, November 14). But, the oil industry did not develop in Assam contrary to the expectations of the people of Assam. Apart from the question of the establishment of refineries, the people of Assam have been feeling that the State is not getting adequate royalty for crude oil. There could have been no other reason except vested political interests for the establishment of the large public sector refinery for Assam crude at Barauni with more than 30 lakh tonnes, it is argued. Mass movements protesting against this unfair decision of the Centre were staged in Assam in 1956-57, as a result of which the Centre tried to appease the people by establishing a small refinery at Gauhati with an annual refining capacity of only about 7 lakh tonnes. Another refinery movement shook the State in 1969, demanding the setting up of a second public sector refinery. But even this time the new refinery-cum-petrochemical complex fell far short of the size and capacity of the Barauni refinery, its refining capacity being only about 10 lakh tonnes a year. Further, Assam has been deprived of her due share of royalty on the crude produces. These facts prompted the people of Assam to participate spontaneously in the oil blockade programme organized by the associations supporting the Assam movement. This trend of deprivation continued till today and this was reflected again in a memorandum submitted to the Prime Minister on April 20, 2012 by the Government of Assam in which it maintained that "Oil and Natural Gas have always been a sensitive issue in Assam" and it requested the Government of India "to take urgent necessary action so that the State gets its due share of benefits from its natural resources in the form of royalty and tax revenue, thereby removing the persisting sense of deprivation and alienation of the State."

In addition, there was much possibility of establishment of petro-chemical and some other ancillary industries on the basis of natural gases extracted from the oil fields in Assam. But, for over 50 million cubic feet of natural gas is being flared off daily at the different oilfields of Assam for several decades. According to an estimate during the period of 1970-1987 an amount of natural gas worth Rs. 1900 crores was burnt up in Assam (Gohain & Bora 2007: 46). Only about a very little amount of natural gas is utilized in Assam and most of it is being used in the Namrup thermal plant. Of late, as a result of Assam Accord the Assam Gas Cracker Project registered as 'Brahmaputra Cracker and Polymer Limited' on January 8, 2007 is coming up at Lepetkatta in Dibrugarh which has started commissioning from the year 2016.

Further the colonial pattern of industrialization is evident among the plywood and other forest based industries of Assam. Eighty per cent of the produces of the plywood factories of Assam has been transferred by roads and rails to depots outside Assam. On the other hand, most of the plywood industries of Assam are owned by big Indian capitalists. Most of plywood factories sell their tea-chests through their agents in Calcutta. Besides, the local people of Assam have been deprived of their rightful claim to jobs in the plywood factories. It is alleged that, every year, the plywood factories of Assam deal in a clandestine manner with plywood. Thus, the rich forest wealth of Assam has been diminishing fast to swell the purses of some unscrupulous big businessmen outside the State. The entire ecological balance of the State is being adversely affected by this indiscriminate felling of trees (Misra: 1980). Besides, Assam has some other major Central public sector industries like Bramhaputra Valley Fertilizer Corporation Limited (BVFCL), Cement Corporation of India Limited (CCI), Hindustan Paper Corporation Ltd. (HPC), North Eastern Electric Power Corporation Limited (NEEPCO) etc. BVFCL Plant of Namrup produces around 45 per cent of the total output of its parent organization Hindustan Fertiliser Corporation. The Namrup unit is the largest in Hindustan Fertiliser Corporation. Yet, the headquarters of the HFC is set up in Calcutta, notwithstanding the repeated requests of the Assam Government to locate it within Assam. Similarly, the headquarters of the HPC have been set up in Calcutta in utter disregard of the legitimate claims of Assam.

Jute textiles are listed as an important industry of Assam in the Economic Survey published by the State Government. It is one of the main commercial crops of the Eastern and Northeastern India providing livelihood security to about 5.0 million people. Assam is the third largest producer of jute in the country accounting for 7.87 per cent of its total area and 6.68 per cent of its total production. More importantly, Assam

produces some of the best quality raw jute in the country (Khatun & Deka 2013: 411-416). Assam alone produces 1.6 million bales of jute. Based on the raw material alone it is estimated that Assam can run about 15 jute mills in the State. However, Assam, in spite of being the third largest jute producing State in India, has not been able to draw sustenance from development and diversification of jute products. Besides, Assam is the fifth largest producer of mulberry silk in India and the whole of the Northeastern region produces 90 per cent of the raw silk of the *Endi* variety. Assam is the sole producer of the coveted golden Muga silk in the world. Despite such large production of raw silk, no steps whatsoever have been taken by the Government to organize the silk industry on a sound commercial footing. The silk growers of the State have been increasingly exposed to the mercy of traders from other parts of the country who monopolise the business of processing and spinning of raw silk.

In the field of power generation too, the position of Assam has been low in the all-India list. Assam, as a State crisscrossed by fast mountain streams and rivers, has a large potential of hydel power. But, there have been very few hydroelectric generating plants in Assam at present i.e. Karbi-Langpi Hydro Electric Project (100 MW) and Kopili Hydro Electric Project (275 MW). Assam has only three thermal generating plants at Namrup (134MW), Bongaigaon (240MW) and Lakwa (126 MW) and a few diesel generating stations producing about 15 MW of power. Of course, some new hydro electric projects are coming up in the Northeast India like Lower Subansiri Hydroelectric Power Project (2000MW), Dibang Hydroelectric Power Project (3000 MW) etc. However, these projects have experienced several problems during construction due to landslides, re-design and opposition.

In addition to this, Assam has a tremendous potential in tourism that has not been exploited at all. It has diverse ethnicity, varied climatic conditions, national parks like Kaziranga and Manas, rain forests, beautiful hilly landscape, tea gardens and rivers like the Brahmaputra and Barak and its tributaries. Assam has each and everything from topographical diversity to scenic beauty and from rich historical background to unique ethnic life-style. In spite of its identification as a tourist destination it lacks the infrastructure and the marketing drive to attract tourists. Richly endowed with flora and fauna, landscape and ethnic diversity, Assam can be developed into a viable tourist hotspot (Bhaumik 2009: 240).

Another cause for the slow pace of economic development of the State has been the inadequate transport facilities. Even after decades of independence Assam has been far behind in railway network. The railway map of Assam has remained the same since the British days, and the motives which impelled the British to construct the railway in this region appear to be shared by the administrators from Delhi. Taking into account of the total railway route length of 64215 kms for the country as on March 2011, Assam's share in the country's railway route length turns out to be around 3.8 percent at the end of March 2011 (Economic Survey, Assam, 2011-12). Assam was linked by Broad Gauge railway with the rest of India after mass agitations in the State. Due to poor train services in the region, MP from Assam Pankaj Bora described the North East Frontier Railways as the 'North East Forgotten Railways.' (*The Assam Tribune*, 2012, May 13)

Thus, the Centre did get benefit out of Assam's resources while Assam has not been getting her due share. Hence, Assam remained backward in spite of enormous wealth due to post-colonial capitalist nature of economy of India. The severely underdeveloped infrastructure has failed to draw worthwhile investment in Assam. The legacy of colonial economy has continued in post-colonial Assam and it continues as 'colonial hinterland'.

IV. CONCLUSION

From the above discussion, it appears that in post colonial period the pace of development of Assam has been extremely slow and lethargic. In this period, the nature of Assam politics manifests a neo-colonial trend generated by the new group of elites which emerged in independent India. As a result of India's weak federal structure and capitalist path of development, Assam financially depends heavily on the Centre to discharge its responsibilities for which, many times, it suffers from the "step-motherly attitude" of the Centre. Centre's failure to fulfill the local demand for adequate share of natural and economic resources led to perpetuation of anti-Centre feeling among the Assamese elite. The sense of frustration of the people of Assam further aggravated as a result of worsening of the unemployment situation in the State and the upsurge of allegations of discrimination against local youth in recruitment for Central Government undertakings located in the State. Therefore, the people of Assam participated in large scale in several movements viz. oil refinery movement, Assam movement etc., against the Centre in the post-colonial period. This growing consciousness among the Assamese people has been further heightened by the 'hostile and colonial' attitude of the Indian ruling class towards Assam.

Actually the problem of economic underdevelopment of Assam is a colonial legacy. This legacy of exploitation and neglect towards Assam continues in the post-colonial period. Assam, it is said, is deprived of its fair share of benefits from the State's natural resources as Assam's large oil and natural gas industries are in the hands of enterprises owned by the Government of India, and the State's huge tea industry is in private sector.

Again the Centre neglects Assam in locating industrial projects that use Assam's natural resources, and in allocating resources to build the infrastructure necessary for the State's economic development. Therefore, the people of Assam raised demands for economic and political self-determination. The demands of the Assamese elite, a result of internal contradiction of Indian federation, are intended to ensure larger grants for infrastructural development and considerable autonomy to Assam without much success leading to precipitation of resentment. The Assamese elite class is anxious to change this situation by accommodating adequate provisions for financial resources for Assam by raising their voice against India's weak federal structure and demanded to bring about a balanced regional development, without sacrificing 'All-India interest.' They wanted to make the central leadership aware that by ignoring the interest of Assam they would also in some sense be jeopardizing the interest of the rest of India. In fact, for the consolidation of Assam's regional interests, particularly the interest of the dominant Assamese elite, they looked up to a greater and stronger India. Therefore, they wanted a strong Centre as well as a strong provincial government simultaneously. The Assamese elite sincerely felt that if Assam's financial stringency continues through the "step-motherly attitude" of the Centre, there could be no hope for an improved standard of administration and economic development of the State of Assam. Hence, they were intended to ensure that the Centre should agree to give larger grants and considerable financial autonomy to Assam for a greater and stronger India.

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