The Special States of India
A Composite Index for Study

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With the objective of inclusive development, the 11 economically backward hill states in India were granted the status of “Special Category” States (SCS) by the National Development Council on the recommendation of the Planning Commission. These states suffer from many drawbacks that arise from their remoteness, geographical isolation, and topography, historical circumstances and demographic peculiarities. Govind Bhattacharjee’s book is an attempt to understand the historical background, institutional framework and policies of these states, and provides an analytical account in terms of a composite index for evaluating the socio-economic and public finances of the states. The author has drawn heavily from his professional experiences of serving the Comptroller and Auditor General of India. The book is divided into nine chapters, ending with a summary, discussions and road map for future initiatives.

Asymmetrical Federalism

Bhattacharjee has initiated the discussion by outlining the broad features of the SCS, especially in the context of asymmetric federation, wherein different subnational entities are given different constitutional status.

The author points towards the fact that in the case of SCS such as Jammu and Kashmir (J&K) and those in North East India, the inadequacy resulting from their spatial position has been further exacerbated by short-sighted policies. A mechanism of financial devolution through higher plan assistance had an adverse impact by centrally sponsored schemes, which have not been ideally suited for these states. The socio-economic scenarios of Assam, Nagaland and J&K have been examined. All the three states face lack of capacity and infrastructure, and simultaneously no or low resources to create or build these. Moreover, political problems have impeded development and also threatened the cohesiveness of the Indian federation. In the course of the discussion the author underlined a peculiar dilemma of these states. On the one hand, the development bottlenecks cannot be addressed only by injecting central government funds, while on the other, it is also true that without additional support, these states would (have) cease(d) to be states.

Thirty percent of the centre’s gross budgetary support is available to the SCS in the form for plan expenditures, of which 90% is as grants and 10% as loans. However, the discussions reveal that no specific institutional framework is available to coordinate and monitor the developmental activities with such funding. For the north-eastern region, both the North Eastern Council and the Ministry of Development of North Eastern Region, have insufficient powers as regulators. Further, the central government’s flagship “Look East Policy” is articulated more by the policymakers based in Delhi than by the developmental needs of the north-eastern states themselves.

It is evident from the book’s account that in case of the north-eastern states, the central support is not only essential for their survival as states but also for their all-round socio-economic growth. All these states, except Mizoram, share certain common traits such as these states are agrarian and are dependent on subsistence type agriculture. Special category status was awarded to them in order to address these weaknesses. But, in the absence of clear-cut objectives and strategy, the development potential of these states has not been realised.

Weakness in Categorisation

Bhattacharjee has deliberated that the reason for creation of special category states was as much political as economic. The political compulsions arose out of the need to strengthen the fledgling Indian federation, by addressing the varied ethnic, linguistic and socio-religious diversities. Constitutional protection was granted by Articles 370 and 371, besides the Fifth and Sixth schedules of the Indian Constitution. But the statutory protection can only be successful if it is backed by empowerment. In case of the SCS the model of autonomy instituted has been top-down, even though the emergence of coalition politics had yielded more political bargaining power to the states.

An important point articulated in the discussion brings forth that for formulating a strategy for the economic turnaround of the SCS, funding alone is not a panacea. Rather, a comprehensive strategy is required to address issues such as poor capital formation, absence of adequate skill set among the workforce, lack of entrepreneurial and managerial talent and consequent lack of industrial development. Over the years a malignant dependency on the central government funding has developed among the SCS. During 2010–11, central transfers constituted more than 50% of gross state domestic product (GSDP) for six SCS. It has been observed that for running their day-to-day administration, the expenses incurred exceed their tax and non-tax revenues by manifold.

Socio-economic Performance

It has been mentioned that in order to compare the socio-economic development performance of the states, a composite development index has been developed which comprises of 10 important indicators which are further grouped into three groups, each carrying equal
weight such as income, employment and poverty indicators; socio-economic development indicators and state intervention indicators. Income, employment and poverty indicators comprised of parameters such as per capita income, share of primary sector in total state income and percentage of main workers in total population, etc. Socio-economic development indicators comprised of parameters such as literacy rate, infant mortality ratio and percentage of villages electrified, etc. The state intervention indicators comprised of parameters such as per capita income, per capita revenue expenditure on education and per capita revenue expenditure on health. The parameters within each group have been given equal weights. The values of these indicators have been normalised using the denominator (maximum value-minimum value), whereas numerator would be (actual value-minimum value) for the positively related indicators and (maximum value-actual value) for the negatively correlated indicators.

As per the ranking of the scs based upon the composite development index, it was observed that five states, namely Mizoram, Himachal Pradesh (HP), Sikkim, Manipur and J&K had outstripped the national averages with reference to the socio-economic indicators. Interestingly, while Sikkim had topped the list, followed by HP and Mizoram, Manipur slipped from its earlier fourth position in 2001 to eighth position in 2011. The reason for the improvement of Mizoram’s position was on account of resolution of its insurgency problem. On account of similar issue of insurgency, J&K’s position had slipped from fifth to ninth position. This underlines the importance of internal security and stability in the country for continued and sustained economic development.

**Socio-economic Indicators**

The scs had missed the proverbial bus of the economic reforms launched across the country in the 1990s. Due to weak infrastructure, they were not able to attract foreign investment like the other states. According to the author, the most important obstacle in this regard is the lack of governance in general, and corruption per se, which has blunted the impact of the special development funds allocated to these states for their infrastructure development. In this context, the author has analysed the performance of the state public finance in terms of the three parameters of sustainability, flexibility and vulnerability.

Sustainability indicators taken are: Buoyancy of state’s own tax receipts with respect to green skill development programme, growth in outstanding debt/growth in total revenue and growth of outstanding debt/growth of GSDP. Flexibility indicators include capital outlay/capital borrowings and interest ratio.

Finally, the vulnerability indicator consists of outstanding guarantees/revenue receipts. In terms of all sustainability indicators, it was found that finances of all special category states are sustainable as on 2010–11, tax receipts were quite buoyant except Mizoram, revenue receipts and GSDP were growing faster than outstanding debt. With reference to flexibility of public finances, except for J&K, capital repayments have not consumed large percentages of capital receipts of most states and interest ratios were also kept in reasonable limits. In terms of vulnerability indicators, it was observed that outstanding guarantees constituted significant percentage of revenue receipts only for HP and Meghalaya.

Eventually, the author has compared the public finance performance of states with their socio-economic development. The index for public finance performance, as created by the author comprises of four indices—resource management index, expenditure management index, debt management index and deficit management index. It was also observed that Sikkim had topped with reference to performance rankings in respect of public finances and also with reference to socio-economic parameters, even though the total index of Sikkim with reference to public finance performance had declined from 8.91 to 7.01 for 2000–01 and 2010–11. Interestingly, except Sikkim, Manipur, J&K and Uttarakhand, none of the states show correlation between socio-economic development and public finance performances. This may be due to factors such as low base of development, issues related to governance, and improper use of public funds. However, an important premise has been empirically proved that higher growth rate can translate into better public financial performance, as has been evidenced in case of Sikkim, Uttarakhand and Arunachal Pradesh.

**Road Map**

The author has outlined a road map for the turnaround of the special category states. In this regard, he has drawn the attention of readers to certain important elements of vision 2020 document of the Ministry of Development of North Eastern Region, which he finds equally applicable in case of special category states, such as increase in agriculture productivity by immediate replacement of traditional cropping patterns by short-duration high-yielding varieties of foodgrains, increase in productivity of agro-horticulture crops, promotion of all types of animal husbandry and conservation of nature. Development can never occur in silo, hence it is necessary that increase in agro-productivity should be complemented with development of market and monetisation of rural economy. Tourism also has immense potential with reference to attracting investments and being an employment provider in these states, since most of the special category states are endowed with natural beauty. This would require development of infrastructure in the form of all-weather roads for tourists to reach such scenic places. Author has advocated gradual industrialisation through development of existing small-scale industries such as mining and quarrying, tea, food processing, etc. The development cannot realise its fullest potential without the development of human resources. In this regard inadequate access to centres of technical training, skill development in
information technology, engineering and medical can prove to be a major obstacle. These centres also suffer from want of quality faculty members in these fields in these states.

**Conclusions**

India is the fastest growing economy today in the world with abundant foreign exchange reserves and buoyant foreign capital inflows. In this scenario, the famous proverb that a chain is as strong as its weakest link comes to the mind while going through this thoughtful treatise by the author on SCS. The book is not only a commentary on the socio-economic conditions of SCS, but also attempts an analytical, empirical ranking of SCS and develops a composite index regarding the financial performance of SCS. The prescription suggested by the author is also rooted within the socio-economic fabric of these states such as development of agriculture, gradual industrialisation, development of tourism, etc. It is notable to mention in this regard, that the Fourteenth Finance Commission has increased devolution of taxes from centre to states from 32% to 42%.

The views expressed in the article are those of the author and not of RBI.

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