

Changing Dynamics of Fiscal Federalism and its Implication on Special Category States: The Case of Assam

Dr. Parag Dutta*

Abstract

The Constitution of India demarcates financial power and responsibilities between central and sub-national governments in India. Being a federal state, the revenue receipts of sub-national governments consist of both its own revenue and central transfers. The distribution pattern of central transfers to states has larger implications on the fiscal scenario of the state. Several distinctive changes have occurred in the federal structure of the country particularly after the report of the Fourteenth Finance Commission. Under the new regime of federalism, states are supposed to acquire enhanced fiscal space. These changes have both immediate and long term implications on the fiscal position of states particularly for an economically poor state like Assam. The paper is an attempt to analyse the issues related to such transformation, as well as, the implications on the state of Assam and has been arranged in five sections including the introduction. The different channels of central transfers are discussed in the second section of the paper. A discussion regarding devolution of the Finance Commission has been analysed in the third section of the paper. The fourth section of the paper analyses the devolution of the Planning Commission which is replaced by NITI Aayog. The paper concludes with the discussion of findings and suggestions for policy making.

Key words: Assam, federal finance, finance commission, special category state

1.0 Introduction

India is a federal state with demarcation of financial power and responsibilities between centre and states. The theoretical framework of fiscal federalism provides the first principle for addressing this assignment issue. Musgrave (1969) and Oates (1972), among others, provide the basic arguments on this issue. The theory of assignment argues that as monetary and external sectors are best handled by the

* Assistant Professor, Department of Economics, Dispur College, Guwahati, Assam.

central government, it should have the basic responsibility for macro-economic stabilization and income redistribution function. The central government is also in an ideal position to provide the national public goods having economy wide reach such as defence or issuance of currency. There is corresponding problem of assignment of revenue sources for determining the vertical structure of taxes known in the literature as 'tax-assignment problem' (Mclure, 1983). It is a difficult task of determining the taxation power of each jurisdiction in a federal system. The basic issue here is the selection of taxes that are suitable at different levels of government to prevent distortions in resource allocations. These distortions take the form of locational inefficiency as taxed units seek out jurisdictions where they can obtain favourable tax treatment. The available literatures on this issue are of the view that, the sub-national government should refrain from non-benefit taxation of mobile economic units. It helps to avoid inefficiencies involving exporting the tax burdens, external congestion effects, and impact on level of revenue in other jurisdictions (Rangarajan & Srivastava, 2011; Gordon, 1983). The solution lies in the fact that resident-based taxes rather than source-based taxes are more suitable for a state that can lessen tax-induced distortion by reducing the scope of tax exporting (Inman & Rubinfeld, 1996; McKinnon & Nechyba, 1997). It has been found that lots of changes have occurred in the federal system of the country during the last few years. A new regime of fiscal federalism has emerged in the country particularly after the report of the Fourteenth Finance Commission. The commission makes few distinctive departures in making recommendations regarding the devolution and transfer of resources from the 'Centre' to the 'States', thereby, ushering in a new regime of fiscal federalism in the country popularly known as cooperative federalism. The report of the Fourteenth Finance Commission has mentioned that the States are supposed to enjoy enhanced fiscal space under the regime of cooperative federalism. The new paradigm shift of the fiscal federalism of the country is also believed to reduce diverse forms of 'ad-hocisms'.

These shifts proposed within the framework of cooperative federalism have both immediate and long term implications for the States and their finances. It has been also observed that much confusion have been generated by the Fourteenth Finance Commission regarding the 'continuation' and 'discontinuation' of the 'provisions' and 'privileges' associated with Special Category States. There is clear tendency on the part of the central government to reduce the number of Centrally Sponsored Schemes (CSS) as well as rationalisation of the CSS. All these changes

together with the replacing of the Planning Commission with NITI (National Institution for Transforming India) Aayog indicate that there is clear tendency towards a new regime of fiscal federalism in the country. This paper is an attempt to look at the issues related to such a transformation as well as the implications on special category states such as Assam.

The paper has five sections including the introduction. The second section of the paper discusses about different channels of central transfers to the sub-national government by the Government of India. A discussion regarding devolution of the Finance Commission is analysed in the third section of the chapter. The fourth section of the paper analyses the devolution of the Planning Commission which was replaced by NITI Aayog. Findings are provided in the conclusion of the paper.

2.0 Different Channels of Central Transfers of the Government of India

Central transfers through different channels such as Planning Commission, Finance Commission and different ministries of the Government of India have played a significant role in solving the problem of vertical and horizontal imbalances in fund transfer between central and state governments in India. The difference in the fiscal capacities of the states is considered to be the chief reason for horizontal imbalance among the states governments in India (Fan et al., 2000; Bagchi, 2002). The transfers designed for this purpose are known as general-purpose transfers provided to the state governments to countervail the fiscal disabilities arising from low revenue raising capacities and higher unit cost of providing services for reasons beyond their control. The theoretical literature advances rationale for intergovernmental transfers on horizontal equity grounds or merit goods grounds (Buchanan, 1950, Broadway & Flatter, 1982). The transfers for providing merit goods are made to ensure that every state spends the prescribed minimum outlay on meritorious services with significant inter-state spillovers. The provision of these services is supposed to equalize the standard of social and physical infrastructure across different states. Additionally, given their generalized externalities, it provides a level playing field to the disadvantaged states (Rangarajan & Srivastava, 2011). The main purpose of reducing the vertical and horizontal imbalances through fiscal transfers in India is to allow the state governments to provide comparable level of services if they undertake comparable efforts to raise revenues [Thirteenth Finance Commission (TFC), 2009]. The transition of Indian economy from plan to market during 1990s

puts even greater burden on the transfer system as it accentuated the imbalances between the poor and rich state governments. In addition, a globalizing environment requires the creation of competitive level of infrastructure to prevent skewed regional distribution of economic activities (Rao, 2010). The transfer mechanism of the federal system in India needs to address all the above mentioned issues. A notable feature of transfer system in India is the existence of multiple channels such as, (a) statutory transfers through finance commission, (b) plan transfers through planning commission which was replaced by NITI Aayog on 1st January 2015, (c) discretionary transfers for central sector schemes and centrally sponsored schemes.

3.0 Transfer through Finance Commissions

The Finance Commission of India is a constitutional body constituted for recommendation of the devolution of proceeds from central taxes to states and grants for their non-plan revenue requirements. All the Finance Commissions in India are basically entrusted with the task of:

- (a) Distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them and allocation of respective shares of such proceeds among the states.
- (b) Devising principles which should govern the grants-in-aid of the revenues of the states out of the Consolidated Fund of India and the sums to be paid to the States which are in need of assistance by way of grants-in-aid of their revenues under article 275 of the Constitution for purposes other than those specified in the provisos of clause (1) of that article.

Finance Commissions in India have adopted different criteria for devolution of shared taxes. Up to the Seventh Finance Commission, the criteria used for determining the income tax shares were clearly distinct from those for the Union excise duties and were given under two separate articles of the constitution, that is, Article 270 and 272. Article 270 had provided for mandatory sharing of income tax while article 272 had provided for sharing of the Union excise duties at the discretion of the centre. After that, a process of convergence between the two sets of formula began. A full convergence was arrived with the introduction of 80th amendment of the Constitution as recommended by the Eleventh Finance Commission. The Constitution (Eightieth Amendment) Act, 2000, significantly changed the manner of distribution of central tax collections between the Central and State governments. Following this amendment, all central taxes were brought in to sharable pool and it

becomes mandatory to assign a share from each central tax to the States. The objectives of the Constitution (Eightieth Amendment) Act, 2000 was to construct a pool of all central taxes for sharing so that a holistic view can be taken and both sides could share in aggregates buoyancy of the central tax revenues (Sury, 2010). On the other hand, grants provided by the Finance Commissions in India are basically for non-plan revenue requirement.

As the study pertains to the time period from 1990-91 to 2019-20, the analysis has been confined to the recent Finance Commissions such as Ninth, Tenth, Eleventh, Twelfth, Thirteenth and Fourteenth Finance Commission. The Ninth Finance Commission of India was asked to submit two reports covering the time period 1989-95 to make it comparable with the time period of the Planning Commission. The first report of the Ninth Finance Commission was for the year 1989-90 and the second for the subsequent five years. The Finance Commissions which are considered for analysis are unique in the sense that unlike the previous Finance Commissions, they have applied the same formula for distribution of both Income tax and Union excise duties. The Finance Commissions of India use different criteria such as population, income (distance method), area, index of infrastructure, tax effort, fiscal discipline and fiscal capacity distance etc. for distribution of resources among the states in India. The criteria used by the recent Finance Commissions for devolution of shared taxes among the states have been given in Table 1. The two reports submitted by the Ninth Finance Commission have been shown separately in the table as Ninth (1) and Ninth (2).

From Table 1, it is evident that the recent Finance Commissions of India have applied different criteria for devolution of shared taxes between the states in India. The weight assigned to the above criteria has a profound impact on the revenue transfer to the states. The Ninth and Tenth Finance Commission of India brought two changes compared to the previous Commissions. First, there was a move towards unifying the formulae for inter-state distribution of both Income tax and Union excise duties and, secondly, a portion of the Union excise duties was kept aside for distribution according to 'assessed deficits'. The Eleventh, Twelfth and Thirteenth Finance Commission of India adopted a unified formula for the distribution of Income tax and Union excise duties. The above criteria as given in table 1 jointly reflect four considerations: (a) vertical transfers; (b) horizontal equity, (c) incentives for efficiency, (d) cost disadvantages. The criteria which have been used by the Finance

Table 1 Criteria for Inter-State Sharing of Income Tax and Union Excise Duties by Finance Commissions of India (in percentage)

Finance Commission Criteria ↓	Ninth(1)*	Ninth(2)*	Tenth**	Eleventh	Twelfth	Thirteenth	Fourteenth
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Population (1971)	25	25	20	10	25	25	17.5% weightage on population of 1971
							10% weightage on population of 2001
Income Distance	50	50	60	62.5	50	–	50
Inverse Income	12.5	12.5	–	–	–	–	
Poverty Ratio	12.5	–	–	–	–	–	
Index of backwardness	–	12.5	–	–	–	–	
Area	–	–	5	7.5	10	10	15
Index of Infrastructure	–	–	5	7.5		–	
Tax Effort	–	–	10	5	7.5	–	
Fiscal Discipline	–	–	–	7.5	7.5	17.5	
Fiscal Capacity Distance	–	–	–	–	–	47.5	
Forest Cover							7.5
Total	100	100	100	100	100	100	100

Source: Reports of the various Finance Commissions, Government of India.

* Sharing of 90 per cent of divisible pool of Income tax and 37.575 per cent of Union excise Duties according to Common Criteria.

** 100 per cent of sharable Income tax and 40 per cent of Union Excise duties.

Commissions for horizontal equity are income distance, inverse-income formula, poverty ratio and index of backwardness etc. The Thirteen Finance commission has used the criteria of fiscal capacity distance for horizontal equity replacing the above mentioned criteria. Cost variations are brought into considerations through the criteria based on population, area and index of infrastructure: larger the area (per crore populations), higher the per-capita cost; similarly, lower the index of infrastructure, higher is the per-capita cost. In the case of area, which is introduced by the Tenth

Finance Commission, a ‘censored’ distribution of area is used where a floor and ceilings are prescribed. The recent Finance Commission of India also has brought a structure of incentives through the criteria such as tax effort and fiscal discipline. If the tax effort and fiscal discipline of a state is considered to be higher than the other states, the particular state is likely to benefit more from the Finance Commissions’ devolution of funds. The Tenth Finance Commission has put a weightage of 5 per cent to tax effort. The Eleventh Finance Commission utilized both the index of fiscal discipline and tax effort by assigning a weightage of 5 and 7.5 per cent respectively. The Twelfth Finance Commission has assigned an equal weight of 7.5 per cent to tax effort and fiscal discipline. The Thirteen Finance Commission of India has used the criteria of Fiscal Discipline by assigning a weight of 17.5 per cent. The Fourteenth Finance Commission has used both the year of 1971 and 2001 by assigning the weightage of 17.5 and 10 per cent respectively. A weightage of 50 per cent is given to the income distance criteria in the devolution of Fourteenth Finance Commission. Forest cover is a new criteria introduced by the Fourteenth Finance Commission to compensate the states having large forest coverage.

In view of the economic backwardness of Assam, factors such as poverty ratio, index of infrastructure, fiscal capacity distance and forest cover could have helped the state to gain more transfers from the centre (Government of Assam, 2008). The Fourteenth Finance Commission has given a weightage of 7.5 per cent to forest cover. This criteria may help the state as Assam has comparatively more forest coverage as compared to all states average. Assam has a forest cover of 35.22 per cent of total geographical area as compared to all states average of 21.34 per cent. However, the recent Finance Commissions of India have given more importance on efficiency factors such as tax effort and fiscal discipline along with the cost-disability factors. As such it is necessary for the state to increase the tax effort and maintain fiscal discipline. The state needs to put more revenue effort and maintain fiscal discipline to gain more revenue from the central government. Under these circumstances, it is necessary to examine the share of the state government of the total Finance Commissions’ transfers. Here, percentage share of the state government under each Finance Commission is compared with the mean share of the state considering all the twelve Finance Commissions. The mean share of the state is found to be 3.92 per cent of the total central transfer to the state through all the Finance Commissions till Twelfth (TFC, 2009). Deviation from the mean share is computed by deducting the mean share from the state’s share under each Finance

Commission. The share of the Government of Assam in total transfers (tax devolution + grants) as recommended by different Finance commission and its deviation from the mean share has been given in Table 2.

Table 2 Deviation of Assam’s Share of Finance Commission Transfers from the Mean Share

Finance Commission	Period for which Recommendation was Implemented	Assam’s Share	Deviation from the Mean Share
(1)	(2)	(3)	(4)
First	1952-53 to 1956-57	4.60	0.67
Second	1957-58 to 1961-62	4.33	0.40
Third	1962-63 to 1965-66	4.47	0.55
Fourth	1966-67 to 1968-69	5.04	1.12
Fifth	1969-70 to 1973-74	3.65	-0.27
Sixth	1974-75 to 1978-79	4.58	(0.65)
Seventh	1979-80 to 1983-84	2.49	-1.44
Eighth	1984-85 to 1988-89	4.07	0.15
Ninth (1)	1989-90	4.12	0.19
Ninth (2)	1990-91 to 1994-95	3.73	-0.19
Tenth	1995-96 to 1999-00	3.67	-0.25
Eleventh	2000-01 to 2004-05	3.05	-0.87
Twelfth	2005-06 to 2009-10	3.22	-0.71
Thirteenth	2010-11 to 2014-15	3.628	-0.03
Fourteenth	2015-16 to 2019-20	3.311	-0.60

Source: Report of the Thirteenth and Fourteenth Finance Commission.

Figures in parentheses represent deviation of the state’s share from the mean share.

Table 2 reveals that during the period of recent Finance Commissions (1990-2020), deviation of the state’s share from the mean share has been found to be negative for most of the Finance Commission. During the period of Ninth Finance Commission (2) covering the period 1990-91 to 1994-95, the share of the state was found to be less than the mean share of the state. In other words, the state experienced a negative deviation from the mean share during that period. The same trend continued during the period of Tenth, Eleventh, Twelfth and Fourteenth Finance Commission

when the state experienced a negative deviation from the mean share amounting to (-) 0.25 per cent, (-) 0.87 per cent, (-) 0.71 per cent and (-) 0.60 per cent respectively implying that share of the state under the above Finance Commissions' is lower than the mean share of the state considering all the Finance Commissions. Although population and income distance are some of the factors which determine the Finance Commission transfers to the state, however, this may not be significant for reduction of the state' share compared to state' mean share during the period of study. As population of 1971 has been considered for devolution of Finance Commission funds to the states, this factor is not responsible for negative deviation of the state's share from mean share. Similarly, as divergence between the per-capita income of the state and average income of the other states has been found to be widening during the period of study, income distance criteria cannot be considered as a factor for this reduction. In other words, it is difficult to determine the exact reason for this negative deviation during the period of study.

As discussed in the previous section, transfer to states through Finance Commission includes both shared taxes and grants-in-aid. Grants-in-aid are important components of Finance Commission transfers in India. Grants-in aid has been a matter of debate among the states since its inception. States have aired conflicting views on the principles that govern the grants-in-aid to the revenues of the states. The relatively better off states like Karnataka, Tamil Nadu, Goa, Maharashtra and Gujarat have suggested an incentive based grants-in-aid for better fiscal management. The less developed states like Madhya Pradesh and Orissa have suggested that the grants-in-aid should be given to meet the deficits in both the plan and non-plan revenue expenditure and should not be confined only to meet the deficit on non-plan revenue account (TFC, 2004). The different Finance Commissions suggested several categories of Grants-in-aid. The first such grant is the post-devolution non-plan revenue deficit (NPRD) grant. NPRD grants have ranged from a maximum of 100 per cent of total grants as recommended by the Fourth and Fifth Finance Commission to 33.1 per cent, as recommended by the Ninth Finance Commission. The amount recommended by the Twelfth Finance Commission was 16.26 per cent of total grant, the lowest ever in Finance Commission recommendations. Assam has benefitted from the NPRD grants under all the Finance Commissions except under Seventh and Thirteenth Finance Commission. The Thirteenth Finance Commission is of the view that Assam has graduated from that level and the state does not require that grant anymore. The state will not get any non-plan revenue deficit grants during the time period 2010-2015. Instead, the state will get performance grants of

Rs 300 crore for the years 2010-2013. The Fourteenth Finance Commission has allocated Rs 194, 821 crore for the states as non-plan revenue deficit (NPRD) grant. Out of this, Assam will get NPRD for only two financial years 2015-16 and 2016-17 amounting to Rs 2191 and Rs 1188 crore respectively. The amount and percentage of shared taxes and grant-in-aid as provided by the recent Finance Commissions to the state has been provided in Table 3.

Table 3 Recent Finance Commission Transfer to Assam in terms of Shared Taxes and Grants-in-Aid *(Figures in Rs. crore)*

Finance Commission	Tax Sharing	Grants-in-Aid	Total
(1)	(2)	(3)	(4)
Ninth (2)	2969.57 (75.06)	986.73 (24.94)	3956.31
Tenth	7064.14 (84.84)	1263.91 (15.18)	8328.05
Eleventh	12362.05 (93.08)	918.81 (6.92)	13280.86
Twelfth	19850.69 (81.60)	4478.71 (18.41)	24329.40
Thirteenth	52620.6 (90.99)	5212.1 (9.01)	57832.70

Source: Reports of the Recent Finance Commissions, Government of India

Figures in parentheses represent percentage of these variables to respective Finance Commissions' transfers to the state.

Table 3 reveals that compared to grants-in-aid, tax sharing constitutes a higher proportion of Finance Commission transfers to Assam. It constituted 75.06 per cent of the total Finance Commission transfer under the period of Ninth Finance Commission. On an average, it constituted 85.11 per cent of the total Finance Commission transfers during the period under consideration. The reduced share of NPRD grant received by the state is found to be the main factor for declining share of grants-in-aid compared to shared tax. It has been found that during the period of Eleventh Finance Commission, the state received a NPRD grants of only Rs 111.68 crore for the year 2000-01. Similarly, during the period of Twelfth Finance Commission, the state received NPRD grants of Rs 305.67 crore for the year 2005-06.

4.0 Transfer through Planning Commission

The assistance given by the Planning Commission comprises both grants and loans. However, after the recommendation of the Twelfth Finance Commission, the

assistance is confined to grants and the central government fresh loans given to states for plan purpose have been discontinued since 2005-06. Planning Commission gives assistance for implementing various plans and projects in the states. In earlier years, both the volume and composition of plan transfers were project based, but since 1969, the assistance had been allocated on the basis of a National Development Council formula, popularly known as *Gadgil formula*¹. A notable feature of Planning Commission transfer is that 30 per cent of the total transfer is kept aside for distribution among the special category states on the basis of plan project formulated by them. Out of these 30 per cent funds, 90 per cent of the assistance is given by way of grants and the remaining as loans. The year wise grants provided by the Planning Commission for the state plan schemes have been given in Table 4.

Table 4 Grants for State Plan Scheme during 1990-91 to 2009-10

(Figures in Rs. lakhs)

Year	Grants for State Plan Scheme	Year	Grants for State Plan Scheme
(1)	(2)	(1)	(2)
1990-91	24755 (41.86)	2004-05	261938 (73.38)
1991-92	72528 (65.22)	2005-06	267301 (62.20)
1992-93	74085 (70.88)	2006-07	275419 (62.24)
1993-94	100003 (63.36)	2007-08	296749 (60.41)
1994-95	73686 (63.33)	2008-09	419073 (64.82)
1995-96	84219 (59.13)	2009-10	399509(58.70)
1996-97	102076 (64.15)	2010-11	437400(64.96)
1997-98	108888 (68.60)	2011-12	475900(62.07)
1998-99	119570 (69.41)	2012-13	599600(64.02)
1999-00	132765 (77.08)	2013-14	605900(70.13)
2000-01	146644 (72.66)	2014-15	1237600(89.21)
2001-02	143466 (66.15)	2015-16	873700(67.89)
2002-03	171839 (73.08)	2016-17(BE)	1983870 (77.01)
2003-04	184715 (71.40)		

Source: Directorate of Economics and Statistics, Government of Assam, various issues.

Figures in parentheses represent percentage of these variables to total grants provided to the state.

¹ See End Note.

It is evident from table 4 that, grants from Planning Commission constitute a significant proportion of the grants-in-aid to the state during the period under study. Assam was declared as a special category state in 1990-91 which resulted in drastic change in the grant to loan composition of plan assistance from previous 30: 70 to 90: 10. As a result, share of grants for the state plans jumped from 41.86 per cent of total grants in the year 1990-91 to 65.22 per cent in the 1991-92. In other words, declaration of the state as a special category state in 1990-91 actually helped the state to receive more grants from the Planning Commission in the subsequent years. Significant increase in grant for state plan scheme has been observed in recent years and it constitutes 77.01 per cent of the total grant-in-aid in the year 2016-17. The increase in grant for state plan scheme is found to be notable from the year 2014-15 when it increases from Rs 605900 lakh in 2013-14 to Rs 1237600 lakh in 2014-15. This is basically due to change in central government strategy whereby state governments are given more autonomy in choosing their expenditure priorities.

4.1 Grants for central sector, centrally sponsored and special plan schemes

This component of transfers is given for specified purposes with and without matching requirements. Grants for Central sector schemes are given to the states to execute central projects and are entirely funded by it. Centrally Sponsored schemes, on the other hand, are shared cost programmes falling within the States' ambit with the uniform matching ratio across the states, varying with the projects. The schemes have attracted sharpest criticism in recent years due to their discretionary nature and conditionality attached to them (Chowdhury and Das Gupta, 2012). Additionally, there is a provision of special plan scheme for development of North Eastern states. The amount and percentage share of above mentioned grants-in-aid as provided by the central government to the state has been provided in table 5.

Table 5 reveals that these three components of transfers together, on an average, have constituted 17.35 per cent of the total grants-in-aid during the time period 1990-91 to 2016-17. Among these three components, share of centrally sponsored scheme is found to be dominant as it constitutes, on an average, 76.34 per cent of the total transfers through the above schemes during the period of study. As a North Eastern state, Assam gets additional share of the grants provided for implementation of the infrastructure projects of the region under the aegis of North Eastern Council. It constituted almost 4.35 per cent of the total grants in the year 2008-09 compared to 1.95 per cent of the total grants in the year 1990-91 (Government of Assam, 2009-10).

Table 5 Grants-in-Aid for Central Plan Scheme, Centrally Sponsored Scheme and Special Plan Scheme
(Figures in Rs. lakhs)

Year	Grants for Central Plan Scheme*	Grants for Centrally Sponsored Scheme*	Grants for Special Plan Scheme(NEC)*	Total**	Total Grants-in-Aid
(1)	(2)	(3)	(4)	[5 = (2+3+4)]	(6)
1990-91	885 (7.23)	10209 (83.35)	1155 (9.43)	12249 (20.71)	59134
1991-92	2838 (19.54)	11639 (80.12)	50 (0.34)	14527 (13.06)	111207
1992-93	5444 (39.13)	8432 (60.61)	36 (0.26)	13912 (13.31)	104517
1993-94	10239 (26.69)	26223 (68.36)	1897 (4.95)	38359 (24.30)	157828
1994-95	5369 (15.60)	27982 (81.28)	1076 (3.13)	34427 (29.12)	118219
1995-96	5112 (27.29)	13597 (72.58)	25 (0.13)	18734 (13.15)	142420
1996-97	3138 (16.91)	13402 (72.20)	2022 (10.89)	18562 (11.67)	159122
1997-98	2641 (16.96)	11841 (76.03)	1093 (7.02)	15575 (9.81)	158725
1998-99	1959 (8.89)	18135 (82.28)	1946 (8.83)	22040 (12.79)	172268
1999-00	1560 (6.41)	20958 (86.12)	1817 (7.47)	24335 (14.13)	172248
2000-01	3018 (10.88)	22263 (80.23)	2468 (8.89)	27749 (13.75)	201825
2001-02	429 (1.17)	33442 (90.88)	2927 (7.95)	36798 (16.97)	216880
2002-03	538 (1.38)	32987 (84.68)	5428 (13.93)	38953 (16.57)	235150
2003-04	505 (1.11)	27433 (60.31)	17548 (38.58)	45486 (17.58)	258691
2004-05	1931 (3.91)	39630 (80.33)	7771 (15.75)	49332 (13.82)	356960
2005-06	3971 (5.87)	52486 (77.65)	11135 (16.47)	67592 (15.73)	429712
2006-07	18828 (19.56)	72050 (74.86)	5369 (5.58)	96247 (21.75)	442536
2007-08	13426 (12.67)	82496 (77.87)	10025 (9.46)	105947 (21.57)	491263
2008-09	70323 (36.97)	99323 (52.22)	20545 (10.80)	190191 (29.42)	646503
2009-10	3964 (3.26)	103226 (84.82)	14514 (11.93)	121704 (17.88)	680500
2010-11	2304 (1.63)	134078 (94.75)	5130 (3.63)	141512 (21.02)	672916
2011-12	21956 (6.48)	290486 (85.70)	26496 (7.82)	338938 (25.55)	766687
2012-13	4600 (2.36)	186000 (95.48)	4200 (2.16)	194800 (20.80)	936592
2013-14	3000 (1.36)	210300 (23.53)	6500 (2.95)	219800	893832
2014-15	1953 (11.58)	1675 (9.93)	13227 (78.42)	16865 (1.20)	1403508
2015-16	57200 (80.63)	1500 (1.74)	17100 (17.63)	74307 (5.29)	1282475
2016-17 (BE)	100006 (41.76)	98691 (41.21)	40776 (17.02)	239473 (9.30)	2576078

Source: Directorate of Economics and Statistics, Government of Assam, various issues

* Figures in parentheses represent the percentage contribution of individual component to total transfers through above schemes.

** Figures in parentheses represent percentage contribution of total transfers through above schemes to total grants-in-aid.

The above discussed transfers which constituted a major portion of the state's total revenue are determined by central government upon which state governments have no active control. The only thing the state governments can do is to fulfill the conditions attached to the transfers. In other words, the central transfers are exogenous in nature. Now the replacement of Planning Commission by NITI Aayog has changed the present structure of fund transfer from the central government to the state governments. This change has implication for the Government of Assam as the state is enjoying special category status since the year 1991-92. As in the new structure of the NITI Aayog, there is no provision for special category states; the state of Assam will no longer enjoy the status of special category states. This may create the problem of lack of resources for developmental needs of the state.

5.0 Conclusion and Policy Suggestions

As recent Finance Commissions of India have given more importance on efficiency factors such as tax effort and fiscal discipline along with the cost-disability factors, it is necessary for the state of Assam to increase the tax effort and maintain fiscal discipline to receive more transfers. The de-recognition of the special category states has an implication for Assam as the state is used to receive significant transfers in terms of grants for implementing state plans. It has an implication in the revenue scenario of the state. Significant changes have been observed in central government's transfers particularly in case of grant-in-aid. States have been given more grant-in-aid in the form of grants for state plan and non-plan grants. An important change in strategy on the part of central government is observed in terms of reduction of centrally sponsored and central plan scheme. The reduction of discretionary transfers under grants for Central Sector, Centrally Sponsored and Special Plan Schemes as recommended by the Fourteenth Finance Commission may hamper the future growth of the state. The Fourteenth Finance Commission new criteria of forest cover may help the state as Assam has comparatively more forest coverage as compared to all states average.

The main policy suggestions emerging from the findings of the study are summed up in the followings paragraphs:

As the state is heavily dependent on central transfers, abolition of special category status may hamper the state in terms of lack of resources for developmental activities. To overcome this problem, there is urgent need to increase the collection of own tax and non-tax revenue of the state.

As there is reduction in grant under centrally sponsored and central plan scheme and more fund is given for state plan scheme, the state government has to devise its plan strategies in such a way that it reflects the developmental needs of the state. There is also an urgent need on the part of the government to apply some monitoring agency to ensure efficient use of the plan transfer from the central government.

End Note

¹ *Gadgil formula*: The Gadgil formula was formulated with the formulation of the fourth five-year plan for the distribution of plan transfers amongst the states. It was named after D. R. Gadgil, then deputy chairman of the Planning Commission. 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) approved the following formula:

- (1) Special Category states like Assam, Jammu and Kashmir and Nagaland were given preference. Their needs should first be met out of the total pool of Central assistance.
- (2) The remaining balance of the Central assistance should be distributed among the remaining states on the basis of the following criteria:
 - (i) 60 per cent on the basis of population;
 - (ii) 7.5 per cent on the basis of tax effort, determined on the basis of individual State's per capita tax receipts as percentage of the State's per capita income;
 - (iii) 25 per cent on the basis of per capita state income, assistance going only to States whose per capita incomes are below the national average;
 - (iv) 7.5 per cent for special problems of individual states.

References

- Bagchi, A., Rao, R.K. & Sen, B. (2002). *Raising the Tax Ratio by Reining in the "Tax Breaks": An Agenda for Action (Working Paper No. 2)*. New Delhi, India: National Institute of Public Finance and Policy.
- Broadway, R., & Flatter, F. (1982). *Equalization in a Federal State*. Ottawa, Canada: Economic Council of Canada.
- Buchanan, J.M. (1950). Federalism and Fiscal Equity. *American Economic Review*, 40(4), 421-32.
- Chowdhury, S. & Das Gupta, Z. (2012). Fiscal Problem in West Bengal: Towards an Explanation. *Economic and Political Weekly*, 47(13), 57-64.

- Gordon, R. (1983). An optimal Tax Approach to Fiscal Federalism. *Quarterly Journal of Economics*, 98(4), 567-86.
- Government of Assam. (2008). *Economic Survey, Assam*. Guwahati: Directorate of Economics & Statistics.
- Government of Assam. (2009-10). *Statistical Handbook of Assam*. Guwahati: Directorate of Economics & Statistics.
- Hazell, P., Thorat, S.K. & Fan, S. (2000). Impact of Public Expenditure on Poverty in Rural India. *Economic and Political Weekly*, 35(40), 3581-3588.
- Inman, R.P., & Rubinfeld, D.L. (1996). Designing Tax Policy in Federalist Economies: An Overview. *Journal of Public Economics*, 60(3), 307-334.
- McKinnon, R. & Nechyba, T. (1997). Competition in Federal Systems: The Role of Political and Financial Constraints. In J. Ferejohn and B. Weingast (Eds.), *The New Federalism: Can the states be Trusted?* (pp. 3-61). Stanford, 650: Hoover Institution Press.
- Mclure, E. Jr. (Ed.). (1983). *Tax Assignment in Federal Countries*. Canberra, Australia: Australian National University.
- Musgrave, R.A. (1969). *Fiscal System*. New Haven, 203: Yale University Press.
- Oates, W.E. (1972). *Fiscal Federalism*. New York, 917: Harcourt Brace Jovanovich.
- Rangarajan, C. & Srivastava, D.K. (2011). *Federalism and Fiscal Transfers in India*. New Delhi, India: Oxford University Press.
- Rao, M.G. (2010). *The Report of the Thirteenth Finance Commission: Conundrum in Conditionalities (Working Paper No. 76)*. New Delhi, India: National Institute of Public Finance and Policy.
- Sury, M.M. (2010). *Finance Commissions and Fiscal Federalism in India*. New Delhi, India: New Century.
- Thirteenth Finance Commission (TFC). (2009). *Report of the Thirteenth Finance Commission (2010–2015)*. Retrieved from <http://fincomindia.nic.in/>
- Twelfth Finance Commission (TFC). (2004). *Report of the Twelfth Finance Commission (2005-2010)*. Retrieved from <http://fincomindia.nic.in/>