

## Resource Allocation Between Centre & State: with Special Reference to State of Uttarakhand

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### INTRODUCTION:

India is a country and is divided into 29 states and 7 union territories. Due to this, the allocation of financial resources between centre and state is very difficult. So Indian constitution constitutes relation between centre and state. The constitution of India effects clear cut divisions of powers between the centre and states. Part 11<sup>th</sup> and 12<sup>th</sup> of Indian constitution defines the distribution of powers between centre and state. Part 11<sup>th</sup> explains the legislative and administrative relations and Part 12<sup>th</sup> explains the financial relations between centre and state. A total of 56 articles of constitution from 245 to 300 are devoted to centre-state relation. Articles 264 to 300 deals with financial relations between centre and state.

The Indian constitution makes the bold and elaborate attempts to sort out and settle the distribution of revenue and other financial resource between the centre and states. There are different types of taxes levied by centre. Broadly these taxes are categorised as Direct and Indirect taxes. The constitution grants the centre government exclusive power to levy taxes on several items. The state legislatures enjoy similar power with regard to several other specified items. The centre levies taxes on items mentioned in Union list while state legislatures levy taxes on items mentioned in the state list. The subjects on which the centre govt. has the exclusive powers to levy taxes are: Customs duty, Corporation tax, Capital gain tax, Surcharge in Income tax, Railway fares etc. States exclusive power to tax includes: Land revenue, Stamp duty, Estate duty, States tax, Agricultural Income tax etc. The residuary power of taxation belongs to centre.

Due to difficulty of allocation and distribution of financial resources between centre and state. The constitution provides for the constitution of Finance Commission to advise the president on allocation and distribution of financial resources between centre and states. among the states. Presently 14<sup>th</sup> Finance Commission advices to adopt Gadgil- Mukherjee formula for the allocation and distribution of financial resources between centre and state.

A finance commission advices the president, what percentage of taxes should be retained by the centre and what principles should be adopted to distribute the divisions of the taxes. The centre govt. adopts the same formula. The sources of revenue available to the states cannot fully meet their needs. In Indian constitution, there is a provision for grants -in-aid to

the needy states. The amount is determined by the parliament and also make results for borrowing for their specific projects etc. The division of financial resources and the system of financial relations have been a source of tension in centre & state of Uttarakhand relations.

### OBJECTIVES OF THE STUDY:

The key objectives of this study are as:

- To analysis the effect of centre-state relations in economic and political scenario.
- To study the special category status with special reference to state of Uttarakhand.
- To study the trend of revenue receipts from centre to state of Uttarakhand from last 10 years.

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Political conditions effects the allocation of financial resources between centre and state of Uttarakhand

#### **STUDY AREA, DATA SOURCES AND METHODOLOGY:**

Presently, debate and demand of the special category status is purely depends on political factors. The concepts of a special category status was 1<sup>st</sup> introduced in 1969 when the 5th Finance Commission sought to provide certain disadvantages states with preferential treatment in the form of central assistance and tax breaks. Initially three states Assam, Nagaland and J&K were granted special status but since than eight more states have been included ie; Arunanchal Pradesh, Himanchal Pradesh, Manipur, Meghalaya, Mizoram, Sikkim, Tripura and Uttarakhand. The rational for special status is that, certain states have inherent features, have a low resource base and cannot mobilize resources for development.

#### **Some of the features required for special states are:**

- Hilly and difficult terrain.
- Low population density or sizeable share of tribal population.
- State location along borders with neighbouring countries.
- Economic and infrastructural backwardness.
- Non-viable nature of state finance.

The decision to grant special category states lies with National Development Council, composed of the Prime Minister, Union Ministers, Chief Ministers and members of NITI AYOJ.

Uttarakhand also got special category status due to higher costs of governance. Uttarakhand is a state in the northern part of India, It is often referred to as the Devbhumi due to many Hindus Temples. Uttarakhand is known for its natural beauty of the Himalayas, the Bhabhar and the Terai on 9 november 2000, this 27<sup>th</sup> state of India was created from the Himalayan and adjoin north-western districts of Uttar Pradesh. Due to special category status, Uttarakhand enjoys significant concession in excise and customs duties, income tax and corporate tax. 30% of planned expenditure i.e. central budget goes to Uttarakhand, central bears 90% of the expenditure of state of Uttarakhand which is given as grant, while rest 10% is given as loan to state. Special category status to Uttarakhand helps the inflow of private investment and generates employment and additional revenue to state, which helps in building state infrastructure and social sector projects. The state of Uttarakhand is the 2<sup>nd</sup> fastest growing state in India. According to R.B.I, the total F.D.I in state is US \$ 63.7Million. Agriculture is one of the most significant sectors of the economy of Uttarakhand.

To answer the above research question, methodologically, the study is connected in the following stages: First, it starts with a brief survey of literature on centre and state relations in Indian constitution. Second, it analysis secondary data on financial resources shared between centre and state of Uttarakhand. Third, it analysis the impact that effects relations between centre and state of Uttarakhand. The analysis uses secondary data from a variety of sources.

#### **Key industries of the state of Uttarakhand**

Agro-based and food processing, Information and communication technology, Floriculture, Horticulture, Pharmaceutical, Biotechnology, Hydropower and Tourism.

#### **Schemes sponsored by centre in the state of Uttarakhand**

- **Infrastructure development for destinations circuits:**

The Ministry of Tourism extends central assistance to the state of Uttarakhand for tourism projects 100% central assistance is given for development of Haridwar-Risikesh Muni Ki Reti Circuit.

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- **River development and Ganga Rejuvenation:**

The centre gave special assistance to Uttarakhand for the development of water resources. The funding between centre and state in 90:10 respectively.

- **Credit-cum-subsidy scheme for rural housing:**

The scheme provides schemes to rural families. The funds shared by the centre and state in the ratio of 75:25 respectively.

Apart from these schemes, there are so many schemes which are sponsored by the centre in the state of Uttarakhand. From 2010-2015 the state of Uttarakhand got Rs. 605.14 crore as a special assistance for disasters out of Rs. 605.14, Rs. 585.14 crore for disaster management and Rs. 20 crore for capacity building. In 2013, the state also got a special package for disaster management of Rs. 1200 crore. The state of Uttarakhand also got a special industrial package of Rs. 30000 crore from 2003 to 2010. Due to special category status to Uttarakhand, there are so many fields in which Uttarakhand got special assistance from the centre from time to time.

### ANALYSIS AND DATA INTERPRETATION

The common software i.e. Microsoft Word and Microsoft Excel are used to analyze the results of data and provide graphs of the collected data. The data will be analyzed using two types: Descriptive and Analytical.

**TABEL 1.**

#### FINANCIAL INDICATORS FOR UTTARAKHAND

		Rs. crores										
S. No.		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	Revenue receipts	5537	7373	7891	8635	9486	12157	14634	16158	18954	24473	34704
2	Revenue Expenditure	5610	6476	7254	8394	10567	13127	14324	15716	18053	25032	34077
3	Revenue Deficit	-73	894	637	241	-1081	-970	310	442	901	-559	627
4	Capital A/c deficit	1793	1248	1466	1598	1747	3817	3092	3476	4221	4121	8826
5	Capital Exp.	1705	1699	2225	2016	1647	4306	4906	3653	4875	4591	8889
6	Fiscal Deficit	-1878	-885	-1744	-1843	-2783	-1459	-1504	265	247	-1029	564

**Source: Directorate Economics & Uttarakhand Centre Statistics Office.**

The above table shows the financial indicators i.e. the revenue and expenditure of the state of Uttarakhand from 2005 to 2016. It is clear from the table that the revenue receipts are increasing but the expenditure is also increasing due to increasing activity of the state. In three financial years, 2012-2013, 2013-2014 and 2015-2016, the state of Uttarakhand has a surplus budget, i.e. the revenue receipts were more than expenditure. This was because the state of Uttarakhand controlled the unproductive expenditure and administrative costs. This trend shows that the state of Uttarakhand got a huge budget but this is insufficient to meet the needs of the present scenario. So, the state needs special assistance and grants from the centre to maintain the present growth rate.

**TABLE 2.**

### Resource Allocation Between Centre & State: with Special Reference to State of Uttarakhand

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## Break up of revenue

Rs. crores

S. no		2005-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16
1	Total Revenue receipts	5537	7373	7891	8635	9486	12157	14634	16158	18954	24473	34704
2	Total revenue of state	1785	2514	2789	3045	3559	4749	5815	6368	8007	9157	14989
3	Non-tax receipts	650	647	668	699	632	670	702	1208	1216	1805	2068
4	Shares of taxes from centre	1010	1132	1428	1506	1550	2064	2845	3000	3000	3008	8927
5	Grants from centre	2092	3081	3056	3384	3745	4674	5272	5582	6731	10503	8720
6	% of revenue from centre	50%	57%	57%	57%	56%	56%	56%	53%	51%	55%	51%

**Source: Directorate Economics & Uttarakhand Centre Statistics Office.**

Allocation of resources and grants between centre and state of Uttarakhand are directly related to the political relations between centre and state of Uttarakhand. The relations between were good when ruling party was same both in centre and state. It is clear from analysis that from 2005 -2007, at both i.e. in the state of Uttarakhand and at the centre, the ruling party was INC, due the same party government, Uttarakhand got a huge amount of revenue in the shape of grants from centre for the development of different sectors. The trend shows that the allocation of grants increased four times from 2005-2006 to 2015-2016, but these grants are very small to fullfil the revenue requirements of the state of Uttarakhand. In the assembly election 2007, BJP got majority and form government in the state of Uttarakhand. The centre was ruling by INC, due to this, the relation between centre and state were not in good condition. The state of Uttarakhand got Rs. 3081 crore as grants in 2006-2007, but it decreased to Rs. 3056 crore.

This was due to change in government Of state. So it is clear that, the relations between centre and Uttarakhand depends on the ruling parties. From 2008 -2012, the distributions grants increased but not in a way that must be increased. The assembly election of 2012, in which the INC defeat BJP and form government in state. This was a good phase for the state of Uttarakhand because, in the centre and in the state of Uttarakhand the ruling party was INC. In the parliamentary election 2014, BJP got majority and formed government. So, there was a tension between centre and state relations good due to different party government. In December 2015, the centre wants to remove the special category status from the state of Uttarakhand. The allegations war starts between centre and state of Uttarakhand. The CM of Uttarakhand alleges that the centre government are not in favour of state of Uttarakhand. The state of Uttarakhand allege that the centre shows little respect for the view expressed by chief minister at conference convened by centre. The centre from time to time, feels displeased at

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the attitude of the state over various issues. The centre also alleges that the state of Uttarakhand tend to divert fund allocated for a particular scheme to other purpose

**TABEL 3.**

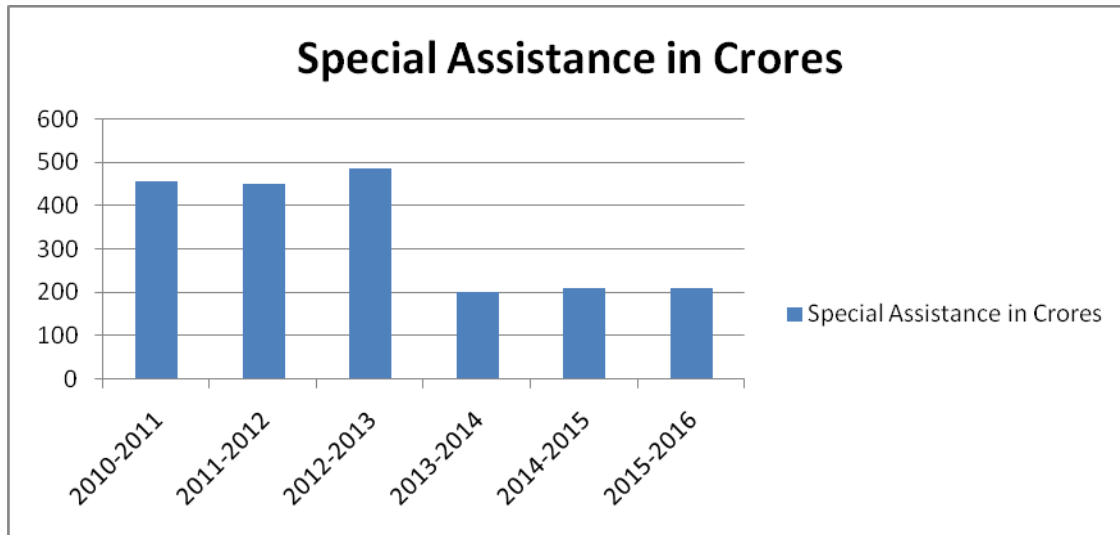
**SECTOR WISE SPECIAL ASSISTANCE OF FINANCIAL RESOURCES FROM CENTRE TO STATE OF UK.**

**Rs. crores**

Catogery	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Performance incentives	400	300	300	-	-	-
Elementary Education	31	35	40	45	46	46
Environment and Forest Protection	25.68	25.68	51.36	51.36	51.36	51.36
Water management	-	19	19	19	19	19
Roads & B ridges maintaines	-	71	78	86	94	95
Total	456.68	450.68	488.36	201.36	210.36	211.36

**Source: Directorate Economics & Uttarakhand Centre Statistics Office.**

From the table 3, it is clear that the state of Uttarakhand got special assistance for the growth and development for different sectors. Uttarakhand uses the special assistance for the same sector for which the centre allotted these fund. The state of Uttarakhand uses these assistance the some sectors and starts many projects for the welfare of the society. The state of Uttarakhand utilize these assistance for socail and economics devolepment of the society in the state. The special assistance incrcereased from 2010-2011 to 2013-2014 but suddenly decreased because the state of Uttarakhand got performance incentives in 2010-2011, 2011-2012, and 2012-2013 for the fastest growth. After, 2013-2014, the centre government dont gave any performance incentives to the state. Special assistance was given to different sectors increased but for some projects, these assistance are constant. These assistance got by Uttarakhand from centre plays a vital role for the allover growth and development of the state. This shows that increase in the special assistance help the state of Uttarakhand to develop different sectors.



**SOURCE : AS ABOVE & COMPUTED BY AUOTHER**

#### **CONCLUSION & SUGGESTIONS:**

The division of financial resources and the system of financial relations have been source of tensions in centre & state of Uttarakhand. The state of Uttarakhand ruled by parties other than the one in power at the centre often complain of discriminatory and step-motherly treatment in the matters of allocation of funds and giving of grants in aid. In the past, almost all the leaders of state parties raised their voice against the discriminatory treatment by the centre. At present the centre has been retaining as much as 80% to 90% of the yield from market borrowing and leaving only 10 to 20% to the states. The main factor of discrimination is political factor. Due to political factors, the state of Uttarakhand got higher assistance when, there is same party government at centre and in state and got less when there is as different parties government.

This Paper provides an analysis the relations between the centre and state of Uttarakhand, from the study it is expected that the relations between centre government and state of Uttarakhand is in good position when on both places the government was of the same party and there was/is conflicts between centre and state of Uttarakhand, when the government in centre and in state of Uttarakhand are of different parties. The central assistance play an important role in accelerating the growth and development of different sectors of the state of Uttarakhand. A limitation of this paper is the analysis has been done using secondary data from different sources. The study does not cover all the sectors for which state of Uttarakhand got special assistance from time to time for different sectors. The analysis shows that there has been enormous increase in special assistance to state of Uttarakhand from centre but it may not be increased in such a way that helps the state of Uttarakhand to fulfil its needs. The present analysis makes the possibilities of valuable assistances between centre and state of Uttarakhand for the distributions of financial resources.

#### **It is suggested that :**

- 1). The state should get more autonomy on financial resources. The distribution of financial resources between centre and state should be given according to Finance Commission. There should be no discrimination for the distribution of financial resources between different states.
- 2). The allocation of financial resources between centre and state should be in a proper way that there will

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be no conflict between centre and state.

- 3). Some states have been given special category status because of geographical imbalance within the state for i.e. J&K, Assam, Nagaland got special category status in 1969. At present still they are getting the benefit of special category status from last 47years. But in India there are number of states which are backward and growths of these states are very low.
- 4). The special category status should be given on the basis of backwardness of that state and the growth rate of that state. The special assistance should be provided to those states whose growth rate is low.

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