Journal für Entwicklungspolitik IX/3, 1993, S. 261 — 278

Pritam Singh

FEDERAL FINANCIAL ARRANGEMENTS IN INDIA WITH SPECIAL REFERENCE TO PUNJAB[1]

Abstract

The Centre-state relations in India are crucially shaped by the Indian constitutional provisions regarding the Centre-state financial relations and by the pattern of these latter relations as has developed since Indian national independence. This paper, therefore, is divided into three parts. In Part I, I shall describe briefly the Indian constitutional provisions regarding the division of financial powers and responsibilities between the Centre and the states; in Part II, I shall discuss the structure of these financial relations as have developed since the present Indian Constitution came into force after the Indian national independence and in Part III, I shall attempt to draw out the implications of the conclusions from Part I and Part II for Centre-Punjab financial relations.

1.

The present geographical identity called India is the result of a long historical process of its boundaries being drawn and redrawn as a consequence of the emergence of a number of independent nation-states (Burma, Ceylon, Pakistan-Bangladesh) out of what, as a bigger geographical identity, may also be called India. The states as geographical-political-cultural identities in post-colonial India have been emerging at an uneven pace as the homelands of various nations and potential nations.

Two of the most developed nations — Punjab and Bengal — suffered more than any other nation as a result of the partition of Punjab into Indian Punjab and Pakistan Punjab and of Bengal into Indian Bengal (called West Bengal) and Pakistani Bengal (now a sovereign nation-state called Bangladesh from 1971). Because of the history of the relationship between nationalism and the emergence of sovereign nation-states on the one hand and states in the Indian subcontinent on the other, the Centre-state relations in post 1947 India have bearings on two vital issues: the nature of state-power in India and the nature of the relationship between Indian nationalism and the nationalism of the nations/potential nations based in the states.

There are 25 states and 7 Union Territories in India. The Constitution of India mentions 97 entries in List I — Union List — i.e. under the jurisdiction of the Centre; 66 entries in List II — state List — and 47 entries in List III — Concurrent List, i.e. under the joint jurisdiction of the Centre and the states. The items in the Union List include defence, atomic energy, foreign affairs, railways, national highways, shipping, airways, post and

1 Paper presented to the 12th European Conference on Modern South Asian Studies, Berlin, September 23 — 26, 1992.

telegraph, telephone, wireless, broadcasting, currencies, public debt of the Union, Reserve Bank of India (RBI), lotteries, foreign trade, inter-state trade within India, banking, insurance and financial corporations (except cooperative societies), stock exchanges and futures markets, patents, quality control, industries (declared by Parliament to be in the national interest), oil, petroleum, mineral resources, inter-state rivers (declared by Parliament to be in the national interest), fishing and fisheries beyond territorial waters, salt, audit of accounts of the Union and of the states, income tax (except on agricultural income), corporation tax, custom duty, export duty, excise duty on tobacco and other goods (except alcoholic liquors, opium, Indian hemp and other narcotics), taxes on capital value of assets (except on agricultural land), estate duty on property (except agricultural land), taxes on sale and purchase of newspapers and advertisements published therein.[2]

The items in the state List include public order (but not the use of the military), police, prisons, local government, public health, alcoholic liquors, road and water transport (except those parts that are under the Centre's jurisdiction), agriculture (including income tax, estate and succession duty), irrigation, water management (except inter-state rivers), industries and mines (except those of national interest), gas and gas works, trade within the state, cooperative societies, rural debt, public debt of the state, land revenue, tax on sale and consumption of electricity, tax on advertisements (except those in newspapers and radio/TV), tax on road transport and inland waterways, and entertainment tax.[3]

The items in the Concurrent List include criminal law (except regarding use of armed forces), preventive detention, personal law, property transfer (except agricultural land), forests, economic and social planning, population control and family planning, commercial and industrial monopolies, trade unions, social security, education, professions, charities, ports (except of national importance), trade in food stuffs, cattle fodder, cotton, raw jute and in products of any industry (except those of national interest), price control, factories, boilers, electricity, newspapers, books and printing presses.[4]

The Constitution also provides for exclusive powers to the Parliament called the residuary powers of legislation to make laws and impose taxation with respect to any matter not enumerated in the state List or the Concurrent List.[5] The Constitution further provides for a legislation by the Parliament even for matters in the state List if the "national interest" so demands[6] and for over-riding powers to the national Parliament in a situation of inconsistency between laws made by Parliament and the laws made by the legislature of the states[7] and for giving effect to international agreements.[8]

From the items mentioned in the three Lists above, it is very clear that the most significant spheres of the economy come under the control of the Centre. The constitutional provisions giving over-riding powers to the Centre further highlight the fact of the inequitable distribution of powers against the states. I shall try to examine below the ways in which this centralism inherent in the Constitution has manifested itself in the actual operation of Centre-state financial relations.

2 *The Constitution of India,* Seventh Edition, Eastern Book Company, Delhi, 1989, pp. 206 — 211.
3 Ibid., pp. 211 — 214.
4 Ibid., pp. 214 — 217.
5 Article 248, ibid., p. 102.
6 Article 249, ibid., pp. 102, 103 and Article 250.
7 Articles 251 and 254, ibid., p. 103.
8 Article 253, ibid., p. 103.

2.

The constitutionally defined financial powers and responsibilities have played a major role in the concentration of financial resources in the hands of the Centre.[9] Right from the beginning of the Indian national independence, it was clear that the constitution had so defined the functional responsibilities of the states that due to their inadequate financial powers, the states would have to depend upon transfer of funds from the Centre to the states to discharge those responsibilities.[10] Furthermore, it was stipulated in the Constitution that a Finance Commission, to be appointed by the President of India every five years or earlier, would make recommendations for intra-federal transfer of budgetary funds.[11] These recommendations, once accepted by the Parliament, were to have a statutory sanction.[12] Transfers effected in this way are called *statutory transfers*.

There are two other kinds of transfers which are called *non-statutory transfers* because they are made outside the framework of the Finance Commission. These are:

1. Plan transfers, i.e. transfers in the form of Plan assistance by the Centre to the states effected through the Planning Commission to help the states to finance their state plans.[13]

2. Discretionary transfers, i.e. transfers effected through the ministries and departments of the Central government.

Two different sets of views use two different sets of reasons to call these transfers as discretionary. According to one set of views these transfers are 'discretionary' because there is no known criteria for effecting these transfers. 'Discretionary' in this set of views implies arbitrariness.[14] This set of views considers that the statutory transfers affected through Finance Commission, (FC), are based on a criterion, but leaves Plan transfers in an ambiguous category without either calling them discretionary or based on a criterion.[15] The second set of views calls these transfers 'discretionary' because according to this view, there is no constitutional provision for making these transfers on a regular basis.[16] This latter view, therefore, considers both Plan and discretionary transfers, as defined in point 2 above, as 'discretionary transfers'.[17]

9 See Ashok Mitra, 'Will growth and centralised fiscal arrangements do?' in I. S. Gulati (ed) *Centre-State Budgetary Transfers,* Oxford University Press (OUP), Bombay, 1987, pp. 23 — 40. Also Ashok Mitra, 'The Centre', *Seminar,* No. 281, Jan. 1983, pp. 40 — 43.

10 I. S. Gulati, ibid., p. 2.

11 Article 280, *The Constitution ...,* loc.cit. p. 112 — 113.

12 Article 281, ibid., p. 113.

13 That the Planning Commission is an unconstitutional body is widely recognised in the literature on Centre-state relations. E. g. see *The Report of the Commission on Centre-State Relations, (RCCSR)* Government of India (GOI) Press, Nasik, 1987; Justice A. S. Qureshi, *Second Report of the Ninth Finance Commission, (SR9FC),* (for 1990 — 1995), GOI, Delhi, 1989, p. 49; I. S. Gulati, op.cit.; Ashok Mitra, op.cit.

14 Discretionary transfers are "transfers that are largely in the discretion of the Centre ... they are very much like gifts of the Centre and, therefore, the considerations which govern their dispensation can be much more political than economic or objective." K. K. George, 'Discretionary Budgetary Transfers: A Review', *Economic and Political Weekly (EPW),* Nov. 15, 1986. Also reprinted in I. S. Gulati, op.cit., p. 247. See also Gulati, op.cit., p. 17; Lakdawala, op.cit., p. 191 (see note 20).

15 "Both statutory and at least a major part of Plan transfers ... are supposed to be governed by clearly stated criteria, whatever they be, as spelt out from time to time, departures from which are not easily defensible". K. K. George, ibid., p. 248.

16 Justice Qureshi's interpretation of Article 282 (see note 19) is that "the power to give grants under Article 282 is an "emergency power" to be used in exceptional circumstances only". Ibid., p. 50.

17 Ibid., p. 50.

The actual pattern of financial relations between the Centre and the states that has evolved since national independence reveals that the statutory transfers have constituted only between 31.2% to 43.0% of the total transfers from the Centre to the states for different Plan periods during 1951 — 1984. Taken as a whole, for the period 1951 — 1984, more than 60% of the transfers are non-statutory or discretionary.[18]

The implications of the relative weightage of the three types of transfers in the total transfers to the states from the viewpoint of Centre-state financial relations are very significant. The discretionary transfers by their very nature put the states in a far more vulnerable position vis-a-vis the Centre than the statutory transfers. It is important to note that the question of the legitimacy of 'discretionary transfers' is far from settled.[19]

The Plan transfers are supposed to be based on criteria but these criteria are never made public[20] and, consequently, the Plan transfers are also used by the Centre to enforce the dependence of the states upon Central resources and planning priorities.[21] The officials of the state government feel so overwhelmed by the authority and power wielded at the Centre that they, in putting forward their state's case, try to please the Central authorities and consequently do not put forward their case powerfully, if the Central authorities are seen to be unsympathetic to the state's demands.[22]

18 K. K. George, op.cit., p. 248. Gulati's estimates of these transfers reported in the introduction to his book (p. 17) are the same as George's though Gulati does not give the amount of different transfers. West Bengal government estimates differ from the estimates of George and Gulati for the period 1979 — 84 and therefore for the whole period 1951 — 84. W. Bengal estimates for 1951 — 84 are: statutory = 40.4%, plan = 30.2%, and discretionary = 29.4%. See W. Bengal government representation to the Commission for Centre-State Relations (CCSR) in *RCCSR*, Part II, op.cit., p. 603.

19 Article 282 on "*Expenditure defrayable by the Union or a state out of its revenue*" states that "The Union or a state may make any grants for any public purpose, notwithstanding that the purpose is one with respect to which Parliament or the Legislature of the state, as the case may be, may make laws." There are two diametrically opposite ways in which this Article has been interpreted. One way of interpreting, sees it as containing a justification for the free hand that the Centre or a state may use in the transfer of funds. The other way of interpreting, sees it as merely providing an exception to the general rule whereby transfer of funds must have a direct constitutional legitimacy provided by Parliamentary sanction of the recommendations of the Finance Commission (Article 275). In other words, on the second interpretation, Article 282 must not be used to justify the abrogation of law in the matters of transfer of funds. The fact that defenders of discretionary transfers can and *do* make successful use of Article 282, illustrates how interpretation becomes necessarily subject to political will.

20 D. T. Lakdawala 'Federal financial transfers: how much progression?' *EPW*, Vol. XXIV, No. 4, Jan. 28, 1989, p. 191 — 194.

21 Punjab Government Memorandum to the CCSR. See the *RCCSR*, Part II, op.cit., p. 936 — 937. Also see D. R. Khatkhate and V. V. Bhat 'Accommodating the Planning Dimension' in I. S. Gulati, op.cit. They observe that "no definite criteria are laid down by the Planning Commission with regard to Central assistance to the states", p. 48. A. H. Harrison notes in *The Process of Planning — A Study of India's Five Year Plans: 1950 — 64*, Oxford, 1968, that "... the principles on which Central assistance to state plans is allocated has never been made clear ... At present no one knows, even if the Commission has all this worked out, no one is likely to be told, at least just yet." — quoted by Khatkhate and Bhat, ibid. Khatkhate and Bhat observe, "the states have adhered to the pattern of expenditure as proposed by the Planning Commission even when it is not suited to their needs ... The Central Government has got an instrument in the Plan and Plan assistance to introduce a national bias in state policies." ibid., p. 48.

22 View expressed by Prof. K. S. Gill, who was Chairman, Perspective Planning Division, Planning Commission, GOI, for many years during Nehru's and Indira Gandhi's Prime Ministership; Vice-Chairman, Punjab Planning Board in late 1970s; and Chairman, of the Punjab Govt. Committee which prepared the Punjab Govt. memorandum to the CCSR in a

Finally, even the Finance Commission has been suspected of being biased in favour of the Centre. Most significant and recent indictment of the way Finance Commissions have functioned, comes from within the Finance Commission itself. Justice A. S. Qureshi a member of the 9th Finance Commission has written in his note of dissent to the final report of the commission:

"... it is a pity that such an important institution (Finance Commission) is devalued, downgraded and rendered ineffective due to Centre's growing hunger for amassing more and more power and authority in its own hands".[23]

He has further written:

"Finance Commission has been treated as an adjunct of the Finance Ministry and subservient to it. The Finance Commission has no independence in the matter of even the appointments of its staff or managing its own finances. The Finance Commission has to go to the Finance Ministry for every trivial thing."[24]

And that:

"Even the functions already assigned under the Constitution were gradually taken out and exercised by the Centre in clear violation of the constitutional provisions."[25]

There are several others who have a somewhat similar assessment of the Finance Commission.[26]

Justice Qureshi's view that the Finance Commission is being marginalised is validated by the data adduced by him in support of his view. Justice Qureshi by employing the strict constitutional criteria of considering only those grants that are made under Article 275 as statutory and all other grants as discretionary grants, shows that the discretionary grants work out to be as high as 84% of total grants for the period 1951 — 1990.[27]

Two points worth emphasising even at the cost of some repetition are: one, the very high component of discretionary transfers in the total transfers from the Centre to the states forces the latter into a position of weakness and dependence upon the former. Second, the erosion in the independence of the Finance Commission robs even the statutory transfers of the importance they otherwise would have had. As a result, the institutional arrangement of transfers from the Centre to the states by increasing the financial dependence of the states upon the Centre provides a perpetual source of:

a) conflict between the urge among nations/potential nations in the states for state autonomy and the ongoing tendency towards centralised control representing the interests of unified and integrated Indian nationalism;

---

recorded interview with me in New Delhi on December 29, 1989.

23 Note of dissent by Justice A. S. Qureshi in *SR9FC,* op.cit. p. 47.

24 Ibid., p. 48.

25 Ibid., p. 47.

26 See I. S. Gulati, 'Approach of the Finance Commissions' in Gulati, op.cit., pp. 63 — 85. W. Bengal Govt. Memorandum (p. 603), Punjab Govt. Memorandum (p. 939), Karnataka Govt. Memorandum (p. 234), Tamil Nadu Govt. Memorandum (p. 498 — 499) to the CCSR is a sample of strong criticisms of the functioning of the Finance Commissions. Most state governments neither criticised nor appreciated the Finance Commissions though almost all the state governments were critical of the Planning Commission transfers and that of discretionary transfers through Central government ministries. Harayana is perhaps the only state government which considered that "the agency of the Finance Commission and Planning Commission are adequate." Harayana Govt. Memorandum (p. 183).

27 Justice Qureshi's Note of Dissent to the *Second Report of the Ninth Finance Commission* (For 1990 — 95) p. 50.

b) competition and conflict between the states.

It is significant to note that not only the Centre (through its control over the institutions of resource transfer) exercises a relationship of dominance over the states, it increases its own relative financial power by cornering the major share of the resources raised by it. The states' share, therefore, in the resources raised by the Centre witnesses a declining trend from 42% in 1951 — 1956 to 33% in 1979 — 1984.[28] The states' dependence on the Centre is highlighted by the fact that though the Centre transfers up to as low as 31% of its aggregate resources to the states (for 1974 — 1979), these resources constitute a significant part of the state's total expenditure (increasing from 38% in 1951 — 1956 to 46% in 1985 — 1986).[29]

State's Dependence for Financing Revenue Expenditure

For financing their revenue expenditure, the dependence of the states on resource transfer from the Centre is close to 40% of which about 24% is through devolutionary (statutory) transfers and about 16% through discretionary (Plan and non-Plan) transfers.[30]

Dependence for Financing Capital Expenditure

The states' dependence upon the Centre for financing their capital expenditure is much greater than for financing revenue expenditure. In recent years, states' own net capital receipts, after meeting repayment obligations on past loans from the Centre, could finance no more than a very modest proportion of their capital expenditure as shown below:[31]

1983 — 84	28.7%
1984 — 85 (R.E.)	18.6%
1985 — 86 (B.E.)	21.5%

A very high and rising proportion of the total capital expenditure had to be financed by new loans from the Centre as follows:[32]

1983 — 84	68.8%
1984 — 85 (R.E.)	68.8%
1985 — 86 (B.E.)	70.4%

All loans and advances from the Centre to the state are discretionary i.e. if the Centre stops altogether or decreases the volume of loans, the states cannot take any recourse to constitutional provisions to force the Centre to advance the loans. The dependence of the states upon the Centre for financing their capital expenditure is highlighted by the fact that a substantial proportion of the states' capital receipts

28 Gulati (ed) *Centre-State Budgetary Transfers,* op.cit. p. 18.
29 *RCCSR* op.cit. p. 603 and p. 907.
30 Ibid., p. 908 — 909.
31 Ibid.
32 Ibid.

classified as the states' own receipts is, in fact, subject to the consent of the GOI in accordance with Article 293 of the Constitution.[33] Under Clause 3 of the Article 293, a state may not without the consent of the GOI raise any loan if any previous loan to it granted or guaranteed by the Central Govt. was still outstanding. Since all states are now heavily indebted to the Centre, the approval of the Central Govt. is now necessary for all borrowing by the state governments.[34]

Factors for Financial Dependence of the States

States' heavy financial dependence on the Centre has been the result of factors that have, since Indian National Independence, either required them to incur expanded revenue and capital expenditure, or prevented a commensurate increase in their own revenue and capital receipts. What follows below is a discussion of such factors.

Factors for Growth of States' Expenditure

Constitutional responsibilities entrusted to the states as mentioned in the entries in List II above, have meant that states have had to discharge development responsibilities which even if these have been limited and inadequate so far, have entailed rapid growth of revenue and capital expenditure. A contributory factor for this trend has been the generally low efficiency of public expenditure in India on development projects like irrigation, road transport, housing and urban development and public health to name a few.[35] This has necessitated a more than reasonable outlay to obtain the desired physical results.

Two views have been generally put forward to explain this enormous increase in the states' development expenditure. According to one, the provisions of the Constitution relating to state finances strongly suggest that the Constitution makers severely underestimated the public expenditure requirements implied in the development responsibilities entrusted to the states. In particular, this view holds, that they seem to have had little perception of the large quantity of the capital outlays required of the states. According to this view, it looks that the large majority of the members of the Constituent Assembly either did not seriously believe in planned development or had little awareness of its implications in the Indian context, with regard to growth of public expenditure. They probably failed to foresee that the states would need to undertake and assist investment in a big way along with incurring growing maintenance and development expenditure on revenue account on state and state-aided services.

33 *RCCSR*, Part I, p. 278.

34 The total outstanding Central loan to all the 25 states as on 31. 03. 1989 was Rs. 56051.92 crores, i.e. Rs. 560.5192 billions (1 £ = Rs. 35 approx). *SR9FC* (for 1990 — 95), op.cit., Annexure IX.1 and Annexure IX.2, pp. 89 — 90. This amount constitutes about 63% of the total debt of all the state governments, estimated to be Rs. 89, 461 crores. Ibid., p. 35.

35 States invest not only in "government sector investments (school, roads, bridges etc.) but also in ... departmental and non-departmental enterprises (irrigation works, State Electricity Boards, State Road Transport Corporations and a large number of other enterprises) ... in most cases, (there) is the extremely poor performance of the enterprises." *SR9FC*, (for 1990 — 95) op.cit., p. 35 — 36.

Rapid growth of states' revenue and capital expenditure is considered a direct consequence of this state-interventionist path of development which was not fully anticipated by the Constitution makers.[36]

The second view is that given the fact that Nehru and several others, who actively participated in the Constitution making exercise, were ardent advocates of economic planning, it is unlikely that they did not envisage the active role of the state in the development process. This view holds, therefore, that Nehru and others, perhaps. thought that the Constitution was flexible enough to accommodate planning and that the Centre-state financial relations could be re-adjusted to ensure adequate resources at the disposal of the states to enable them to participate adequately in the process of planned economic development. According to this view, due to subsequent developments in Indian political economy, this expected readjustment has not taken place resulting in a huge gap between states' high development expenditure and insufficient resources.[37]

Whatever explanation one may find more convincing, the point worth emphasising is that the Indian nationalist strategy of state capitalist path of development has necessitated a massive increase in states' revenue expenditure.

Factors Accounting for the Growth of States' Non-development Expenditure

There has also been a rapid growth of states' non-development expenditure. Interest payments, police, collection of taxes and duties, pensions and other retirement benefits, secretariat general services, and district administration, compensation and assignment to local bodies and Panchayati Raj Institutions and maintenance of Govt. buildings (public works) are the principal items that have shown a high rate of growth of non-development revenue expenditure and now account for the bulk of this expenditure. On capital account, the principal items of non-development expenditure are repayment of debt (mainly of loans from the Centre) and loan advances to Govt. servants.

Interest payments and debt repayments are now by far the largest items of states' non-development expenditure. These accounted for 41.1%, 45.6% and 43.3% of such expenditure during 1983 — 1984, 1984 — 1985 (R.E.) and 1985 — 1986 (B.E.) respectively. This item reflects the states' growing indebtedness particularly to the Centre — a point which I have already referred to earlier.[38] A major factor for rapid growth of states' indebtedness has been that as much as 70% of the Central assistance to the states is being given as loans.[39] Since a large proportion of these loans has been invested in social and economic infra-structural facilities — school, hospitals, roads, social housing, Government administrative and residential buildings, irrigation, social conservation, area development, river multi-purpose projects etc. — it never directly yields the surplus needed to meet the repayment obligations on these loans. Consequently, the states' indebtedness to the Centre mounts. The states interest liabilities have increased even faster than growth in their indebtedness

36 This view is articulated in the Punjab Govt. Memorandum. See *RCCSR*, Part II, op.cit., p. 910.
37 Gulati, op.cit., p. 3.
38 *RCCSR*, op.cit., p. 907.
39 Punjab Govt. Memorandum, op.cit., p. 913.

with widespread though conflicting views about the Centre-Punjab relations. One view shared by a large number of Punjabi and Sikh nationalists is that Punjab and Sikhs are 'discriminated against' by the Centre.[45] The opponent view, widespread among Indian and Hindu nationalists, is that Punjab and Sikhs have been excessively pampered by the Centre.[46]

Amritsar, 1983; 4. S. P. Mehra *Punjab Today,* (An Economic Overview), New Academic Publishing Co., Jalandhar, 1983 and 5. Pritam Singh (Not me!) *Emerging Pattern in Punjab Economy,* Sterling Publishers, Delhi, 1983; 6. Om Parkash *The Finances of Punjab State,* Guru Nanak Dev University, Amritsar, 1983. Only one book, Johar and Khanna (ed) *Studies ...,* carries an article, the only one, on 'Centre-state Financial Relations in India with special reference to Punjab'. Raikhy and Gill (ed) *Resource ...,* has one article by Gill (published earlier in Gopal Singh, see below) which deals directly with some issues of Centre-state financial relations. Surprisingly, even Om Parkash *The Finances ...,* devotes only one chapter to the issue. Seven latest books with focus on Punjab politics are: 1. Paul Wallace, Surinder Chopra (ed) *Political Dynamics and Crisis in Punjab,* Guru Nanak Dev University, Amritsar, 1988. 2. Amrik Singh (ed) *Punjab in Indian Politics,* Ajanta Publications, Delhi, 1985; 3. Gopal Singh (ed) *Punjab Today,* Intellectual Publishers, Delhi, 1987; 4. Abida Samiuddin (ed) *Punjab Crisis,* 1985; 5. Parmod Kumar et al *Punjab Crises: Context and Trend,* Centre for Research in Rural and Industrial Development, Chandigarh, 1984; 6. Dalip Singh, *Dynamics of Punjab Politics,* Macmillan, Delhi, 1981; 7. J. S. Deol, *State Politics in India,* (with special reference to Punjab), New Academic Publishing Co., Jalandhar, 1986; None of them (except Gill's article in Gopal Singh' book mentioned earlier) carry even a single article on Centre-Punjab financial relations. None of the latest books on Punjab published outside India carry even a sub-chapter on Centre-Punjab financial relations. See Iqbal Singh (University of Chicago) *Punjab Under Siege: A Critical Analysis,* Allen-Macmillan, New York/London, 1986; S. Mirza, S. Hasnat and S. Mahmood, *The Sikh Question,* Panjab University, Lahore, 1985; M. A. Masood and Peter Stockdale, *The Khalistan Riddle,* Modern Book Depot, Islamabad, 1988; Ajit Singh Bains, *Seige of the Sikhs,* (in Punjabi), Toronto, 1988; Hardial Bains, *The Call of the Martyrs: On the Crises in India and the Punjab Situation in the Punjab,* Workers Publishing House, London, 1985; Jarnail Singh, *Sikh Symposium,* the Sikh Social and Educational Society, Toronto, 1985; Holly Sims, *Political Regimes, Public Policy and Economic Development: Agricultural Performance and Rural Change in Two Punjabs,* Sage Publications, Delhi/London/California, 1988. The most influential academic journal in India, *Economic and Political Weekly* has not had a single paper on Centre-Punjab financial relations though it has otherwise carried a number of excellent papers on other aspects of Punjab's political economy. The academic journals in the West *Asia Survey, Pacific Affairs, Journal of Commonwealth and Comparative Studies* who otherwise have published excellent papers on Punjab, have not carried a single paper on Centre-Punjab financial relations. The only serious work which initiated the analysis on this subject is Punjab Govt. Memorandum to the Commission on Centre-State Relations which published its report in 1987. But even this document focused more on Centre-state financial relations in general than on Punjab. Of the 39 tables of statistical data, only 2 tables pertained to Punjab specifically.

45 Some articles articulating this view are included in an anthology of essays brought out by a Maoist Punjabi nationalist group. See Malwinder Singh Mali (ed) *Punjab da Quami Masla: Khabe Pakhi Chintakan di Nazar Vich,* (in Punjabi) (i.e. The National Question in Punjab: Views of Left Wing Intellectuals), Lok Geet Prakashan, Sirhind, 1989.

46 This view has been articulated more than by anyone else, by three journalists, Giri Lal Jain, Arun Shourie and M. V. Menon (who represent a complex amalgam of Indian and Hindu nationalism) in the editorials of *The Times of India, The Indian Express, The Hindustan Times* respectively in the last decade or so. Though there is not even a single scholarly paper endorsing this view about Centre-Punjab financial relations, there are a few papers which by their argument that inter-state inequalities have increased since Indian national independence, tend to give the impression that Punjab has had a favourable treatment from the Centre. See M. M. Ansari, 'Financing of the States' Plans: A Perspective for Regional Development', *EPW,* Vol. XVIII, No. 49, Dec. 3, 1989, p. 2077 — 2082; also included in I. S.

It will, perhaps, stretch the scope of my paper beyond the present concern to examine the reasons for the gap between the weakness of scholarly work and the strength of beliefs about the Centre-Punjab relations. The conflicting opinions, however, are reflective of the fragmented and selective reading of the complexity of the Centre-Punjab financial relations. This paper is a preliminary attempt to construct an integrated picture of these relations to overcome as far as possible the fragmentariness of the views offered so far.

The first important point worth observing is that Punjab has had since Indian national independence, the highest (or near the highest) per capita income among the Indian states. (See Table 1) From column 2, it can be observed that Punjab (including Haryana) had the next to highest per capita income in 1949 — 1950 (W. Bengal had the highest). In 1960 — 1961, Punjab had the third highest per capita income (Maharashtra had the highest and W. Bengal the second highest). Since 1970 — 1971, Punjab has had the highest per capita income. A rearrangement of data including all the states shows Punjab's position as second highest (Goa as highest; Table 2) though for the states considered in the earlier period, Punjab's ranking is still the highest. This is one set of date which is often quoted to argue that since Punjab has improved its relative position in the post-1947 period, the Centre's contribution, if any, must be a positive and favourable one to Punjab's economic development. This argument, however, hides a number of weak spots in Punjab's economic development apart from the central point that a relatively higher level of per capita income, in itself, is no proof of Centre's favourable treatment of Punjab.

First, Punjab's relatively better performance in terms of per capita income is the result of a certain pattern of development during the colonial period.[47] Second, both during the colonial and the Indian nationalist state rule, Punjab's economic performance is primarily based upon agriculture. Between 1980 — 1981 and 1987 — 1988, the share of the primary sector in the net state domestic product (SDP) has remained around 44% and the share of the secondary sector shows a slightly declining trend from 21.88% in 1982 — 1983 to 20.74% in 1987 — 1988.[48]

This trend, howsoever weak, towards 'deindustrialization' of Punjab reflects a serious structural imbalance in Punjab economy. An agrarian-based economy accompanied by a trend towards deindustrialization is all the more vulnerable when the terms of trade may be turning against agriculture. Table 3 shows that from 1970 — 1971 to 1980 — 1981, only during two years [(1978 — 1979) and (1980 — 1981)] did the farmers receive favourable price of their products and the Central Govt. has a crucial role through Agriculture Costs and Prices Commission to determine the level of prices obtained by farmers. The related areas of the nature of agricultural and industrial development in Punjab and the role of the centralist Indian state in shaping agrarian and industrial capitalism in Punjab are also the subject of examination in a longer research project.

It is sufficient here to say that due to historically shaped pattern of development, Punjab has experienced an increase in agricultural prosperity reflected in a relatively higher level of per capita income. A tendency towards deindustrialization discerned

Gulati (ed) *Centre-State Budgetary Transfers,* op.cit., I. S. Gulati and K. K. George 'Inter-State Redistribution through the Budget' in I. S. Gulati (ed) *Centre-State Budgetary Transfers,* loc.cit.

47 For details see Imran Ali *Punjab Under Imperialism,* Princeton University Press, 1986.

48 *Statistical Abstract of Punjab,* 1988, p. 88.

in the last one decade, however, suggests that a serious structural weakness of this kind in Punjab economy may eventually lead to Punjab being an agrarian colony — even if prosperous for sometime — for industrially dominant power interests at the Centre. That Punjab may be on the road to its decline in its relative position among the states is suggested by the annual average percentage growth of SDP at constant prices between 1969 — 1970 and 1984 — 1985 as shown in the following table:

	STATE	ANNUAL AVERAGE GROWTH OF SDP AT CONSTANT PRICES (%) (1969 — 70 TO 1984 — 85)
1.	Andhra Pradesh	4.12
2.	Assam	3.55
3.	Bihar	3.97
4.	Gujarat	4.81
5.	Haryana	4.47
6.	Karnataka	3.85
7.	Kerala	2.10
8.	Madhya Pradesh	3.98
9.	Maharashtra	4.08
10.	Orissa	3.30
11.	Punjab	4.34
12.	Rajasthan	2.59
13.	Tamil Nadu	3.75
14.	Uttar Pradesh	3.94
15.	West Bengal	2.89

Source: Pradhan Prasad, *Lopsided Growth*, OUP, Bombay, 1989, p. 114. LEAVE GAP Gujarat and Haryana have surpassed Punjab in the last 15 years and Andhra Pradesh may soon catch up.

Inter-state Comparison Of Centre's Transfers

The character of Centre-Punjab financial relations becomes more clear when a comparison of Centre's transfers to different states is made (See Table 4). Transfers (through Finance Commission) mentioned in Col (3) are statutory transfers and the other transfers are discretionary transfers. Looking at Col (3), it is clear that Punjab had the lowest percentage (1.68) of devolution by Finance Commissions to a state's SDP. The figure for Central Plan assistance (Col (4)) shows Punjab's percentage to be the next to the lowest (the lowest was for Maharashtra). Col (6) shows that the percentage of expenditure on centrally sponsored projects to SDP for Punjab is one of the three lowest figures (Punjab 0.99, Maharashtra 0.88 and W. Bengal 0.86) Similarly Col (7) shows that the percentage of investment in Central Govt. non-departmental undertakings to SDP is the lowest for Punjab. The picture is slightly different for percentage of plan outlays to SDP (Col (5)). Plan outlay is, however, not a transfer from the Centre. It is the sum of a state's own plan resources and Centre's assistance. But even here, Punjab's percentage is lower than that of Gujarat, Haryana, Madhya Pradesh, Orissa and Uttar Pradesh.

A composite picture which emerges, is that Punjab is lowest on the scale. A juxtaposition of Punjab's highest per capita income with the lowest resource transfer from the Centre may appear to be contradictory. But if the interventionist role of the Indian Centralist State as the articulator and builder of Indian nationalism is kept in mind, this apparently contradictory position becomes very logical in character.

The Indian centralist state in order to foster Indian nationalism and to strengthen and legitimise its role as central to building Indian nationalism, has to follow a policy of reducing regional inequalities. A study based on assessing the role of Central transfers to states in reducing regional inequality concludes "the share of the poor states in such transfers has been, on the whole, higher than that of the rich states".[49]

Another pressing factor from the viewpoint of political geography of the Indian centralist state is that the poorest states, i.e. the states with the lowest per capita SDP like Bihar, Uttar Pradesh, Rajasthan and Madhya Pradesh constitute the Hindi speaking central heartland of India. These states which are also the most populous states in India, are also in the forefront of defending Indian and Hindu-Hindi nationalism.

It is a political necessity of the Indian state and its ideology Indian nationalism to pursue policies which reduce the economic backwardness of these states. The Indian centralist state is thus forced to pursue policies which become an institutional constraint on the further development of economically advanced states. It is, therefore, a logical extension of the political economy of the centralist state in India that while on an average (i.e. national average), the Centre finances 40% of the revenue expenditure of the states, in Punjab it only finances 23% of Punjab's revenue expenditure (data for 1984 — 1985, 1985 — 1986, 1986 — 1987).[50] The conflict between Punjabi nationalism and Indian nationalism is, therefore, rooted in the ideology and the political economy of the role of the Indian centralist state in building Indian nationalism.

49 Pradhan Prasad "Roots of Uneven Regional Growth in India", *EPW*, August 13, 1988 also included in his *Lopsided Growth*, op.cit., p. 108.
50 Punjab Govt. Memorandum to the CCSR, op.cit., p. 909.

Table 1:
Per Capita Income at Current Prices (Rs.)

State (1)		1949-50 (2)	1960-61 (3)	1970-71 (4)	1980-81 (5)	1984-85 (6)	1985-86 (7)	1986-87 (8) (Prov.)
1.	Andhra Pradesh	229	275	585	1,358	2,039	2,205	2,333
2.	Assam	--	--	535	1,221	2,037	2,068	2,204
3.	Bihar	200	215	402	943	1,513	1,643	1,802
4.	Gujarat	x	362	829	1,967	2,952	2,775	3,223
5.	Haryana	xx	327	877	2,361	3,230	3,748	3,925
6.	Himachal Pradesh	--	--	651	1,530	2,216	2,636	2,908
7.	Jammu and Kashmir	--	--	548	1,455	2,111	2,270	2,344
8.	Karnatka	186	296	641	1,454	2,189	2,264	2,486
9.	Kerala	234	259	594	1,385	2,104	2,140	2,371
10.	Madhya Pradesh	255	252	484	1,181	1,699	1,960	2,020
11.	Maharashtra	273*	409	783	2,244	3,177	3,549	3,793
12.	Manipur	--	--	390	1,382	2,218	2,383	2,533
13.	Orissa	188	217	478	1,173	1,671	1,954	1,997
14.	Punjab	334**	366	1,070	2,620	4,103	4,536	4,954
15.	Rajasthan	173	284	651	1,220	2,050	2,106	2,150
16.	Tamilnadu	229	334	581	1,324	2,173	2,514	2,732
18.	Uttar Pradesh	262	252	486	1,272	1,284	2,003	2,146
19.	West Bengal	353	390	722	1,643	2,576	2,767	2,988
All India		246 (for 1950-51)	306	633	1,627	2,477	2,721	2,974

Source: Column (2) and (3) Pradhan Prasad Lopsided Growth: Political Economy of Indian Development, OUP, Bombay, 1989, p110.

Columns (4) to (8) Statistical Abstract of Punjab 1988, Government of Punjab.

* Gujarat and Maharashtra
** Haryana and Punjab (Punjab acquired its new territorial status in 1966).

Table 2:
States Arranged in Descending Order of Per Capita State Dometic Product: New Series (Average of three years 1982 — 85 at current prices)

States		(Rupees) Per Capita Income
1.	Goa	4,437
2.	Punjab	4,013
3.	Maharashtra	3,384
4.	Haryana	3,043
5.	Gujarat	2,919
6.	Arunachal Pradesh	2,746
7.	Sikkim	2,570
8.	Karnatka	2,461
9.	Jammu and Kashmir	2,380
10.	Nagaland	2,265
11.	West Bengal	2,230
12.	Manipur	2,205
13.	Kerala	2,144
14.	Tamilnadu	2,142
15.	Himachal Pradesh	2,103
16.	Andhra Pradesh	2,053
17.	Meghalaya	1,960
18.	Assam	1,863
19.	Madhya Pradesh	1,860
20.	Rajasthan	1,820
21.	Tripura	1,784
22.	Mizoram	1,778
23.	Orissa	1,728
24.	Uttar Pradesh	1,713
25.	Bihar	1,323
ALL STATES AVERAGE		2,165
UNION TERRITORIES		5,002
ALL INDIA AVERAGE		2,199

Source: The Second Report of the Ninth Finance Commission (for 1990-95) December 1989, p79.

Table 3:
Indices of Price Parity in Punjab

(Base 1959-60 to 1961-62 = 100)

Year	Index of Prices received by the farmers	Index of Prices paid by the farmers	Index of Parity
1965-66	146.01	137.41	106.26
1970-71	203.17	214.80	94.59
1975-76	311.05	316.01	98.43
1976-77	336.63	363.38	92.64
1977-78	353.00	356.26	99.08
1978-79	383.73	361.82	106.06
1979-80	394.61	399.02	98.89
1980-81	521.17	477.16	109.22

Source: Statistical Abstract of Punjab, 1988

Table 4:
Transfer of Resources from Centre to States (1969 — 70 to 1984 — 85)

No. State	Per Capita Net State Domestic Product at Current Prices	Percentage of: Devolution by Finance Commission to SDP at Current Prices	Central Plan Assistance to SDP at Current Prices	Plan Outlay to SDP at Current Prices	Expenditure on Centrally-sponsored Projects to SDP at Current Prices	% of Investment (1970-71 to 1983-89) in Central Government non-departmental undertakings to SDP at Current Prices
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Andhra Pradesh	17976	3.97	1.93	5.72	1.56	3.38
2. Assam	16024	5.55	4.64	6.05	1.49	6.58
3. Bihar	12454	5.87	2.80	6.01	1.62	5.48
4. Gujaret	25125	2.72	1.34	7.20	1.18	1.82
5. Haryana	28984	2.03	1.33	8.30	1.22	1.05
6. Karnataka	18988	3.41	1.64	5.86	1.17	2.98
7. Kerala	17939	4.44	2.17	6.18	1.05	1.41
8. Madhya Pradesh	15198	4.58	2.38	7.94	1.82	5.45
9. Maharashtra	27542	2.44	1.00	5.91	0.88	3.66
10. Orissa	14333	6.75	3.34	6.93	2.49	4.88
11. Punjab	35542	1.68	1.04	6.21	0.99	0.92
12. Rajasthan	17567	4.38	2.30	5.94	1.85	1.13
13. Tamilnadu	17793	3.81	1.56	6.15	1.23	2.25
14. Uttar Pradesh	14536	4.87	2.43	6.92	1.51	1.32
15. West Bengal	22004	3.39	1.16	4.62	0.86	2.22

Source: Pradhan Prasad Lopsided Growth, op. ct. p. 111.

Pritam Singh, Principal Lecturer in Economics, School of Business
Oxford Brookes University, Wheatley, OXFORD, OX33 1HX U. K.