

**POLITICAL ECONOMY OF WEST BENGAL:
INDUSTRIAL DEVELOPMENT IN A FEDERAL
CONTEXT**

**Dissertation submitted to Jawaharlal Nehru University in
partial fulfillment of the requirements for the award of the
degree of**

MASTER OF PHILOSOPHY

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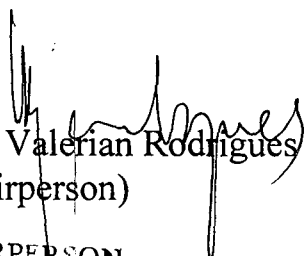
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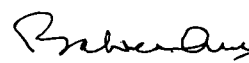
CERTIFICATE

I hereby, declare that the dissertation entitled, '**Political Economy of West Bengal: Industrial Development in a Federal Context**' submitted by Paromita Datta, Centre for Political Studies, School of Social Sciences, Jawaharlal Nehru University, New Delhi, is in partial fulfillment of the requirements for the award of the degree of Master of Philosophy of this University. This Dissertation is original and has not been submitted in part or in full for any other degree or diploma in any other University.


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Abbreviations

- ❖ ACA- Additional Central Assistance
- ❖ ART/Art.- Article
- ❖ BOA- Board of Approval
- ❖ BUPC- Bhumi Uchhed Pratirodh Committee
- ❖ CAIT- Conference of All India Traders
- ❖ CONG.-I- Congress- I
- ❖ CPI (M)- Communist Party of India (Marxist)
- ❖ CPI- Communist party of India
- ❖ E-GOM- Empowered group of Ministers
- ❖ EXIM- Export and Import Policy
- ❖ FC- Finance Commission
- ❖ FRBM Act. Fiscal Responsibility and Budget Management Act
- ❖ GST - Goods and Service Tax
- ❖ ISC - Inter-State Council
- ❖ JNNURM- Jawaharlal Nehru National Urban Renewal Mission
- ❖ Left Parties- Communist Party of India (M), Communist Party of India,
India,
- ❖ NDA- National Democratic Alliances
- ❖ NDC- National Development Council
- ❖ PC- Planning Commission
- ❖ SEZs- Special Economic Zones
- ❖ TMC- Trinamool Congress
- ❖ UF- United Front
- ❖ UPA- United Progressive Alliance
- ❖ VAT- Value Added Tax.

Introduction

A federal system consists of two sets of Government operating on the same population. Therefore conflict is frequent. In order to oblivate the conflict the Constitution provides for a clear cut division of powers, spheres of authority between the different levels of Government. This division of power is necessary for all levels to fulfill their obligations be it executive, legislative or financial. In a federal polity with two sets of government: the centre and the states, tensions and conflicts are bound to arise. India is no different. The states in India are not free or independent to work even in their own spheres. The paramount position of the centre places the states in a very disadvantageous position. The overriding powers enjoyed by the centre compared to states, places them to a certain extent at the mercy of the centre. If we go back at the period before liberalization we can certainly see that the states control over the fiscal aspect was absolutely negligible. The centre decided over the allocation of industries in each state and also the grants to be sanctioned. Well this picture changed a lot in the post liberalization period with centre no longer directing the allocation of industries but the centre still has the hold on the allocation of resources. In this present period states are themselves taking the initiative of attracting the investors to invest in the state. Though the virtual dependence of states on the centre might no longer be there but to assume that in this present era of liberalization states are totally free to pursue there own path of industrial development wont be correct. The federal system operation in India is quite complex. The system evolved as a consequence of several regional disparities in the country. The federal relation envisaged in the constitution of India is based on the principle of separation of powers.

India is a federal nation with strong unitary features. The shape of the federal system in India acquired after the independence was strongly influenced by the events surrounding the independence of the country coupled with the

Partition and also due to the legacies of the colonial rule in India. Partition of the country loomed large over the minds of the framers of the Indian constitution they wanted to keep the forces of disintegration at bay therefore they drafted the constitution in such a way that it contained both federal as well as unitary features. But the features envisaged in the constitution bestowed the centre with enormous powers.

The demand for a federal system in India was borne out of the necessity and conditions that prevailed at the time of independence which was further coupled by the partition of the country. Throughout the deliberation of the proceedings of the constituent Assembly the idea that hovered on the minds of the members of the Assembly was “unity of the nation.”¹ It was felt necessary that the unity of the nation must be preserved and this could be achieved only by adopting a federal structure with a strong Centre. Another factor which played role in the adoption of a federal structure with a strong centre was that during the time of the British rule all the powers were centralized. “This was” as Granville Austin puts it, “an imperial as well as administrative necessity.”²

There were several other factors also that compelled the Constituent Assembly to go for a centralized federation. The continuing influx of the refugees from Pakistan into our territories created for us social and economic problems of vast magnitude which, it was felt could be properly dealt with a strong Centre. But the most important factor that weighed upon the minds of the members of the constituent assembly was the fact that the history of the country disclosed fissiparous tendencies and divisive factors. In order to keep the centrifugal forces of communalism, regionalism and linguism under control a centralized form of government.³ So it won't be wrong to assume that the adoption of federal structure with a strong centre was borne both out of necessity and historical compulsions. According to Dr. Ambedkar the Indian

¹ Maheshwari, B.L. (Ed.) *Centre-State Relations in the Seventies*, p.114, (1973)

² Granville Austin, *Indian Constitution: Cornerstone of a Nation*, p. 188, (1966)

³ Maheshwari. Op cit. pg 7

constitution would be “both unitary as well as federal according to the requirements of time and circumstances.”⁴

While introducing the union powers committee’s report N.G.Ayyangar said “we should make the Centre in this country as strong as possible consistent with leaving a fairly wide range of subjects to the Provinces in which they would have the utmost freedom to order things as they like.”⁵ Federalism in India has a strong social base but weak institutional articulation. The Congress, which had been committed to securing more powers for the provinces in pre-independence politics, dramatically reversed its position in the changed historical context, as the need for powers sharing devices was subordinated to the imperatives of state security and stability.⁶

India has often been termed as an “Asymmetric Federalism”. An Asymmetric Federalism is understood to be based on a relationship of unequal powers with regard to all the federal aspects and arrangements between the centre and the states. This arrangement is visible at two levels vertical i.e. between the centre and states and horizontal which are between the states.

Unlike the US federation, the Indian federation is not an ‘indestructible Union of indestructible States’. Only the Union is indestructible and the States are not. Article 3 of the Constitution vests the Parliament with powers to constitute new states by separating territories from the existing ones, alter their boundaries, and change their names. The Indian federation is not founded on the principle of equality between the Union and states either. The central government in India has the powers, and it actually does invade the legislative and executive domains of the states. Therefore the Indian the federal system

⁴ Constituent Assembly Debates, Vol. vii, part I, p 34

⁵ CAD, Vol. III, pg 39.

⁶ Arora Balveer and Nirmal Mukherjee (Ed.) *Federalism in India: Origins and Development*. Pg 7,(1992)

highly centralized, vesting paramount powers into the hands of the centre or the Union.⁷

The Constitution makes a distribution of powers between the Union and the States, the jurisdiction of each being demarcated as the Union, State and Concurrent lists. In case of a conflict between the two legislatures over a matter in the Concurrent list the will of the Parliament prevails. The supremacy of the Constitution- the hallmark of a federation- is an important feature of the Indian polity. Neither the central government nor the state Governments can override or contravene the provisions of the Constitution. centre-state relation in India has not been free from conflicts and controversies; it continues to be a grey area in the Indian federal system since the independence. Tensions erupted in all aspects be it regard to the role of governors, use of article 356, 250 or in matters related to economic development of the States especially regard to industrial development and transfer of resources. States in India have for long accused the Centre of encroaching upon their autonomy by making laws concerning subjects enumerated in the State list. Therefore the States have demanded radical restructuring of Centre-State relations.⁸

The confrontation between the centre and the state has always deep in the fiscal spheres, especially with regard to the allocation of industries and distribution of resources. Earlier, the major percentage of the funds was released through institutions like PC which is not a constitutional body and was not independent of the centre's sphere of influence. It has been argued that the Centre has in the past used institutions like PC and FC to pull strings on the states. Since majority of the grants were released through these institutions the centre used them for gaining political leverage on the state government. Institutions like FC were envisaged in the Constitution as the key institution

⁷ Rao, M. Govinda and Nirvikar Singh. *Asymmetric Federalism in India*. US Santa Cruz International Economic Papers no. 04-08 April (2004)

⁸ *Sarkaria Commission Report, submissions made by States to the Commission in regard to Centre – State relations* Vol. II 1988

responsible for dealing with fiscal imbalances between the center and states, as well as among the states. But unfortunately its role has been circumscribed by the working of the PC, which has typically been put outside the FC's terms of reference. Furthermore, as PC transfers became formulaic, there has been a tendency to move toward using discretionary grants determined by the central ministries. Thus, the overall tendency seems to have been for the central government to try to exercise as much political control as possible over transfers to the States. Also, within each channel for transfers, there has been anecdotal evidence that there are attempts to influence the outcomes of the process.⁹

The contradictions within the centre – state relations burst into the Indian political scene after the 1967 elections when for the first time non congress governments were formed in a number of states. These states started demanding more powers from the centre. It is not that before 1967 there were no issues in the centre state relations but since congress was ruling the centre as well as the states so therefore any issue regarding the centre state relations was dealt at the party level. It never came out explicitly in the front. The year 1967 was definitely a turning point in the federal relations in India. The fourth general elections held in 1967, saw the rise of a number of regional parties and breaking down of the Congress domination. These regional parties posed a great challenge to the central Government. Before 1967 any differences between centre and state were resolved at the party level, due to the dominance of one party both at the centre and state. The fourth general elections saw the rise of multiparty system in India thereby changing the contours of federal relations in India. The centre - state conflict could no longer be resolved within the closed walls of the party office rather the confrontation between the centre and the states burst out in the open.

⁹ Rao and Singh *Federalism in India: "Political Economy and Reform. Paper presentation at the conference on "Ten Years of Economic Reforms"* at the William Davidson Institute, University Of Michigan (2001).

The Indian economy since 1947 up to the early 80's can be labeled as planned economy. But things started to change since the 80's and there was a total turn around in the 90's with India adopting liberalization policies and opening up of the Indian economy. Liberalization and economic reforms have reduced the span of control of the central government in many areas while increasing the potential importance of state level policies and administrative action. Some state governments have recognized this transition and are adopting a pro-active role in the management of economic change.¹⁰ These new challenges have further accentuated the constraints on the limited financial powers enjoyed by the states. The norms for how state governments deal with the central government has changed. Much of investment in the pre reform period used to come from the Centre. But things changed in the 90's. According to Amaresh Bagchi "with the initiation of the new economic policy in the 90's the centre's role in controlling major industries has undergone a radical change."

The balance of power in India's federal system leans towards the centre. States in India have very limited fiscal autonomy. The economic liberalization process has in some fundamental ways shifted the balance of power between the states and the central government. As the role of the central government has declined as a source of public investment, state governments have to look not at the centre for investment rather private investors.¹¹ The political autonomy of the constituents units of a federation cannot be deemed complete unless they enjoy financial autonomy but such a thing hardly exists in any federation of the world. The essence of a federation is the distribution of functions but no state can function independently if it does not have specified financial resources.

Though centre - state relations have undergone drastic changes in the post liberalisation period, but the tussle continues though in a new paradigm

¹⁰ Ahluwalia, Montek Singh. "Economic Performance of the States in the Post-Reforms Period." *EPW* May 6 (2000).

¹¹ Bajpai, Sacha and Martine, Ed. *India in the Era of Economic Reforms* OUP, p 121, (1999).

now. Even in this period of liberalisation states have still accused the centre of using its power inappropriately especially in the financial sphere. States are saying that even in this period of liberalisation we are not free to pursue our own path of development; the centre is still giving us directions.

The Constitution describes India as a Union of States. This was a deliberate decision on the part of the Constituent Assembly. The Union powers committee in its final report on the Constituent Assembly in August 1947, stated that “We are unanimously of the view that it would be injurious to the interest of the country to provide for a weak central authority which would be incapable of ensuring peace, of coordinating vital matters of common concern and of speaking effectively for a whole country in the international sphere”.¹² The main concern of the Assembly in regard to above point was the experience of partition that the country underwent at the time of independence. Therefore the Assembly strongly favored “A strong Centre”. This led to the centralization of authority at the centre which ultimately faced criticism from the states. The state argued that the centralizing tendencies have undermined the authority of the states and in effect has eroded the limited autonomy granted to them by the Constitution.

Statement of the Problem and Issues

Centre - state relations have always been contentious. States have argued that the centre has always infiltrated into the domains of the states. In the light of this some states had demanded radical restructuring of centre – state relations. Of these the state of West Bengal had been the most vocal in demanding the above. The broad issues encompassing the entire spectrum of centre – state relations may be specified as enlargement of the divisible pool, pattern of devolution, role of the finance commission, specific problems and

¹² CAD Proceedings, Vol-V, Part-I, 20th August 1947,

institutions and states indebtedness, market borrowing and sharing of capital resources.

West Bengal has persistently argued that it has faced the burnt of the discrimination from the centre in all spheres especially in the financial sphere. The discriminatory policies like licensing and freight equalization had hampered the industrial development in the state. The Left government of West Bengal has blamed the centre's discriminatory policies for the sorry state of industrial development in the state. Therefore it makes it very interesting to look upon how the centre-state relation between West Bengal the centre have fared and shaped in the present phase of liberalization.

The State of West Bengal has been under the rule of Left Front government. The Left front government in West Bengal has been in office for the last 30yrs, since it first came to power on 21st June 1977. The un-interrupted tenure of this government elected by the people of the state for 7 consecutive terms is a significant event in the history of world democracy. West Bengal has made significant strides in several directions over the last three decades. In these 30yrs the government of West Bengal initiated land reform measures. Major emphasis was placed on the re-distribution of ceiling surplus land among the land-less poor. The "Operation Barga" has been successfully implemented and the names of a large numbers of share croppers have been registered in the records of rights relating to agricultural land in the state. The West Bengal government during its first term concentrated on tenancy reforms. Through Operation Barga it aimed at improving the conditions of the bargadars. There was an effective acquisition of the ceiling surplus land and distribution of the same among the rural poor. All these measures were implemented through the panchayat's which were given a new lease of life under the Left front government. However significant strides made in the agricultural sectors with measures like land and tenancy reforms, nothing of that sorts could be achieved in industrial sector.

At the time of ascending to power the Left Front government inherited a state that had been in continuous economic decline since Independence. In the industrial sector in particular, West Bengal had lost its prominent position to other Indian states, especially to States in the Western and Southern India.

Scholars like Pederson have argued that the economic policy of the central government had systematically disfavored the state as a location for new industrial activities. In the highly state- controlled economic strategy adopted by the Indian government, most industrial investments required a license issued by the central government. This meant that being able to influence the government's policies became an important precondition for industrial growth. Most industries in West Bengal were old and controlled by outsiders (namely foreigners and Indian industrialists originating from other parts of the country) that did not have distinct incentives for acting on behalf of that state's interests.¹³

This placed West Bengal's government in a difficult position in the competition for industrial investments. Many industrialists accordingly located their new investments outside the state because of an industrial policy by the central government that favored those locations. Developments in the industrial sector that occurred in the years after the Left front government came to power did not give many grounds for optimism regarding the desired revival of industrial growth and expansion of employment opportunities.

By the early 1990s-after more than 13 years of Left front rule-it was evident that a sense of fatigue had set in. In various reviews of its own performance, the Left front government repeatedly emphasized that the unfair policies of the central government caused the weak performance in industrial

¹³ Pedersen, Jorgen Dige. *India's Industrial Dilemmas in West Bengal Asian Survey*, Vol. 41, No. 4. (Jul. - Aug., 2001)

production and employment. The government of West Bengal in the past has always accused the centre of neglecting the state. Due to the hostility between the centre and state, the Left government made its anti-centre stance on ideological plank in itself.¹⁴

When India's central government introduced the structural adjustment and liberalisation measures in 1991-92, the national CPI(M) came out strongly against what they describe as 'IMF dictated' economic policies. The West Bengal state committee of the CPI (M) was expected to launch strikes, protests and rallies against the centre's move towards liberalization of the Indian economy. Rather the state government like the other state's in India itself embarked on the path of liberalisation. The government announced a greater role for the private sector and more scope for the foreign investment. What followed the liberalisation of the economy was a series of institutional and administrative changes with discursive shifts in the way policies were framed in West Bengal.¹⁵

With changes brought by the centre the West Bengal government declared that this has thrown new opportunities for development in the state. In the 1990's two policy decisions of the central Government proved decisive for facilitating the process of industrialisation in the state of West Bengal. One was the abolition of license system which removed to a large extent the political leverage enjoyed by the central government for allocation of industrial investments in different states.¹⁶

The other policy that influenced the industrial development in the state was abrogation of freight equalization. The state government realized that with delicensing, industrial investment will flow in to the state, which was earlier

¹⁴ Sinha, Aseema. *The Regional Roots of Developmental Politics in India: A Divided Leviathan*. Indiana University Press. (2005).

¹⁵ Ibid.

¹⁶ Dasgupta, Sreemanta. *West Bengal and Industry: A Regional Perspective*. EPW, November 21, (1998)

restricted. Keeping in mind the new development that took place in the economy of the country, the West Bengal government in 1994, declared its industrial policy which emphasized the governments position, its outlook and attitude towards the private investment in the state.

The economic policy of the West Bengal government declared in 1994 stated that "the state Government welcomes foreign technology and investments, as may be appropriate, or mutually advantageous. It recognizes the importance and key role of the private sector in providing accelerated growth. While continuing to advocate a change in some important aspects of this New Economic Policy of the central government, we must take the fullest advantage of the withdrawal of the freight equalization policy on steel and the delicensing in respect of many industries."¹⁷ The new industrial policy no longer puts industrialization by cooperatives or by the public sector at center stage although it continues to push for the revival of "sick" public sector units. One of the arguments given by the Left front Government is that it can ensure better "labour peace" than any other state because of its close ties with the trade unions.¹⁸

The Left front government has recognized that in the present era one cannot turn its back on the forces of globalization.¹⁹ The government has admitted that it is bound to change its outlook seeing the conditions where market is dominated by the private investors and the role earlier played by the government has shrunk considerably.

In the wake of liberalisation new issues have come up which are confronting the federal relations today and further have brought about significant changes into the federal relations. The main aspect of my study is

¹⁷ As outlined in the Industrial policy of the Left Front Government brought out in September 1994.

¹⁸ *ibid*

¹⁹ Basu Nilotpal, Centre-State Relations. Three Decades of Struggle-New Context, New Challenges-II People's Democracy Vol. XXXI No.29 July22, 2007

the economic and financial relation between West Bengal and the centre in the liberalisation period. There are gamut of subjects and issues in the centre-state relations. Due to the limited scope of my study it was not desirable and feasible to cover all the issues. Therefore the main thrust of my area is regarding the economic and financial relations. West Bengal has always argued and demanded for the restructuring of the centre-state relations. In the sphere of fiscal federalism the state has always taken up the position especially in the pre-liberalisation period that the centre has always followed discriminatory policies towards the state, which was heightened with ascending of Left front in power in the state. But with the adoption of liberalisation policies the centre dismantled many of its policies like the freight equalization and licensing which had been vehemently criticized by the government on the notion that the centre has used it as a tool to discriminate the state. The Left raised the issue that how the above two policies were used to control the economic development of the state especially the industrial development.

The 1991 reforms finally unshackled the economy in a big way when the license permit- quota raj gave way to the LPG growth model --- Liberalization, Privatization and Globalization. Major reforms swept through the economy creating a profound impact on all facets of the nation ranging from the industries to the common masses. Many archaic laws were repealed, industries were given a fresh breath of life and tariff walls were broken down.²⁰

The issue of freight equalization and the licensing policy along with the issues like sharing of resources, functioning of FC, PC, NDC and the formation of ISC had dominated the economic and financial relation in the pre-liberalisation period. The West Bengal has argued that the policies pursued by the centre have led to the decline in the economy of the state. The liberalisation

²⁰Gupta Aditya, *How wrong has the Indian Left been about economic reforms? CCS Working Paper No. 171 Research Internship Program Centre for Civil Society p5, (2006) www.css.in*

period marked the gradual decline in the system of centralized planning giving way to market forces. In the advent of the liberalisation, it becomes important to review the centre-state relations in the country.

The area of my study is restricted to the study of economic and financial relations between the centre and state. What I intended to do in my work is to study how in the period of liberalisation the economic and financial relations have fared. The starting point of my work is the post-emergency period 1977 onwards. The first chapter of the dissertation is based on the period starting from 1977 to 1990. In this chapter I have focused on the aspect that how the relation between centre and the state of West Bengal fared specifically with the advent of Left front government in the state in 1977. This chapter will basically includes the study of the West Bengal government's memorandum on centre-state relations brought out in December 1977, the study of the Sarkaria Commission report 1988 along with the state government's views on the role played by the coordinating machinery.

In Chapter II have undertaken the study of the economic policies of the centre along with the state in the liberalisation period. This part will include the study of the changes brought about both the centre and the state in regard to the economic policies. This chapter will specifically focus on the views of the West Bengal governments, the Left leaders on the new economic policy of the centre. What justification the state government offered when it brought out its economic policy in 1994, along the lines of the centre when the Left has traditionally opposed the neo-liberal policies.

Continuing from the second chapter the third chapter will undertake the study of SEZs in India and West Bengal. The position taken by the Left leaders and the government of West Bengal on the enactment of SEZs Act in 2005. This chapter will further explore the controversy regarding the implementation SEZs in West Bengal in reference to the Case study of Nandigram and Singur.

The last chapter is based on the economic and financial relations between centre and the state. There is whole gamut of issues involved in the centre-state relations and since the scope of my study is limited therefore it was not possible to reflect and study all issues comprehensively as a result I have restricted my work to certain basic issues.

Review of Literature

India's experiment with federalism is unique in itself because of the sheer diversity in every aspect of country's life. India is a huge country with a number of cultural, linguistic and many more communities each distinct from the other. Therefore different perspective have emerged regarding the regarding the nature of the India federalism. The distinguishing features of the Indian federalism, makes it a classic example of "asymmetric federalism."²¹

According to Riker as a political solution federalism is the result of a political bargain in the situation which follows either the collapse of an empire or which seeks to strengthen enlarged political community while respecting and protecting the autonomy of the constituent units.

Over the years different perspectives have emerged regarding the nature of the Indian federalism. Both Bryce and Wheare have described the Indian federalism as a system of government in which the federal and the regional

²¹ Asymmetric federalism refers to the system in which the constituent units have different powers one or more of the states has considerably more autonomy than the other states, although they have the same constitutional status. For e.g. Art. 370, of the Indian Constitution makes special provisions for the state of Jammu and Kashmir as per its Instrument of Accession and Art. 371, makes special provisions for the states of Andhra Pradesh, Arunachal Pradesh, Assam, Goa, Mizoram, Manipur, Nagaland and Sikkim as per their accession or state-hood deals.

government both coordinate and are independent of each other. Granville Austin defined India as an example of “cooperative federalism”. Whereas W.H. - Morris Jones defined India as “bargaining federalism.” Rasheeduddin Khan describes India’s federal structure as centralized, dysfunctional, anachronistic union system. According to Bidyut Chakraborty the 1950 Constitution of India represented two contradictory tendencies. While the Constitution retained a central structure there was also opposing tendencies, which sought to justify federal governance as integral to India’s multicultural character. According to Douglas V. Verney the organizing principle of the Indian Constitution was Federalism. It is true that federation played a role, but federation simply meant the distribution of powers between centre and the states. The states in the past have often complained that the central policies were often ill adapted to their economic circumstances. Further states complained that there were numerous conditionalities attached to the funds and grants released by the centre. With changes in the economic setup, the federal relations also underwent change. The shift in economic paradigm brought new challenges at the forefront confronting the existing federal setup. Economic liberalisation impacted the federal relations in a big way.

According to Deepak Nayyar the liberalisation of the 1990’s was triggered by external debt crisis which brought India close to default. The manifestation of this crisis was by no means unusual. India had undergone a similar kind of crisis in the 60’ during Mrs. Indira Gandhi’s period but the crisis developed this time was much more deep and acute and called for a major restructuring of the Indian economy. The structural reforms implemented represented a break from the strategy adopted until then. The developmental strategy based on planned economy took a backseat, making way for the market economy. The changes brought by the reforms could be characterized as a shift in paradigm. Rahul Mukherjee and Bibek Debroy argue that contrary to popular perception the thrust or market friendly economy and liberalisation was not put forward by IMF or the World Bank rather it was articulated in the writings of

economists like Jagdish Bhagwati and in several government documents and committee reports like the Dagli committee.

Akhtar Majeed, argues that the liberalisation of the Indian economy and de-regulation have transformed the state from being a regulator to a facilitator. No doubt, even a federal state would have to regulate, but a facilitating state would regulate differently. It is in this contest that the issue of a supposed paradigm shift needs opening up that the issue of a supposed paradigm shift needs to be analyzed.

It is because of deregulation and opening up of the economy that chief ministers today are in a position to negotiate directly for foreign investment in their respective states. With changes in the economic setup, the federal relations also underwent change. The shift in economic paradigm brought new challenges at the forefront confronting the existing federal setup.

Saez argues that the reforms introduced or undertaken during the period of Indira Gandhi and Rajiv Gandhi were nominal and could not be considered to be more than mild preliminary steps at economic liberalization. Indira Gandhi and Rajiv Gandhi reforms were mainly targeted at reforming the domestic industries. A mere substantive set of economic liberalisation policies were enacted during the period of Narsimha Rao's government under the tutelage of then Finance Minister Shri Manmohan Singh. Further Saez argues that the economic liberalisation of 1990's have altered the structure of federal system in India. Lawrence Saez further points out that economic liberalisation of the 1990's did have an impact on the federal relations changing from inter-governmental cooperation towards inter-jurisdictional competition between states in India. Aseema Sinha in her work argued that marketization after 1991 was not a simple process of displacement from the public to the private sector

or from the state to the price-mediated markets, but also reordered the role of regional states vis-à-vis the center.²²

Rob Jenkins has argued that federalism facilitated the political sustainability of India's reform process displacing opposition to the state level. Many states saw in liberalization policies an opportunity to reassert their own regional agenda and extract further regional autonomy in development policy. Thus, states such as West Bengal, Andhra Pradesh, Tamil Nadu, and Madhya Pradesh sought to re-regulate economic reform for their regionally specific ends. This led to a commonly noted transformation in sub national roles. Scholars have characterized the federal relations in the pre-reform period as vertical while in the post reform period as horizontal.

In the pre-liberalization period, the primary mode of regional competition was vertical through the national state; now the primary mode is horizontal competition between the regional states themselves. This horizontal competition is more symmetric as it affects a wider set of states than before and encourages policy diffusion across many states. That changed competition has, nonetheless, affected the federal relationship between the center and states in distinct and significant ways which may be irreversible.²³ While liberalisation has impinged upon the resources of the states, it has brought about an undesirable enhancement of their powers in certain other areas: Now states are relatively freer to deal directly with the multinationals. And the race is now on, between different Chief Ministers. The centre – state relations acquired a new dimension with the implementation of new economic policy in 1991.

²² Sinha, Aseema "From State to Market—via the State Governments: Horizontal Competition after 1991 in India," Paper presented at the Association of Asian Studies, Annual Meeting, Boston, March 11–14, 1999 and also in *The Changing Political Economy of Federalism in India: A Historical Institutional Approach India Review*, vol. 3, no. 1, January 2004, pp. 25–63

²³ Rao and Singh, *Federalism in India* Art. cit (2001)

With the rise of different political parties the contours of federal relations have changed. In the present period of liberalisation we see centre's authority is decreased considerably whereas of states has increased. The Economic liberalisation changed not only economic set up of the country it for all also change the federal relations forever. The reliance upon centre has declined. New issues have come up in the federal relations which are further posing as a challenge to the center – state relations. It is indeed interesting to seek what are the changes brought about in the centre- state relations with the ushering of the liberalisation. At one hand we come across the retreating of centre and on the other we see resurgence of states for e.g. like West Bengal, Gujarat, Tamil Nadu etc.

From the very beginning West Bengal had an uneasy relation with central government. The state government had been in the past very critical about the way centre exerted its influence over the subjects considered to be in the domain of the centre. Till the liberalisation it had accused the centre for discrimination especially in matters related to industrial development in the state. What would be interesting to dwell upon is that has this uneasy relation between the centre and the state decreased or the new issues brought forth by the forces of liberalisation has aggravated the earlier issues.

Chapter I: Major Sign Posts in Centre-State relations from 1977 to 1990

The relations between the central government and the state governments in a federal system are usually marked by continuing controversy. In spite of the existence of a Constitutional – legal frame work, these relations are seldom in a static equilibrium. As the demands on the political system increase and its capability to respond changes, the balance of power shifts and the system strives to respond changes, the balance of power shifts and the system strives to find a new equilibrium.²⁴

Federalism in India has a strong social base but weak institutional articulation. The congress, which had committed to securing more powers for the provinces in pre-independence politics, dramatically reversed its position in the change historical context, as the need for power sharing devices was subordinated to the imperatives of state security and stability.²⁵

The years 1967 as well as 1977 were definitely a turning point in the federal relations in India. The fourth general elections held in 1967, saw the rise of a number of regional parties and breaking down of the Congress domination at the state level, these regional parties posed a great challenge to the central government. Before 1967 any differences between centre and state were resolved at the party level, due to the dominance of one party both at the centre and state. The fourth general elections saw the rise of multiparty system in India thereby changing the contours of federal relations in India. The centre - state conflict could no longer be resolved within the closed walls of the party office rather the confrontation between the centre and the states burst out in the

²⁴ Maheshwari, B.L Ed. Center-State Relations in the Seventies p 1. (1973).

²⁵ Arora, Balveer and Nirmal Mukherjee (Ed.) Federalism in India-Origin and Development p 7. (1992)

open. The year 1977 saw the coming up of non-Congress government at the centre. The period from 1977 till about 1989-1990 was a period marked with significant changes which ultimately impacted the entire Indian political system. This period saw the rise of coalition government at the central level which ultimately became a more permanent feature since 1989. This development was accompanied with rise of a no of regional parties, ascending of Left front to power in West Bengal in 1977, adoption of policies of liberalisation and giving up of the centralized planning system which dominated the Indian economy since its inception in 1950.

In the light of the above developments the question relating to the centre-state relations gained importance. The demands for re-structuring of centre- state relations were vocally and openly raised after the 1967 elections when Congress lost powers in many states in India. The DMK in Tamil Nadu, the Left in West Bengal strongly demanded the restructuring of centre –state relations.

The conflict mainly centered around three issues political, legislative and financial. With the emergence of a number of regional parties suddenly the use of President's rule under article 356 increased making States raising their voices in concern over the misuse of this article. Before 1967, the article 356 came into use rarely, but the picture changed after 1967. The states alleged that in the garb of breaking down of constitutional machinery in the state the centre is using it as a tool against the states. Also, the role played by the Governors attracted criticism from all quarters. A Governor is the appointee of the President but the states have alleged that the in actual the Governor behave as representative of the centre. States have unanimously complained that the centre has not shared the resources with them in the true spirit of the Constitution. Over the years the responsibilities of the states have increased enormously but resources to carry out them has not increased. As a result the states are totally dependent on the centre for resource mobilization.

Centre-state relation has undergone a qualitative change in West Bengal since Independence. From the very onset, it was never free from conflict and most of the time fraught with tensions. First three decades after Independence was the period of consensus and non-antagonism owing to the existence of one Party system.²⁶ For the first time, pre-existing tensions in the area of centre-state relations became an issue of political mobilization which was a clear shift from the earlier period. Instead of remaining confined to the operational aspects of federal fiscal relations it started questioning the structural mould of the Indian federation.²⁷ This change can be attributed to the changing political situation in the country since 1967 – the breaking up of the one-party dominance both at the state and centre, emergence of no. of regional parties, the proclamation of emergency, emergence of coalition government at the centre.

West Bengal has maintained that it had been subjected to deliberate discrimination by the centre and the centrally controlled financial institutions compared to the other richer states in terms of some economic indicators due to its political opposition. This according to the Left Front government is the main cause for relative economic underdevelopment in West Bengal.²⁸

The West Bengal government soon after coming to power demanded radical restructuring of the centre-state relations. With the coming of the Left front government in 1977, the intensity of the confrontation between the centre and state scaled new heights. Soon after ascending to the office the Left government came out with scathing attacks on the centre for the slump in the development especially industrial development in the state. The Left Parties to

²⁶ Sathyamurthy, T.V, 'Impact of Centre-State Relations on Indian Politics An Interpretative Reckoning 1947-87', EPW, September p.2133- 2135, (1989)

²⁷ Ray, Amal, "*Political Dynamics of India's Federalism: West Bengal's Experience*" in B.L Maheshwari, (ed.) *Centre-State Relations in the Seventies*, Minerva Associates, Calcutta, 1973,

²⁸ This view was expressed openly by the Left leaders in rallies, party congress meets etc. Also see Basu, K, *West Bengal Economy Past Present and Future*, Firma KLM, Pvt. Ltd., Calcutta, (1989).

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a certain extent blamed the lopsided nature of the centre-state relation for the poor economic performance since independence. Further it states that the present format of economic and financial administration in the country is highly centralized. The centre has been endowed with maximum amount of resources which has strengthened its authoritarian attitude. The Left government argued that the reason behind the decline of industries in West Bengal was due to the discriminatory policies of the centre. The West Bengal has argued that the limited autonomy granted the states by the constitution have been eroded and undermined by the centre.

The CPI (M) maintains that the centre from the beginning has made inroads into the state's autonomy, not only in the field of finance and economy but also in the legislative and the executive. The party further argues that the centre has been abrogating and eroding the powers of the states. This kind of centre's nature is not by any accident. The framers of the Constitution while drafting it were concerned by the happenings of that period like the partition therefore to keep the country like India which is enormously big and diverse together it was necessary to invest the centre with enormous powers. But the framers also gave some space to the states as well but this has not been maintained in its true sense. The centre with its overriding power has been able to infiltrate into the States domain hampering the limited autonomy enjoyed by the states.²⁹ West Bengal government has persistently maintained being in a federal setup the states in India are not free to pursue their own path of development. If the reforms have opened up new opportunities it has also brought constraints on the states.

This chapter traces the development of centre – state relations since 1977 to 1990. My study includes the study of the West Bengal government's memorandum on the centre-state relations brought out in December 1977, the

²⁹The West Bengal Memorandum on Centre – State relations adopted by the West Bengal Cabinet on December 1, 1977. Nehru Memorial Library, Teen Murti, New Delhi

Sarkaria Commission report and the submission made by the West Bengal government to the Commission along with West Bengal government's views on the coordination machinery and distribution of resources. This chapter will also take into account briefly the views presented by the West Bengal government on centre-state relations at Srinagar conclave held in 1983.

1977 Memorandum by the West Bengal Government on Centre–State Relations

The West Bengal was one of the leading states to demand radical restructuring of centre – state relations. Therefore in 1977 soon after assuming power the West Bengal government brought a memorandum on Centre – State relations in India. The document on centre-state relations submitted by the West Bengal government in December 1977 contains elaborate and exhaustive views of the state government on the demand for more powers to the states and the need for a more meaningful federal set up without affecting the unity of the nation.

The West Bengal Government Document on centre – state relations adopted in its cabinet meeting in December 1977 demanded a thorough revision of the centre – state relations with suitable amendments in the articles concerning the distribution of resources between the Union and the states. The underlying concern in the document was to bring out the State from the position of dependence and subordination to the centre. The document emphasized on a larger role and a larger share of the state government in power and authority. The memorandum suggested that the jurisdiction of the centre should be restricted to defence, foreign affairs, including foreign trade currency and communications and economic co-ordination. The Memorandum called for a restriction in the jurisdiction of the centre to defence, foreign affairs, the rest of

the subject including those in the concurrent list should be under the purview of the states exclusively.³⁰

The memorandum pointed out that the subjects besides defence, foreign relations, currency and communications should be transferred to the State list along with subjects in the Concurrent list. For this necessary amendments should be made in the constitution so that the centre may not interfere into the working of states. Further the documents states that the central reserve police, the border security forces, the industrial security force or any other police force, the central government may raise would have no right to operate in the state. The document suggested that the at least 75% of the total revenue raised by the centre should be dispersed by the FC to different States.³¹ The Memorandum stated that “the role of the centre should be of coordination. In areas such as planning, fixing of price wages etc., the centre may not only coordinate but also give directions. But it makes explicitly clear that regard to economic planning and economic coordination the centre have to be bound by the guidelines laid down by the NDC and further the composition of the PC itself will be determined by the NDC.

States have always criticized the role played by the PC. The West Bengal government repeatedly asked for the decrease in the role played by the PC. It’s argued that the centre has used it against the state governments. The main points advocated by the memorandum are as follows:³²

- ❖ It recommended amendment of the Constitution to include the word ‘federal’ and the word “Union” to be replaced by the expression “federation” in all places. It can be argued that this point stems out from the fact though the makers of the India Constitution adopted a

³⁰ Ibid

³¹ Ibid.

³² Ibid.

federal structure for the country but no where do we find the use of the term federal or federation.

- ❖ The document recommended the amendment of the Art. 248 to ensure complete control of the state legislature on the subjects not included in the Union or Concurrent list. In other words it recommended the placing of the residuary subjects within the jurisdiction of the states and not the Union.
- ❖ The memorandum emphasized that the Union's jurisdiction should be restricted to the subjects like defence, foreign affairs, economic coordination and currency. This will enlarge the scope of states spheres. The role of the Union should be of coordination.
- ❖ In matters pertaining to planning and economic coordination the Union must conform to the guidelines laid down by the NDC, which will have the representation of all the states.
- ❖ The Memorandum made major recommendation in regard to the industrial licensing. It stated that the items relating to industries in the three lists of the seventh schedule should be modified in such a manner that it gives exclusive powers in respect of certain categories of industries.
- ❖ 75% of the total revenue raised by the centre should be given to the states and the FC should decide on the principles on which the allocable revenue is to be divided among the states. It also recommended the amendment of the Art. 280 clause(3) (a)
- ❖ centre's right to tax property and the income of the states in so far as such property is used for or income arises from trade or business of states, as enumerated in Art.289 (2) and (3) should be dispensed with.
- ❖ The composition of the Rajya Sabha (Council of States) should be altered to effect that its members should be directly elected as in the case of the house of the people and each should have an equal representation.

- ❖ It demanded for the deletion of the Art. 302 which empowers the Union to restrict trade and commerce in a state.

The document laid stress upon the fact that the remedy for the main obstacle to development lay in a radical restructuring of the centre-state relations especially in regard to the existing fiscal arrangements and the existing powers of taxation. It also recommended that the deletion of Art. 257-A which empowers the centre to deploy para-military forces in the states without the consent of the states. This Art was incorporated into the Constitution by the 42nd Amendment Act. The subjects of law and order are part of the state' dominion and centre should not interfere in to it. ³³

The document advocated that the lists in the 7th schedule should be reformulated so that the states may have exclusive powers in respect to certain categories like industries. It also demanded that the central reserve police should remain away from the state. It preferred Art. 200, 201, 249 and 356, 357 and 360 from the Constitution and recommended that residuary powers should be vested in states. Jyoti Basu during his tenure as the chief minister of West Bengal criticizes and blamed the centre, holding it responsible for the industrial decline in the state. The state had referred explicitly to the discrimination by the centre in the matters of assistance from financial institutions and in industrial licensing. To depend on loans and grants for the centre would give them excuse or their inefficiency that can always plead that lack of finances came in the way of development.

The Memorandum emphasized that though the Government of West Bengal wanted more powers to be given to the states but at the same time the memorandum clearly stated that it does not want a weak Centre. The West Bengal government in the memorandum claimed that it does not favor a weak

³³ Tiwari O.P. *Federalism and Centre-State Relations in India:- Towards a New Era of Mutual Cooperation* Deep and Deep Publication Delhi, p 291. (1996)

centre and that the concept of strong centre does not necessarily contradicts with the concept of strong centre provided their respective authority are clearly marked.³⁴

The political resolution adopted at the 10th party Congress of the CPI (M) held in January 1978, at Jullundhar, stated that “emergency raised the question of the powers of the states in the sharpest possible manner. It showed that the Centre had concentrated enormous powers in its hands making the states into mere appendages.³⁵ Dinen Bhattacharya in the Lok Sabha said “for every thing the state government has to depend on the mercy of the centre. In the circumstances, the federal structure of our country has been reduced to a farce, and the central government has acquired for itself authoritarian power which was legacy of the Congress government.³⁶

Submission before the Sarkaria Commission

The period after the fourth general election in 1967, especially in the 70's and 80's witnessed the growing hostilities between the centre and state. The level of confrontation scaled new heights with states like Wes Bengal and Tamil Nadu demanding radical restructuring of the centre - state relations. With growing pressure form the states the Congress government in 1983 appointed the Sarkaria Commission in 1983. The Commission was formally constituted per Government of India, Ministry of Home Affairs Notification No. IV/11017/1/83-CSR, dated June 9, 1983. Subsequently, two more members

³⁴ The West Bengal *Memorandum on Centre – State* Opcit.

³⁵ For details see document on the 10th party congress of the CPI (M) held at Jullundhar April 2-8 1978. *People's Democracy*, CPI (M) office A.K.Gopalan Bhavan New Delhi

³⁶ For details see Dinen Bhattacharya's *Lok Sabha speech, People's Democracy* Vol. II, No.13, March 26, 1978 Opcit.

were inducted. Shri B. Sivaraman was appointed on July 7, 1983 and Dr. S. R. Sen on July 27, 1983.³⁷

The Commission examined and reviewed the working of the existing arrangements between the Union and states in regard to powers, functions and responsibilities in all spheres and made recommendations. In examining and reviewing the working of the existing arrangements between the Union and states and making recommendations as to the changes and measures needed, the Commission keep in view the "social and economic developments that have taken place over the years and have due regard to the scheme and frame-work of the Constitution which the founding fathers have so sedulously designed to protect the independence and ensure the unity and integrity of the country which is of paramount importance for promoting the welfare of the people".³⁸

The West Bengal government in its submission before the Sarkaria commission suggested the abolition of or amendment of article 249 (concerning power of Parliament to legislate with respect to matters in the State list in the national interest) and also article 252 relating to Parliaments power to make laws for state.³⁹ The centre has the overriding powers with regard to the most of the provisions of the Constitution. In the field of the Concurrent list the centre has the most powers which do not leave much scope for the states. The centre indiscriminately makes decision on the subjects enumerated in the Concurrent list on the notion of public interest or national importance. The subjects mentioned in the Concurrent list are invariably linked with the subjects mentioned in the state list. As a result this move by the centre encroaches upon the states legislative powers. It was pointed out to the Commission that mostly decisions in regard to the subjects in the Concurrent list are taken without any proper or no consultation with the states at all.⁴⁰

³⁷ *Sarkaria Commission Report on the Centre-State Relations Introduction Vol.-I p 1, 1988*

³⁸ *Ibid.*

³⁹ *Sarkaria Commission Report Opcit Vol.-I*

⁴⁰ *Ibid.*

The state government argued that there is a tendency of strong centralization by the centre. The have Constitution is tilted towards the centre and this creates imbalance therefore it requires immediate restructuring. There were suggestions for drastic changes in the constitution regard to the distribution of powers between centre and states. The Constitution has assigned wide responsibilities to the states like building up social and industrial infrastructure, rural development, education, medical and many more. Apart from this the non developmental activities also require a substantial part of the expenditure from the state. But the resources available to the states or tending the above activities are very scanty; therefore the states are heavily dependent on the centre for financial assistance.⁴¹

Therefore it was commented that in order to enhance their financial powers their power to taxation should be increased.⁴² States in general have suggested to the enlargement of the divisible pool so that more resources may earmarked for the states. The pattern of resource devolution has been a complex issue as far as states are concerned. The federal transfers are affected through FC, PC and the Ministry of finance. It has been maintained that only statutory transfers i.e., through FC, were envisaged by the Constitution whereas, rest of the transfers under Article 282 were intended to be a sort of residuary. Over the years, discretionary transfers have dominated statutory transfers, thereby, distorting the Constitutional scheme.⁴³

The West Bengal government recommended the Commission that the President should take decision under article 201 within a period of six months from the date of receipt of the bill concerned by the Centre and that in case the bill was passed by the state legislature on its return from the President, it should automatically become a law. Further the West Bengal government suggested that the ISC to be set up under article 236 of the Constitution and should be

⁴¹ ibid pg 369

⁴² ibid pg 368

⁴³ ibid. pg 372

able to offer its views on the state bills referred to the President for his consideration and that the president should be guided by the advice of the ISC

The state government contended that the Constitution is tilted in favor of the centre and this needs rectification by restructuring of the present form of the centre – state relation. The State government also asked for the exclusion of certain clauses and word from the Article 246 and 254 which gave the centre an upper hand in matters of Legislative relations over the states. The government in its submission suggested that the residuary powers should be vested in the states. Further the government suggested that all the items in the Concurrent list should be transferred in to the State list. In regard to the fiscal aspect the State government in its submission suggested that the states power of taxation should be enlarged. Further taxing powers on those items which are levied by the centre but appropriated by the states should be transferred into the State list. Suggestion was given that states should be given shares from the total tax revenues of the Union. Also that the percentage share of the states should be incorporated in to the Constitution. The state government argued that the role of the FC should be enhanced. Also it demanded that there should representation of states in the FC since it was felt that unless states are properly represented in the Commission their voices won't be heard properly and their concerns won't be addressed properly.⁴⁴

Regarding its grievance over the industrial development in the state, the state government stated that the industrial policy resolution of 1948, 1956, industries development and regulation act, 1951, and others have shaped structure of industrial setup in the country. Further it was noted that state government complained that all these acts IDR act, licensing policy, location of central public interest sector projects, freight equalization policy etc has been used against it. The subject industries has been enumerated as entry 24 in list II, this is subject to entry 7 in list I which provides that industries declared by

⁴⁴ *Sarkaria Commission Report on the Centre-State Relations Vol.- II 1988*

parliament by law to be necessary for the purpose of defence or for the persecution of wars.⁴⁵ In the area regarding to industrial development there is an involvement of the Union, the states and Private Entrepreneurs which leads to overlapping in areas of operation. The IDR Act of 1951, brought under the union control the development and regulation of a number of important industries which were deemed expedient in public interest. Thus, direct investment, licensing, regulation all were added under the purview of centre. The IDR Act of 1951, bestowed the centre with overriding powers with regard to a number of industries. The licensing policy gave centre the control on setting up of new industries. States have complained that the IDR Act of 1951 has been used by the centre in such a fashion that it has acquires near full control over the industries. The Sarkaria Commission in its report did suggested that in the context of undue delays in industrial approvals, a useful corrective may be to appoint an “Empowered Committee” for taking final decisions, subject to a sort of ‘sun-set’ rule that if any link or agency does not give its comments by the due date, the Committee will take a final decision without waiting for it.⁴⁶

Sarkaria Commission in its report did not suggest any fundamental changes to the structure of federal relations. Though it noted carefully that indeed in some matters there was an urgent need to remodel some of the aspects in the federal relations. The Commission in its report did suggest that the centre was indeed enjoying more powers than states and it led to conflicts between two sets of government. It further agreed that the centre tends to over centralize thereby making inroads into the states sphere. Therefore the Commission in its report did suggested decentralization of powers.

At the Srinagar conclave held in 1983 the CPI (M) in its statement on the centre-state relations that there is a growing alienation between centre and

⁴⁵ *Sarkaria Commission Report*, Opcit p 409

⁴⁶ *Ibid.* p 410

states. This is due to the constant erosion of the powers of the states. The centre decides the amounts of the public borrowings to be done by the states: it monopolizes available revenues thus making the states virtually dependent on the centre. Over the years the concentration of the political and economic powers at the hands of the centre is increasing. In the present setup when the states are ruled by no. of different political parties it becomes all the more important and necessary to address the issue of centre-state relations. Most of the proposals made by the party at the conclave were similar to the issues brought out in the memorandum on centre-state relations in 1977 by the West Bengal Government in December 1977.⁴⁷

According to E.M.S. Namboodripad that a large sized multinational state like India “cannot remain strong and stable unless the widest democracy and fullest autonomy for the constituent parts are guaranteed”. This position has been consistently taken by the party on the floor of the Parliament. The party works for the preservation and promotion of the unity of the Indian Union on the basis of the real equation and autonomy for the different nationalities that inhabit the country and to develop a democratic state structure as outlined in a series of proposals for re-constructing the Constitutional structure of the country.⁴⁸

West Bengal Government and the Coordination Machinery

There are in the Constitution provisions regarding the establishment of institutions whose sole purpose is to establish cordial relation between centre and the state by ironing out the conflicts arose through mutual dialogue. The West Bengal government has always demanded a greater role for the FC. The West Bengal government demanded that the 75% of the total revenue should be

⁴⁷ Sahni Sati, *Centre-State relations*, (Ed.) Vikas Publishing House New Delhi p. 27-31, (1984)

⁴⁸ Namboodripad E.M.S *Centre-State relations-Comprehensive Changes Required People's Democracy* p 1, April 3, 1983, Op. cit

allocated to all states by the FC.⁴⁹ The West Bengal government has argued that both PC and FC have ignored West Bengal while distributing and devolving funds to states. The central government appoints the FC. The Left Front of West Bengal argues that its composition, powers and functions are open to question. It has not made any material difference to the centre-state relations over the question of resources. The FC is constituted to define financial relations between the Center and the States. Under the provision of Art. 280 of the constitution, the President appoints a FC for the specific purpose of devolution of non-plan revenue resources. The FC came into existence in 1951. It is established under Art. 280 of the Indian Constitution of by the President of India. The FC is a Constitutional, statutory, ad hoc body appointed by the President every five years or so with specific terms of reference. It has no continuity and does not have any other functions.

The main responsibilities or the functions of the Indian Finance Commission are as follows:⁵⁰

- ❖ Distribution of the income of the government (including Central and State governments) as per proportion or according to the contribution made towards such collection of revenues by each such State governments or Central government
- ❖ Define the grounds on which the government should allocate the grants-in-aid of the revenues of the Indian states out of the consolidated fund of India. The quantum of allocation of such funds needs to compliment the requirements of the panchayat and resource of the Consolidated Fund of a state. The quantum of allocation of such funds needs to compliment the requirements of the Municipalities in the State and the resources of the FC of the state.
- ❖ Any other matter referred to the Commission by the President in the interests of sound finance.

⁴⁹ Memorandum on Centre-State Relations OpCit

⁵⁰ www.fincomindia.nic.in

- ❖ The FC of India shall also determine the operational process and is vested with such powers in the operation as per the provisions enacted by the parliament of India.

The Left government is of the view that the FC should have the power to decide upon the additional resources among the various states. The President should consult the states before deciding upon the composition of the FC.⁵¹ A basic problem with the FC is that the views expressed by the states are never taken into account seriously, while determining the terms of reference of the Commission. All the members of the FC are nominated by the centre and representatives of the states are never included. The same view was expressed regarding the ISC. The role played by the FC is technically advisory.

The FC was envisaged in the Constitution as the key institution responsible for dealing with fiscal imbalances between the center and states, as well as among the states. Instead, its role has been circumscribed by the working of the PC, which has typically been put outside the FC's terms of reference. Furthermore, as PC transfers became formulaic, there has been a tendency to move toward using discretionary grants determined by the central ministries. Thus, the overall tendency seems to have been for the central government to try to exercise as much political control as possible over transfers to the states. Also, within each channel for transfers, there has been anecdotal evidence that there are attempts to influence the outcomes of the process.

The mechanism of federal transfers through FC was designed to correct not only "vertical imbalances" but "horizontal imbalances" i.e. the sharp disparities in the scale and level of public services among the states resulting from difference in their economic structure and level of development. While

⁵¹ *Sarkaria Commission Report* Vol. II Op. cit

these arrangements have provided a flexible mechanism for the operation of fiscal federalism, there is a widespread feeling that they have proved inadequate and what is more, there has been a trend towards greater centralization and dependence of the states on the centre than is conducive to the good federal governance in a country like India. Apart from the political environment, factors which appear to have generated this feeling mainly are:⁵²

- ❖ Growing dependence of the states on the centre for financial resources and accentuation of vertical imbalance;
- ❖ Devolution of federal funds through non- statutory channels;
- ❖ Encroachment by the centre into the states' spheres via the use of concurrent powers especially since the adoption of planning and on the states' powers of taxation in various ways;
- ❖ Narrowness of the base of taxes coming within the jurisdiction of the states and exclusion of heads like corporation tax from the sharable pool;
- ❖ Reluctance on the part of the centre to levy and collect taxes which were meant for the state under Articles 268 and 269 of the constitution;
- ❖ Tendency on the part of the centre to avoid raising more revenue from taxes proceeds which are sharable (like personal income tax) and turn more to those which do not go to the divisible pool (like surcharge on income tax, corporation tax and administered prices);
- ❖ And concentration of powers of borrowing and control over banking and capital market in the centre.

With the centralized development planning gaining focus, PC gained in importance as a dispenser of both grants and loans. Thus, the scope of the FC has been confined to examining the non-plan requirements of the States and providing transfers to meet these requirements and PC has been assigned to deal with the plan requirements. The PC is not a constitutional body; the

⁵² Bagchi, Amaresh. Tapas Sen and V. B. Tulasidhar. *Issues before Ninth Finance Commission*, EPW, Vol. 23, No. 19 (May 7, 1988).

Constitution of India does not mention a single word about the setting up of the PC. But the irony of the matters is that despite being a non Constitutional body it certainly exercises more powers compare to the constitutional bodies like the FC, ISC etc. The grants made by the PC discretionary and political. They are determined by the process of bargaining between the centre and each of the states concerned. Initially the FC was supposed to make all the intended financial transfers from the centre to the state under articles 269, 272, 275 and 282. The scope of the FC is limited to giving financial assistance to the states for non-plan expenditure only The emergence of the PC and its ever increasing sweep of economic and financial responsibilities have disturbed the original scheme and the federal financial relations have assumed new dimensions. The size of the transfers of central resources to PC has become very large and such transfers are made under Art. 282 where executive and discretionary actors operate. All the state governments vie with each with other in getting their plans approved by the PC.

The ISC was established under Article 263 of the Constitution of India through a Presidential Order in 1990. The Council is headed by the Prime Minister and Chief Ministers of all the States/Union Territories, as also six Union Ministers of Cabinet rank are its Members. The council investigates and discusses any subject of common or general interest to the States and the Union, and to make recommendations thereof

The functions of the ISC are: ⁵³

- ❖ Inquiring into and advising upon disputes which may have arisen between states;
- ❖ Investigating and discussing subjects in which some or all of the states, or the Union and one or more of the states, have a common interest; or

⁵³ www.interstatecouncil.nic.in

- ❖ Making recommendations upon any such subject and in particular, recommendations for the better co-ordination of policy and action with respect to that subject,

As an advisory body, the council may inquire into disputes that "have arisen between States"; investigate and discuss subjects "in which some or all of the states, or the Union and one or more of the states, have a common interest"; or recommend better coordination of policy and action on any subject necessitating interaction between the Union and the states.

The West Bengal government had stated that the role of the PC and NDC should be reappraised. West Bengal Government has always been highly critical of the role played by the PC in allocation of resources. The PC has become an appendage of the Centre with no mind of its own. It has no constitutional sanction nor does it have any statutory sanctions. It further argued that the PC cannot access the objectively the needs of the individual states. The West Bengal government considers NDC to be a supreme policy making body concerning problems of social and economic development. This body does not have a constitutional sanction behind it. It is in fact, a non-functioning apparatus, as it has not been carrying on any serious activities and is unable to take a substantive decision. The crucial issues for the development of respective states do not have any scope for discussion in the council. It was suggested that to avoid centre's domination the PC should be converted into a full time secretariat of the centre and the states. NDC and PC: The NDC should be granted Constitutional status. The PC should act as an executive wing of the NDC.

The West Bengal government as well as some other state governments also commented that the functioning of the ISC did not rise up to the expectations of the states. Despite the Council arriving at several decisions regarding implementation of the Sarkaria Commission's recommendations,

they have not been implemented by the Union Government. The decisions of the ISC therefore have to be made binding on the Union Government, through appropriate Constitutional amendment. All major issues involving centre-state relations, including legislations under the Concurrent List, have to be discussed and decided by the ISC. The schedule of meetings of the Council as well as the Standing Committee of the Council has to be made mandatory. The ISC should mandatorily meet twice a year. The Secretariat of the ISC should have better representation from the states.

West Bengal's Position Regarding the Constraints on State's arising from the Distribution of Resources

An important feature of federal relations is revenue sharing between the Union and the states. There is a clear vertical imbalance between the powers of taxation assigned to the Union and the states and the social and economic responsibilities assigned to the states. That is, the states' responsibilities exceed their own-source revenues. But, the FC, the PC, and the NDC provide mechanisms for periodically correcting this imbalance and for allowing the states to better discharge their responsibilities in a much better way. These forums cater to the grievances of the states, which they redress to the extent possible.

Having provided for a certain division of powers of taxation between the Union and the states, the Constitution gives the states a share in the resources available to the center. Any amendment of the lists from the Union and the States derive their power of taxation is covered by the Provision to Art. 368. This requires ratification by the Legislatures of not less than one half of the states. On the other hand, if any provisions of the Part XII are to be amended, this can be done under Art. 368(2), which requires the approval of only half of the members of each house of the Parliament. This means that the share of the Union resources that the states are entitled to, can be altered by

Parliament by its power of amendment. The lists enumerated in the Constitution includes the powers of taxation also. The Union List includes among others, taxes on income other than agricultural income, excise duties, customs and corporation tax. The state list includes land revenue, excise on Alcoholic liquors, tax on agricultural incomes, estate duty, taxes on sale or purchase of goods, taxes on vehicles, on professions, on luxuries, on entertainment, on stamp duties, etc. the concurrent list does not include any important taxes.

The distribution of resources between centre and the state follows as:

- ❖ The taxes levied by the Union but collected and retained by the states.
- ❖ Taxes levied and collected by the union but whose proceeds are given over to the states.
- ❖ Taxes levied and collected by the Union but whose proceeds are shared between both Union and the states.
- ❖ Taxes which are levied and collected by the government of India but whose proceeds may be distributed among the states in accordance with such principle as may be formulated by the Union.

Grant-in-aids: Besides the above sources of the revenues the Constitution provides for certain grants-in-aids of the states from the Union fund. The Parliament determines the need of each states.⁵⁴

The Union levies and collects the proceeds on items out of receipts the states are given revenues. The Constitution provides that the distribution between the Union and the states of the net proceeds of taxes that are to be divided between them, and the allocation between states of the respective shares of such proceeds, shall be done on the recommendations of a FC that is appointed by the president every five years. The Commission also recommends

⁵⁴ Basu, D.D, Introduction to the Constitution of India. Prentice Hall of India Pvt. Ltd. p. 321 (2007)

the principles that should govern grants-in-aid to the states. The grants are both a means to assist development schemes in states lacking adequate financial resources and an instrument to exercise control and coordination over the states' welfare schemes.

Summing up

States have been highly critical of the way distribution of resources takes place between the centre and states. The Constitution gives more powers to the centre in regard to the mobilization of resources. The centre has almost full control over the mobilization of resources. This again places the state a very vulnerable position compared to the centre. The states are entrusted with huge responsibilities but little power to mobilize effective resources them. This has created dependence of states on the centre. States have alleged that centre does not share revenues with them as a result they are unable to carry out their responsibilities properly. Further this constraints states activity hampering their developmental prospects. The disbalance created with the distribution improper distribution of resources works as constraints on the states.

States don't have proper resources to carry out functions and responsibilities entrusted by the Constitution. The major sources of the revenue are exclusively under control of the centre. The states have voiced that they have been denied share from major revenue sources. The central assistance like the grant-in-aids, discretionary grants and the states share in the income tax receipts of the centre are inadequate. The West Bengal government stated that the present pitfalls in the financial relation cannot be corrected within the present setup. Control of the centre over the borrowing powers of the state governments is also subject to limitations imposed by the Union government. A state can only borrow within India and cannot raise a new loan without the consent of the Union Government. Over the years there has been an increase in the revenues of the states but with that its dependence on the Centre has also increased. In its

submission before the Sarkaria Commission the West Bengal government complained that the decisions related to the allocation of the resources were mainly concentrated into hands of centre. The states had to lobby hard for location of industries and also for the allocation of the resources. Further it complained of discrimination from the centre. The West Bengal emphasized that the necessary amendments should be made to give FC more powers regarding distribution of resources. And the more over 75% of the total revenue should be transferred to the states through FC.⁵⁵ In its Memorandum on centre – state relations the West Bengal government emphasized the states must be given more powers regarding imposing of taxes on their own and also to determine the limits of public borrowing in their respective case.

The relation between the centre and West Bengal have been marked with tensions. During the period of B.C.Roy the demand generally revolved around areas like planning, location of industries, finance, mines and minerals. At times, certain intensity was generated in centre-state relations, but it was not allowed to spill over into agitational politics.⁵⁶ This change started to manifest itself after the UF government took power in the state in 1967 thereby dislodging the Congress government for the first time since 1947. Under the UF the style of bargaining between the centre and the state underwent a serious change. What emerged out of it was that conflict or the problems which were till then were solved amicably spilled out in open. The tension between the centre and the state rocketed to a new level with the coming of Left front government in 1977.

⁵⁵ The Memorandum Opcit pt.9

⁵⁶ Mishra, Bhavana. Politics of opposition and Union-state relations. Anmol Publishers Pvt. Ltd. p 131. (2000)

Chapter - II Changes in Policy Orientation: From anti capitalist to pro-capital

The period from late 1980's to early 1990's witnessed a sharp change in the overall economic setup which had a profound impact on the political system of the country. This period saw the strengthening of regional parties at the national level with rise of coalition politics at the centre, the introduction the policy of liberalisation, rise of the hindutva politics etc. The change brought about in the economic policies presented a sharp departure from the policies pursued since the independence i.e. the policy of centralized planning. Being a federal country the states in India are not independent to pursue their own course. In the period before liberalisation the centre controlled and directed the course of economic development in each state.

The economic liberalization in India refers to ongoing reforms in India. After Independence in 1947, India adhered to socialist policies. The extensive regulation was sarcastically dubbed as the "License Raj"; the slow growth rate was named the "Hindu rate of growth". In the 1980s, the Prime Minister Rajiv Gandhi initiated some reforms. His government was blocked by politics. In 1991, after the International Monetary Fund (IMF) had bailed out the bankrupt state, the government of P. V. Narasimha Rao and his finance minister Manmohan Singh started breakthrough reforms. The new policies included opening for international trade and investment, deregulation, initiation of privatization, tax reforms, and inflation-controlling measures. The overall direction of liberalization has since remained the same, irrespective of the ruling party, although no party has yet tried to take on powerful lobbies such as the trade unions and farmers, or contentious issues such as reforming labor laws and reducing agricultural subsidies.⁵⁷

⁵⁷ "That old Gandhi magic". *The Economist*. November 27, 1997.

Economic Policies of the Central Government

Indian economic policy after independence was influenced by the colonial experience therefore the policies were tended towards protectionism, with a strong emphasis on import substitution, industrialization, state intervention in labor and financial markets, a large public sector, business regulation, and central planning. Five-Year Plans of India resembled central planning in the Soviet Union. Steel, mining, machine tools, water, telecommunications, insurance, and electrical plants, among other industries, were effectively nationalized in the mid-1950s.

In response to the economic crisis that engulfed India in the late 1980's and early 1990's the government of India undertook stabilization process coupled with fiscal adjustment and structural reforms. These reforms were guided by World Bank and IMF. These methods and reforms were not entirely new in context. The World Bank and the IMF had directed similar kind of reforms and a measure in Africa and Latin America in the 1980's to sail these countries through debt crisis. The reforms initiated by World Bank and IMF emphasized on the reduction of the role played by state in the economy. It argued for greater role for the market forces. The underline assumption behind this was that economy driven by market forces tend to be greater in efficiency than driven by state. The Indian economy underwent a series of structural changes and reforms. These reforms emphasized on the opening up of the Indian economy, and a reduction in the role played by the state in the economy. Apart from these, changes were made in the tax regime, subsidies were reduced to a large extent, and private players were encouraged into the areas which were till then kept exclusively for the public enterprises. Further the government of India in keeping with the guidelines given by the World Bank and IMF removed the quantitative restrictions on import to a very large extent. With the liberalization the domestic industries were exposed to the international

competition. The industrial policy reforms removed the barriers of the entry of new firms. Starting with the July 1991 budget, there was a clear switch in favor of a move toward an outward-oriented, market-based economy. The trade liberalization program initiated in the 1991 budget was comprehensive, although the pace remained gradual and there were occasional hiccups.

The structural reforms implemented by the government of India were a sharp departure from the economic strategy pursued since the independence. India had followed a Socialist model based on planned economy since independence. Under the guidance of economist Mahalanobis India adopted the strategy of planned economy with emphasis on public sector units. For this Planning Commission was formed. Since the independence PC has played the dominant role not only in the allocation of resources to the states but also how development project in each state will take place. PC decided on the priorities of economic development to be followed in the course of a period of five years. The Government, either in the Union Budget or in Cabinet announcements, speeches or discussions normally indicates these priorities.

Though these reforms were not India's first ever experiment with economic liberalization. The only difference is that the earlier attempts were thwarted even before it could have taken a full fledged shape while the reforms pursued in the 1990's were thrust with great zeal by the Indian government. Half hearted measures were undertaken in the 1960's during Indira Gandhi's period. But due to pressure from within and electoral compulsion these measures were discontinued. Renewed attempts were made in 1980's during the period of Rajiv Gandhi. Though change had already begun from the sixth plan onwards though it gains momentum during the period of Rajiv Gandhi in the mid-80. The main thrust of the Rajiv Gandhi's economic policy was to allow market forces to play a major role in allocation of resources. The measures taken during this period did yield some positive results but again the government was unable to carry forward the changes. India's economy went

through several episodes of economic liberalization in the 1970s and the 1980s under Prime Minister Indira Gandhi and, later, Rajiv Gandhi.⁵⁸ The economic reforms launched in the 1990s by Prime Minister P V Narasimha Rao and Dr. Manmohan Singh as his Finance Minister) were ‘much wider and deeper’.⁵⁹ And the Indian government took a ‘U-turn’ in the direction of economic policy followed by India during the last forty years of centralized economic planning.⁶⁰

Prime Minister Narasimha Rao converted the prevailing economic crisis into an opportunity to launch massive economic reforms. First, he introduced an economist (rather than a politician) into the Cabinet as Finance Minister and gave the new Minister his full support, allowing him to evolve and implement path-breaking economic reforms. The new economic policies radically departed from the economic policies and regulatory framework pursued in India during the previous forty years. The Rao government recognized in 1991 that the time had come to reshape India’s economic policies by drawing appropriate lessons from the ‘East Asian Miracle’ based on more export-oriented and more globally connected strategies of development, as successfully practiced earlier by Japan and South Korea and also by the South East Asian tigers Malaysia, Singapore, Indonesia and Thailand. The East Asian development model had been remarkably successful in achieving sustained high growth rates accompanied by rapid growth in the living standards of the people in just two decades. India had missed on both these fronts by relentlessly pursuing import substitution and a relatively closed economy model of development.⁶¹

Unlike the previous reforms, the reforms implemented in the 1991 were thrust with full force by the government of India. The Union budget of 1991-1992, accentuated the process of liberalization process. Then the Finance

⁵⁸ Wadhva, Charan D. *India Trying To Liberalise: Economic Reforms Since 1991*. www.apcss.org

⁵⁹ Sachs Jeffrey D, Ashutosh Varshney; and Nirupam Bajpai (ed.) *India in the Era of Economic Reforms* OUP, p 1, (1999)

⁶⁰ Wadhva, Charan D *Op cit* p.xviii

⁶¹ Ibid.

Minister Manmohan Singh announced major concessions which were amplified in the industrial policy statement of July 1991. It was said that this was based on the 1956 industrial policy resolution, but it made significant changes in the industrial policy. The strategic industries were earlier kept exclusively for domestic firms were now being opened up to the foreign firms thus opening up the sphere of competition in the Indian economy.⁶²

Liberalization in respect to regulations and control of private sectors was one of the most important features embodied by the new economic policy of 1991. This marked a change from a restrictionist regime to a free regime, thereby permitting the private sectors to function more freely in respect to investment, production etc. Much of the imports have been freed from quantitative restrictions. The new economic policy has, in fact initiated a new trend towards expanding the scope for the functioning of the private sector also.⁶³

The series of policy measures launched by the Indian government are part of structural adjustment program in India. The Government of India implemented the following measures:⁶⁴

- ❖ Devaluation of rupee by 23%.
- ❖ New Industrial Policy allowing more foreign investments.
- ❖ Opening up more areas for private domestic and foreign investment.
- ❖ Part disinvestment of government equity in profitable public sector enterprises.
- ❖ Sick public sector units to be closed down.
- ❖ Reforms of the financial sector by allowing private banks.
- ❖ Liberal import and export policy.

⁶² For details see Industrial policy statement 1991, Ministry of Commerce and Industry Govt. of India.

⁶³ See New Economic Policy of the Govt. of India laid in Parliament in 1991. Ministry of Commerce and Industry Govt. of India. Udyog Bhavan New Delhi

⁶⁴ Based on the Anderson Memorandum Known as the Trade Reforms in India Nov. 30, 1990 submitted to government of India by the World Bank. www.ieso.org/world-c-10

- ❖ Cuts in social sector spending to reduce fiscal deficit.
- ❖ Amendments to the existing laws and regulations to support reforms.
- ❖ Market-friendly approach and less government intervention.
- ❖ Liberalization of the banking system.
- ❖ Tax reforms leading to greater share of indirect taxes.

Evolving policies within the existing frame work

India had governed its economy through a policy regime of centralized planning accompanied by an extensive regulatory framework for more than forty years before it launched economic reforms in 1991. It has, therefore, not been easy to change the mindsets of policy makers (especially at the lower levels of bureaucracy) and of other beneficiaries of the entrenched regime. Building a political consensus on economic reforms across the various political parties with their vastly different ideologies has been a very difficult process. This has been especially true under coalition governments but also even when a single party has held a majority. Consensus building and reform implementation is complicated further when the central government and the states are in the hands of different parties.⁶⁵

Despite initial resistance in the Communist Party-ruled state of West Bengal, all state governments (including West Bengal), in their own ways and suiting their own conditions, implemented economic reforms in the 1990s and are continuing these reforms broadly in line with the ongoing national economic reforms. This owes in part to enlightened self-interest combined with a healthy competitive spirit designed to improve their position and ranking among the states. There is also the states' desire to avail themselves of larger transfers of development funds from the center, which the central government linked to economic reforms at the state level. Every state has recognized the

⁶⁵ wadhva, Charan D. Art. cit.

need to attract private investment flows from both domestic and foreign investors. State governments have therefore progressively liberalized their policies and procedures on a competitive basis. Several of them have also explicitly recognized the need to improve human resource development and have progressively expanded activities to provide a better quality of life to the population of their states.⁶⁶

The state government highlighted that for effective redress of the problem of regional imbalances in industrial growth, that there should be equalization of prices of all industrial raw materials throughout the country, the equalization of freight for these materials for all parts of the country, and there should be a state wise distribution of all industrial raw materials on the basis of actual requirement. One major reason for the industrial set back in west Bengal in the more recent periods is the policy pursued by the national financial institutions.

When, as part of its efforts to marketize the economy, the Narasimha Rao government announced the abolition of the scheme, all three states were governed by non-Congress parties who were officially critical of efforts to dismantle the regulatory state. And yet, because of the popularity of the abandonment of the freight-equalization scheme among interests within their states, three usually liberalisation-bashing chief ministers found themselves politically constrained from opposing it.⁶⁷ Their self-interested acceptance of this policy shift not only dulled the edge of their public fulminations against other aspects of the central government's reform programme; it sent a signal to chief ministers in other regions that the prospects for a united front against

⁶⁶ *ibid.*

⁶⁷ Buddhadeb Bhattacharjee, West Bengal's minister for information and cultural affairs, captured the dilemma facing state leaders when he stated: "While we are opposed to the philosophy and approach of the Centre's New Economic Policy, we must take advantage of the withdrawal of the freight equalization scheme and delicensing in regard to some major industries". *Sunday*, 3-9 April p. 68, 1994

liberalisation would be fruitless in the face of chief ministers willing to cave in on particular reforms that suited their particular circumstances.⁶⁸

With the abolition of this system, both Indian and foreign capital have been freed to seek locations offering the best returns. Given the Centre's reduced regulatory role, state governments have become a crucial point of contact for entrepreneurs keen to take advantage of many of the new reforms. State government agencies are where industrialists must go if they want environmental and labour clearances, water and electricity connections, land and zoning permits, and so on. This has set off an intense competition among state governments to attract investment, resulting in a proliferation of tax-incentive schemes and promises of speedy administrative procedures, the expedition of land acquisition for industrial uses, and efforts to maintain a "conducive" industrial-relations climate.⁶⁹

There was a conscious decision to reduce the role played by the state in the economic development and rely more on the market forces. It was explicitly stated that the market should guide the economy rather than the state. The government will no longer guide the allocation of resources; this role was to be played by the market from now on.⁷⁰

With the liberalization large scale changes were made in the rules and regulations regarding industries. One of the first changes to be made was regarding industrial deregulation and trade liberalization. These were considered to be of outmost importance for the liberalization to succeed. Reforms were made in the industrial policy leading to the removal of barriers to

⁶⁸ Jenkins Rob, *The Developmental Implications of Federal Political Institutions in India* in Mark Robinson and Gordon White, (eds.), *The Democratic Developmental State: Political and Institutional Design* OUP, (1998)

⁶⁹ *ibid.*

⁷⁰ Nayyar, Deepak. *Economic Liberalisation in India, Analytics, Experience and Lessons*. Orient Longman P (1995)

entry of new firms and limits on the growth in the size of existing firms. Investment decisions were no longer dependent on the government approval or State intervention. With the abolishing of industrial licensing the setting up of industrial units became much smoother as compared to earlier times. It was emphasized that it was both desirable and necessary for the economic reforms to succeed that complex rules and regulations and other administrative complications need to be done away with. Emphasis was put on simple procedures which do not eat into the valuable time and resources.

With the economic reforms undertaken by the government of India the state government also initiated economic reforms in a large scale. State Governments are encouraging private domestic and foreign investment in sectors previously kept exclusively for the public sector. State governments are competing more and more with each other for private capital. The state governments have called for private sector investments in infrastructures, including power, telecommunications and roadways. It is advocating measures which are enabling the private sector to acquire lands easily for industrial development. With this the state government has openly declared it's resolute to undertake significant administrative reforms to accelerate the pace of industrial development in the state. The administration often creates unnecessary hurdles which lead to delaying of the projects meant for development. In this change scenario where the role played by the centre has diminished to a large extent the role played by the state has increased. It was realized that the states can no longer rely on centre for guidance in the industrial development in the state.

West Bengal is being ruled by a left coalition which is ideologically opposite to the party at the centre. So therefore the level of confrontation has always been very high with each side blaming the other for the industrial decline in the state. It has always been argued that one of the main reasons for the decline of industries in the state has been due to the anti capitalist stand

taken by the state government which led to the capital flight from the state. On the other hand the Left front has argued that the decline in industries was due to the policies adopted by the Central government. It has always argued that the central government has always meted out step mother attitude towards west Bengal. The government of West Bengal in the past has always accused the centre government of neglecting the state, meting out step mother behaviour to the state. Due to the hostility between the centre and state, the left government made its anti-centre stance on ideological plank in itself.⁷¹

However, such allegation of discrimination made against West Bengal in the pre-Left Front era also came to the fore by the Congress government during the early 1970s. Siddhartha Sankar Roy, the then Chief Minister of West Bengal made similar allegation against the Centre in the matter of issuing license to West Bengal. In a meeting with the Chamber of Commerce in Calcutta on June 18, 1974, Mr. Roy alleged that the whole of eastern region was neglected and the Centre was discriminating against the region, particularly West Bengal.⁷²

The Left Front government has recognized that in the present era one cannot turn its back on the forces of globalization. The government has admitted that it is bound to change its outlook seeing the conditions where market is dominated by the private investors and the role earlier played by the government has shrunk considerably. What followed the liberalization of the economy was a series of institutional and administrative changes with discursive shifts in the way policies were publicly framed in West Bengal. The government of West Bengal in the past has always accused the centre government of neglecting the state, meting out step mother behaviour to the state. Due to the hostility between the centre and state, the left government

⁷¹ Sinha, Aseema. *The Regional Roots of Developmental Politics in India – A Divided Leviathan..* Indiana University Press p 102 (2005)

⁷² Basu, K, *West Bengal Economy Past Present and Future*, Firma KLMLimited, Calcutta, (1989)

made its anti-centre stance on ideological plank in itself.⁷³ Till 1994, West Bengal had faced a serious crisis in its drive for industrialization due to the Center's discriminatory freight equalization and licensing policy.

The central committee of the CPI (M) in its resolution on the new industrial policy in 1994 stated: "*Unlike in 1985 when the struggle was against the discrimination of the Centre, with its power of licensing and regulations of industry against West Bengal, today with deregulation and delicensing it is up to the Left Front government to initiate steps to attract capital investment in West Bengal. This can be done only by allowing greater investment of private capital in various sectors. This is the basis on which the Left Front government has to adjust its policies in West Bengal to meet the new situation brought about by the Centre's policy of liberalization.*"⁷⁴

The states government itself had to assume a greater role in the industrial development of the state. The state government has taken on the lead to attract investments in the state. The government of West Bengal is projecting itself as investment friendly by not only reducing administrative regulations, but also by reforming work laws and labour laws.

With changes brought by the centre the West Bengal government declared that this has thrown new opportunities for development in the State. Two policy decisions of the central government in the 1990's proved decisive for facilitating the process of industrialization in the State of West Bengal. One was the abolition of license system which removed to a large extent the political leverage enjoyed by the central government for allocation of industrial investments in different states⁷⁵

⁷³ Sinha, Aseema Op.cit

⁷⁴ CPI(M) Central Committee Resolution September (1994), *People's Democracy* A.K.Gopalan Bhavan, New Delhi

⁷⁵ Dasgupta, Sreemanta, *West Bengal and Industry – A Regional Perspective*. EPW. Nov 21st (1998)

The other policy that influenced the industrial development in the State was abrogation of freight equalization. The State government realized that with delicensing, industrial investment will flow in to the state, which was earlier restricted. Keeping in mind the new development that took place in the economy of the country, the West Bengal government in 1994, declared its industrial policy which emphasized the governments position, its outlook and attitude towards the private investment in the State.⁷⁶

The economic policy of the West Bengal government declared in 1994 argued "The State Government welcomes foreign technology and investments, as may be appropriate, or mutually advantageous. It recognizes the importance and key role of the private sector in providing accelerated growth. While continuing to advocate a change in some important aspects of this New Economic Policy of the Central Government, we must take the fullest advantage of the withdrawal of the freight equalization policy on steel and the delicensing in respect of many industries."⁷⁷ The state government emphasized that the policies it has initiated in the present period is not something totally out of tune what it implies is that the Left government from the beginning intended to develop the industrial base in the state. The industrial policy of the West Bengal government brought out in the year 1978, highlighted this aspect. The West Bengal in its document on industrial policy brought out in 1978, highlighted the major goals of the Left front. The policy focused on the following points:⁷⁸

- ❖ reversal of the trend towards industrial stagnation;
- ❖ arresting the growth of unemployment and providing for increased employment in the industrial as well as agricultural sectors;

⁷⁶ Statement on Industrial Policy by the West Bengal Government in September, 1994

⁷⁷ *ibid.*

⁷⁸ Government of West Bengal, *Industrial Policy for West Bengal, Social Scientist*, Vol. 6, No. 6/7, Special Number of West Bengal, p.103-108, (1978) www.jstor.org

- ❖ lessening the stranglehold of the monopoly houses and multinational firms on the economy of the State,
- ❖ gradual expansion of public sector and
- ❖ increasing the control of the actual producers, that is, the workers, over the industrial sector.

The constraints under which a state government has to operate under the existing constitutional arrangements cannot but affect industrial policy prescriptions too. It is thus necessary to reiterate here the Left front' demand for a major modification in the allocation of powers between Centre and the States in such matters as industrial institutional finance. The industrial Development and regulations Act (IDRA) must be suitably amended so as to enable the State governments to assume powers to investigate into the affairs of individual industrial unit.⁷⁹

The new industrial policy of 1994 emphasized the state no longer puts industrialization by cooperatives or by the public sector at center stage although it continues to push for the revival of "sick" public sector units. One of the arguments given by the Left Front Government is that it can ensure better "labour peace" than any other state because of its close ties with the trade unions.

The West Bengal government had pointed out that though the dismantling of licensing policies coupled with various other liberalization policies since 1990's has definitely given the state an opportunity to increase its industrial growth nevertheless it has also created an environment of competition among different states. This has led to increase in the burden on the state government to keep up the pace of industrialization with a great vigor.⁸⁰

⁷⁹ Ibid.

⁸⁰Statement on Industrial Policy Art. cit

With the changes in the economic policies of the central government, the state government has realized the need to frame its economic policy in the changed scenario. The industrial policy of 1994 was announced with the aim to achieve a faster industrial growth. It was explicitly outlined the need to encourage private sector investment and role of government as a facilitator of the process.⁸¹

One immediate result of the central government's new policies was a substantial increase in the flow of foreign investments into the country. Combined with the abolishment of the central government's control over industrial investments, this meant that state governments found themselves in an entirely new situation characterized by strong competition from domestic as well as from foreign investments.

The Left Front government in its *Economic Review* for the year 1992-93 had acknowledged to a certain extent that the freeing of the industrial sector from the compulsion to seek central government licenses had resulted in an increase in investment proposals in the state.⁸²

In its publicity campaign, the government pointed to the state's possession of significant advantages seen from the point of view of potential investors. Among these advantages were the harmonious social situation, with the state free of the strife between religious groups that had become so conspicuous in other states; a uniquely stable political regime; and a dedicated and committed local administration. The new industrial policy statement also claimed to have removed "certain misgivings about the state Government's attitude toward industrial investments."⁸³

⁸¹ *Thirty Years of Left Front Rule*. released by Government of West Bengal in July 2007. www.wbidc.in

⁸²For details refer to *Economic Review* of the Government of West Bengal (1992-93)

⁸³ *People's democracy* vol xxix no 45 1998.

The West Bengal government in September, 1994, issued a statement reiterating its industrial policy. The statement emphasized that, “we are all for new technology and investment in selective spheres where they help our interest.”⁸⁴ After the reiteration the industrial investment in the state started increasing. In 2000, Jyoti Basu then the chief minister of West Bengal pointed out to the fact that the government had to wait for nearly 11 years to obtain the letter of intent from the government of India regarding the commissioning of Haldia Petrochemical.⁸⁵

The approach of the State Government towards industrial development is summed up in the following words of the Chief Minister in his recent address to the Bengal Chamber of Commerce & Industry (BCCI). “We are all for new technology investments in selective sphere where they help our economy and which are of mutual interest. The goal of self-reliance, however, is as needed today as earlier. We have the State, the private sector and also joint sector. All these have a role to play”.⁸⁶

Salient features of Industrial Policy of 1994

- ❖ The following are the salient features of the State Government’s policy on industrial promotion and economic development:⁸⁷
- ❖ The State Government welcomes foreign technology and investment, as may be appropriate, or mutually advantageous.
- ❖ While the State Government considers the Government and Public Sector as an important vehicle for ensuring social justice and balanced growth, it recognizes the importance and key role of the Private Sector in providing accelerated growth. In major industries like power, the State Government considers the role of the Public Sector as critical for

⁸⁴ *Telegraph*, September 17th 1994

⁸⁵ letters written during 1980’s to the Prime Minister by the Chief Minister of West Bengal Sh. Jyoti Basu

⁸⁶ Industrial Policy of the West Bengal Government unveiled on 23rd September 1994.

⁸⁷ *Ibid.*

containing energy prices. However, in the context of the changes in the policies of the Government of India, the need for meeting the increasing demand for power and the constraints on budgetary resources, the State Government would also welcome private sector investment in power generation.

- ❖ Along with the Public and Private sectors, the State Government looks upon the joint assisted sectors as effective instruments for mobilizing necessary resources and expertise in important areas of economics activity.

Since 1994, industrial scenario in the State has changed rapidly. The State which was once called to be the “anti industry” has been come to be regarded as an investment friendly State.⁸⁸ This increased the potentiality of investment in the State to a very large extent. The West Bengal Government has from time to time stated that is not a sovereign state. The Left Front Government here has to work and strive to industrialize the state within the confines of the bourgeois-landlord state structure.⁸⁹ Left Front Leaders of West Bengal have argued that the children of the agricultural labourers, who have acquired some degree of education, now do not want to go through the often inhuman toil and hardship of an agricultural labourer. It was agreed that technological advances would slowly and gradually reduce the employment in agriculture; and that the advance of any society depends upon the growth of its industries. Even the growth of agriculture depends upon the growth of modern industries. Building on this very thread of understanding, the Left front government had tried to initiate the process of industrialisation in the 1980s, but due to the then central government’s policies of licensing and freight equalisation, it could not proceed. After these hurdles were removed, the Left

⁸⁸ expression widely used after the coming of left front power in the state in 1977, to denote anti industry stance taken by the State government.

⁸⁹ expression widely used by the leaders of the Left Front in rallies and speeches. referring to the economic policies pursued by the centre.

front government once again initiated the process under the leadership of chief minister, Jyoti Basu, who announced the new industrial policy in 1994.

After the significant success achieved in increasing agricultural production in the state based on the policy of “walking on two legs”, land reforms and panchayat raj institutions, it was necessary to give priority for industrialization in the next phase of development. The fifth Left front government adopted an industrial policy in 1994.⁹⁰ Agriculture is the mainstay for the majority of the population, comprises the largest sector of the economy, and utilizes the great majority of the state’s land.⁹¹ Agriculture generates 31% of the state domestic product.⁹² Seventy-two percent of the states’ population lives in rural areas and 53% of the labor force is engaged in agricultural production.⁹³

Left front leaders like Benoy Konar have pointed out the need to look beyond agriculture. Agriculture improvement, land reforms were first step towards achieving overall development, including industrialization. The agricultural growth depends upon the growth of modern industries. They are not mutually exclusive of each other one has to see that agriculture is the base of industrial development. The West Bengal government argued that having achieving significant results in agricultural sector, the next logical step is towards accelerating the pace of industrialization in the state. And with the liberalization policies pursued by the centre new opportunities have arisen. In 1993, a committee was setup by the West Bengal government reported that the

⁹⁰ India: Defend Left Front Government of West Bengal by Prakash Karat 2.06.07 www.politicalaffairs.net

⁹¹ Hanstad and Brown 2001 Land Reform Law and Implementation in West Bengal: Lessons and Recommendations RDI Reports on Foreign Aid and Development #112. pg 11

⁹² Ibid.

⁹³ Sixty-three percent of West Bengal’s territory (13,590,500 acres) is devoted to cultivation. Additionally, 2.7% of land (566,000 acres) is currently fallow, 13.7% of land (2,944,000 acres) is forest land, and 19.2% of land (4,122,000 acres) is unavailable for cultivation. Govt. of West Bengal Economic Review (1999-2000)

agricultural stagnation was inevitable, land reforms had exhausted. Therefore the need was to look beyond agriculture.

West Bengal is primarily an agrarian economy. The state enjoyed a position of preeminence in the industrial sector during the time of independence but afterwards it slumped down. The industrial development in the State had suffered serious setbacks due to the discriminatory policies pursued by the Centre. The situation got worse after the coming of Left front government into the power in West Bengal. The West Bengal government argued that the industries setup failed to meet the demands of the people over the country but its effect had been pronounced in West Bengal. The left front government in its documents has stated that it had since the beginning realized that an overall development of the state was not possible if the development process was confined to the agriculture and allied sectors.

In the fast changing national and global scenario it was important that the state government also develop its own industrial policy with the aim of rapid industrial development in the state. The government further argues that it needs no further reiteration that development in the agriculture sector essentially impregnates the prospects of development in the industrial sector.⁹⁴

West Bengal's is primarily an agrarian economy, though the state used to enjoy a leading position in terms of industrial growth in the country at the time of independence. But the growth of industry in West Bengal had suffered serious setback because of the policies pursued by the Central Government. The situation worsened further in the mid-1970s. As a matter of fact, the policies followed by the Central Government since the second Five Year Plan have negatively impacted on the industrial prospects of the state. The benefits of scientific inventions and technological innovations in the post World War II phase hardly found their place in the national industrial policy framework.

⁹⁴Thirty Years of Left Front Rule, Art.cit

India's lack of access to the benefits of scientific and technological revolution, compounded by uneven competition, had regressive effect on the Indian industries. The industries set up before as well as after independence also failed to meet the demand of the people. Its effect in West Bengal was more pronounced. On the one hand, agricultural growth had stagnated, and on the other, industrial progress had degenerated, resulting in large-scale unemployment both in the rural and urban areas. In the process, a deepening socio-political and economic crisis engulfed the entire state.⁹⁵

Before the introduction of the new economic policy by the centre in 1991, the centre had the sole authority to decide industrial allocations and investments in states. Therefore after suffering discrimination for long when the liberalization of Indian economy took place in 1991, it threw open new opportunities for the state. The West Bengal government realized that to increase the pace of industrial development, the government must take full advantage of the new technologies and the opportunities thrown open by the new scenario. It was felt that emphasis must be given on heavy industries, particularly in the manufacturing and engineering sectors, sunrise industries, petrochemicals, IT, telecommunications, ship-building etc. to meet the demand and fulfill the rising aspirations of the people.⁹⁶

The Left Front Government, from the very beginning, was aware that an overall development of the state was not possible if the development process confined itself only to the agriculture and allied sectors. What was required was a well-tailored policy to accelerate the process of industrial development, especially in the context of the fast changing national and global scenario. It needs no further reiteration that development in the agriculture sector essentially impregnates the prospects of development in the industrial sector. In

⁹⁵ 30th Left Front Government progress & prosperity for the people with people released by the government of West Bengal on the occasion of completion of 30 years rule in West Bengal chapter on industries: opportunities and challenges. March 2008

⁹⁶ Ibid.

fact, development in the two sectors is inter-related and inter-dependent. This is also how civilization has progressed. Though agriculture is in the State List of the Constitution, the State Government had to plan its development perspective in full appreciation of the constraints and limitations of the constitutional framework. In spite of these limitations, the State Government has been able to ensure an increase in the productivity of land and agricultural production through planned measures, especially by providing adequate support to the farmers, bargadars and pattadars. In the industrial sector, the cottage and small industries made remarkable progress.⁹⁷

Industries, which are being set up of late are capital-intensive. These industries do not create sufficient job opportunities as the labour-intensive industries set up in the past used to do. So, there occurs a wide gap between the number of people losing jobs and the number of people getting jobs. In such a situation, the State Government has to act decisively and create employment opportunities for the unemployed. In the Constitution, the important areas of public service like agriculture, irrigation, roads, education, health, public health engineering, law and order etc. are included in the State List. The areas, which provide for generation of revenue, on the contrary, lie with the Central Government. It is, therefore, hardly possible for a state government to make investment in industrial sector after discharging its responsibilities in the vital social sectors that involve huge public expenditure. In this background, the West Bengal Government has no other option but to invite private sector to invest. The State Government formulated its policy resolution on industry in 1994 in full appreciation of these ground realities. The focus of the policy is to attract both domestic and foreign investment in the areas where the state has competitive edge. Similarly, it encourages foreign direct investment in areas which is beneficial to the state. West Bengal has now emerged as one of the most sought-after destinations for investments in the country. The stream of investment proposals that the state has received in the recent times is basically

⁹⁷ *ibid.* Chapter on Industries.

the result of its policy initiatives over the years in keeping with the basic spirit of the policy resolution on industry.⁹⁸

With the withdrawal of earlier restrictions like the licensing policies and freight equalization policy the flow of capital has increased. With the predominance of market forces, the Left Front Government has no other choice but to make full use of the opportunities for faster industrial development of the state to the benefit of the people. It also needs to be remembered that within the existing constitutional framework it is hardly possible for a State Government to pursue policies for industrial development of the State independent of the ones articulated by the Central Government. Nor is it possible in the present economic structure to usher in a progressive system at the sole instance of the State Government. It needs to be recognized that the Left Front Government has to work under many compulsions. The State government cannot make necessary investments by itself; it is still dependent upon the Centre for resources. Given its financial limitations in the existing Constitutional system, it simply is an impossible for the state government to take up investments in the industrial sector on its own. The new policy regime is pushing the government out of the economic realm, with larger role being given to the market forces. Therefore it becomes nearly impossible for the state government in the present situation to follow independent economic policies. The state has to follow the centre.

In the initial years, the Left front government's main thrust was to accelerate the pace of agrarian reforms and lift the state's rural economy from the pathetic condition that it was in. As the majority of the rural population was dependent on agriculture, measures like land reforms were given maximum emphasis to ensure economic security and restore social dignity of the poor and landless peasants. In addition to redistributing some agricultural land in

⁹⁸ Refer to the Industrial policy of the West Bengal government brought out in 1994.

ownership and protecting *bargadars*, West Bengal has also transferred ownership of homestead land to landless agricultural laborers, *bargadars*, and artisans. The legislation provided that such homestead plots could be up to eight one-hundredths of an acre, about 325 square meters. As of September 1999, nearly 296,000 households had benefited by receiving homestead plots.⁹⁹

The Left front's emphasis on land reforms, agricultural development and democratic decentralization has led to a major breakthrough in agriculture and thus created a solid base for industrialization. The rapid strides made by the State in agriculture and allied sectors under the Left Front government have created sound base for industrial development. The change in some policies of the Central government has facilitated the process further. The delicensing of industries and the discontinuance of the policy of freight equalization created a situation conducive to industrial development.¹⁰⁰ The government of West Bengal asserted that industrialization is must for providing growth and employment opportunities.

The Left front government in West Bengal is firm in its commitment to steadily go ahead with the ongoing process of industrial development of the state as it believes that without rapid industrial development of the state it is virtually impossible to strengthen the state's economy and ensure gainful employment for the millions of unemployed both in the rural and urban areas. It also needs to be recognized that West Bengal is a land-critical state.

It has only 2.7% of the total area in the country with more than 8% of the Indian population. Out of the total land area in the state, 61.9% is agricultural land, 13.5% is forest land, 5% is fallow or uncultivated land and 19.6% are urban areas. The projects in the pipeline involving large investments

⁹⁹Dr. Asim Dasgupta Finance Minister, Govt. of West Bengal. Budget Statement (2000). Although the legislation established a 325 square meter (about 1070 square feet) limit for the amount of homestead land to be allocated to one household, recent survey results indicate that many households received significantly larger plots.

¹⁰⁰ Chaudhuri, Kalyan A *Record In West Bengal* by. *Frontline* Vol.19, Issue 14, 2002. (www.hinduonnet.com)

in manufacturing sector for setting up of modern and environment-friendly production facilities will require large tracts of land. Moreover, it is always not possible for every industry to locate in a particular site. Decisions regarding location are based on a number of factors. In addition to availability of land, quality infrastructure in terms of road and rail connectivity (as well as proximity to a port for many industries), adequate supply of water and power, as well as proximity to markets and urban centers are required for successful implementation of projects within a definite time frame.

In order to avoid the complicated process of purchase of land from a large number of owners and to ensure compliance with existing land laws of the state, especially pertaining to land ceiling, it may be necessary for the authorities to acquire the land required to set up industries. Since the state government wants to take full advantage of the unfolding opportunities to the benefit of the people of the state, it has to move at a faster pace in regard to identification of land for industrial use. To minimize usage of agricultural land for industrial use and to achieve a balanced and sustainable industrial growth, the state government is seeking to implement a policy for location of industries in a manner so as to maximize use of uncultivable land, locate industries in backward areas of the state, develop industrial clusters thereby using common infrastructure and optimizing available resources. A field survey on the vested land available as per records and assessing its viability for industrial usage keeping in view its size, location, contiguity and availability of infrastructure is being conducted. The state Government is also trying to use the land locked up in closed and sick industries keeping in view the legal issues and other complications. Moreover, in order to create a balanced and sustainable industrial growth in the state and maximize the use of uncultivable land in the state, it is felt that some parts of the state can be identified as industrial growth poles, because of factors such as availability of non-agricultural land, tradition of industrial growth and availability of good infrastructure. This will mean optimal use of the existing industrial infrastructure, and up-gradation of

infrastructure where required, to facilitate or create new industrial infrastructure for projects in backward areas.

The state government, therefore, seeks to develop a few regions as focal areas of industry such as (i) Haldia, (ii) Asansol-Durgapur and contiguous areas of Bankura and Purulia across the Damodar River; (iii) Greater Kolkata, which includes parts of North and South 24 Parganas along with Howrah and Hooghly; (iv) Kharagpur-Jhargram; (v) Siliguri-Jalpaiguri; and (vi) Kalyani. At the same time, it is also proposed to develop small industrial clusters in all districts of the state to meet the requirements of the SME sector and to create employment opportunities in all districts.¹⁰¹

The Department of Land & Land Reforms of the West Bengal government formulated a comprehensive compensation and rehabilitation package for those whose land will be acquired for setting up of industries. The salient features of the package include payment of compensation at the higher side of the prevailing market rate depending on the character of the land and payment of 25% of the total land value to the bargadars, rehabilitation of the families whose dwelling houses are affected by acquisition in alternative locations as close to the original place of residence as possible at Government cost, creation of facilities for alternative livelihood, imparting technical and vocational training to the land-losers and/or eligible dependent members of his/her family for skill development as a means to opening up avenues for gainful employment and sustainable livelihood, development of wasteland for agricultural purpose and creation of irrigation facilities for heightened agricultural activities, setting up of vocational or technical institutes and creation of other social and physical infrastructure including healthcare facilities for sustainable development of the hinterland of the economic zones created for industrial clusters.¹⁰²

¹⁰¹ Department of land and Land reforms. Govt. of West Bengal. www.banglabhumi.nic.in

¹⁰² Ibid.

Industrial Licensing is governed by the Industries (Development & Regulation) Act, 1951. The Industrial Policy Resolution of 1956 identified the following three categories of industries: those that would be reserved for development in public sector, those that would be permitted for development through private enterprise with or without State participation, and those in which investment initiatives would ordinarily emanate from private entrepreneurs. Over the years, keeping in view the changing industrial scene in the country, the policy has undergone modifications. Industrial licensing policy and procedures have also been liberalized from time to time. A full realization of the industrial potential of the country calls for a continuation of this process of change.¹⁰³

Summing up

Before 1991, industry and anything related to industrialization were under the center's supervision and through a detailed licensing framework it regulated investment by private firms. Central government approval was required for all large private sector projects as well as for foreign investment proposals.

The Left Front Government's industrial policy stands on the conviction that all that the State and its people have achieved in the agrarian front would be at peril if a balanced growth of secondary and tertiary sector through industrialization fails to take off now. The focus is on balanced growth both in the agriculture and industrial sectors.¹⁰⁴

¹⁰³ *Statement on Industrial Policy*, Government of India Ministry of Industry July 24, 1991. Ministry of Commerce and Industry. Government of India

¹⁰⁴ comment made by Nirupam Sen, Minister of Commerce and Industries Govt. of West Bengal

Chapter III- Developing and implementing policies

Buddhadeb Bhattacharjee after taking over the reign from Jyoti Basu in 2001, wanted to turn around the image of West Bengal – into an industrializing economy. The new Chief Minister wanted to put west Bengal on India’s industrial map by disciplining its workforce, shaking up the labour union, ushering in tax reforms, changing labour rules etc. It pushed the kolkata municipal corporation to cut property tax across the board to speed up the modernization of the city to serve as a cue for other district municipalities.¹⁰⁵

The new Chief Minister was keen to change the existing impression of the state on the minds of the investors. West Bengal had an impression of a state that was plagued by strikes, gheraos, bandhs and demonstrations.

After the 2001 assembly elections, the Chief Minister Buddhadeb Bhattacharjee initiated changes that have provided a new dimension to Left Front rule. In an interview given to *Frontline* soon after the election results, the chief minister said “we have to remember that our real performance in the past achievements in rural Bengal. However, we will not lose sight of the new generation with which we will go forward. So we will have to look at the requirements of the new generation in the light of the scientific and technological developments taking place now. In the light of new circumstances, we have to change. We have to adapt to the new changing environment. Otherwise we will be no where in the picture.”

The Left Front’s emphasis on land reforms, agricultural development and democratic decentralization has led to a major breakthrough in agriculture and thus created a solid base for industrialization. The West Bengal government devised the model SEZs as the new course towards rapid industrialisation of the state. The

¹⁰⁵Naseem, S.M *West Bengal: Industrial strategy dilemma* by. (The Dawn www.DAWN.co. 03.12.07)

Special Economic Zones

In 1965 India set up an export processing zone in Kandla. These Zones emerged as an effective instrument to boost export of manufactured products. The Zones, were set up as enclaves separated from the Domestic Tariff Area (DTA) by physical barriers.¹⁰⁶ The basic objective of these zones was to enhance the foreign exchange earnings, develop export-oriented industries and to generate employment opportunities. The first Zone was set up at Kandla (Gujarat) in 1965, followed by SEEPZ, Mumbai in 1972. But with the announcement of Special Economic Zone Scheme in year 2000, the four Export Processing Zones were converted into Special Economic Zones with effect from 1-11-2000.¹⁰⁷

The Government of India had announced a SEZ scheme in April, 2000 with a view to provide an internationally competitive environment for exports. The objectives of SEZs include making available goods and services free of taxes and duties supported by integrated infrastructure for export production, expeditious and single window approval mechanism and a package of incentives to attract foreign and domestic investments for promoting export-led growth.

To increase the foreign investment and promote exports from the country the Government of India had in April 2000 announced the introduction of SEZs policy in the country, deemed to be foreign territory for the purposes of trade operations, duties and tariffs. It was announced under the Export and Import policy (EXIM) on 31st March, 2000. The scheme had the following objectives:¹⁰⁸

The SEZs policy was announced with the view of overcoming the shortcomings experienced on account of the multiplicity of controls and

¹⁰⁶*The Gazette of India Extraordinary Part ii- Section i* Published by Authority NO. 31 NEW DELHI, Thursday, June 23,2005 Ministry of law and justice (legislative Department) New Delhi, the 23rd June, 2005/Asadha 2, 1927 (Saka)

¹⁰⁷ www.cii.in/documents.com

¹⁰⁸ Gupta, K.R. (Ed.) *Special Economic Zones.- Issues, Laws and Procedures* Vol –I, p 1 (2008)

clearances. This policy intended to project SEZs as engine or economic growth supported by quality infrastructure complemented by attractive fiscal packages, both at centre and state, with minimum regulations. In order to give a long term and stable policy framework with minimum regulatory regime and to provide expeditious and single window clearance mechanism, the SEZs Act, 2005 has been brought into effect along with the SEZs Rules, 2006 from 10 February 2006.¹⁰⁹ The Act and the Rules together aim to provide a single self contained legislation governing the operations of SEZs and replaces the hitherto applicable legislations and rules governing the operations of SEZs in India.

A SEZs may be established under this Act, either jointly or severally by the Central Government, State Government, or any person for manufacture of goods or rendering services or for both or as a Free Trade and Warehousing Zone.¹¹⁰

As per law, SEZ units are deemed to be outside the customs territory of India. Goods and services coming into SEZs from the domestic tariff area or DTA are treated as exports from India and goods and services rendered from the SEZ to the DTA are treated as imports into India.

- ❖ The functioning of SEZs is governed by a three-tier administrative set-up. The Board of Approval is the apex body and is headed by the Secretary, Department of Commerce. The Approval Committee at the Zone level deals with approval of units in the SEZs and other related issues. The Board of Approval has been constituted by the Central Government in exercise of the powers conferred under the SEZ Act. The Central Government shall, within fifteen days of the commencement of this Act, by notification, constitute, for the purposes of this Act, a Board to be called the Board of Approval.

¹⁰⁹ www.economictimes.com

¹¹⁰ *The Gazette of India Extraordinary Part ii- section 1* Published by Authority NO. 31 Thursday, June 23,2005 *Ministry of law and justice (legislative Department New Delhi, the 23rd June, 2005/Asadha 2, 1927 (Saka) Ch-2, Establishment of Special Economic Zones p 5.*

All the major decisions are taken by the Board of Approval. The Board of Approval has 19 Members.¹¹¹

Procedure for the establishment of SEZ:¹¹²

- ❖ A SEZs may be established under this Act, either jointly or severally by the Central Government, State Government, or any person for manufacture of goods or rendering services or for both or as a Free Trade and Warehousing Zone.
- ❖ Any person, who intends to set up a Special Economic Zone, may, after identifying the area, make a proposal to the State Government concerned for the purpose of setting up the Special Economic Zone.

In case a State Government intends to set up a SEZs , it may after identifying the area, forward the proposal directly to the Board for the purpose of setting up the SEZs: Provided that the Central Government may:-¹¹³

- ❖ after consulting the State Government concerned;
- ❖ without referring the proposal for setting up the Special Economic Zone to the Board; and
- ❖ after identifying the area; *suo moto* set up and notify the Special Economic Zone

In all SEZ's, the statutory functions are controlled by the Government while the rest of the operations are privatized. The policy relating to SEZs was earlier contained in Foreign Trade Policy. However, to give a long term and stable policy framework with minimal regulation, the SEZs Act was enacted. In 2005, a comprehensive SEZs Act 2005 was passed by Parliament in May 2005. The SEZs Act 2005 and the rules of the SEZs Act came into force from February 10,

¹¹¹ *SEZ's Rules 2006*, Published in Part ii, Section 3 Sub-Section (i) of the Gazette of India Extraordinary, dated the 10th February, 2006. Govt. of India Ministry of Commerce and Industries.

¹¹² *ibid.* p5

¹¹³ *ibid*

2006.¹¹⁴ The Government of India had announced a SEZs scheme in April, 2000 with a view to provide an internationally competitive environment for exports. The objectives of SEZs include making available goods and services free of taxes and duties supported by integrated infrastructure for export production, expeditious and single window approval mechanism and a package of incentives to attract foreign and domestic investments for promoting export-led growth. In order to give a long term and stable policy framework with minimum regulatory regime and to provide expeditious and single window clearance mechanism, the SEZs Act, 2005 has been brought into effect along with the SEZs Rules, 2006 from 10 February 2006. The Act and the Rules together aim to provide a single self contained legislation governing the operations of SEZs and replaces the hitherto applicable legislations and rules governing the operations of SEZs in India. The SEZs Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure.

Role of State Government in Establishment of SEZs Units
State Governments play a very active role to play in the establishment of SEZs unit. Any proposal for setting up of SEZs unit in the Private / Joint / State Sector is routed through the concerned State government who in turn forwards the same to the Department of Commerce with its recommendations for consideration. Before recommending any proposals to the Ministry of Commerce & Industry (Department of Commerce), the States Government properly checks all the necessary inputs such as water, electricity, etc required for the establishment of SEZs units. The State Government has to forward the proposal with its recommendation within 45 days from the date of receipt of such proposal to the Board of Approval. The applicant also has the option to submit the proposal directly to the Board of Approval. Representative of the State Government, who is

¹¹⁴ *ibid.*

a member of the Inter-Ministerial Committee on private SEZs, is also consulted while considering the proposal.¹¹⁵

The West Bengal government in 2003 enacted its own SEZs Act. West Bengal Industrial Development Corporation Ltd. a Govt. of West Bengal undertaking, has been entrusted to develop and promote the Special Economic Zone.¹¹⁶ West Bengal was among the few States in the country to have already enacted a state SEZs Act, and was the first to operationalise a Greenfield SEZs at Manikanchan in the Salt Lake area for gems & jewellery items. In chapter iv of the West Bengal SEZs Act, the State Government had empowered the developers “to purchase land or to acquire legal right and title independently, in respect of land which is proposed to be developed as a special economic zone”.¹¹⁷

To fasten the process of industrial development in the State, the West Bengal Government in 2005, the West Bengal Government made amendments to the land reform act to free 1.5 lakh acres of land occupied by sick industrial units in the State. The Land Reform Minister Abdul Razzak Mollah in an interview given to the Indian Express in July 2005 said, “It’s going to be a revival package for sick industries across the State. The land will be used for trade and business purpose.”¹¹⁸ This amendment was met by severe criticism from a large section including some of the Left leaders who found it surprising and shocking that such a move had been initiated by the Left Government. In response to the above criticism Prakash Karat in his article in People’s Democracy in Sep, 2005, said the whole controversy seems to be created by the media. He further stated that it was

¹¹⁵ *SEZ’s Rules 2006*, Published in part II, section 3 sub-section (i) of the Gazette of India Extraordinary, dated the 10th February, 2006. Govt. of India Ministry of Commerce and Industry (Dept. of Commerce) New Delhi

¹¹⁶ Notification kolkata Gazette Extraordinary Saturday June 28, 2003 Govt. of West Bengal dept of commerce and industries dated june 12 2003. no 1825/js/dc

¹¹⁷ *SEZ Act 2003* Govt. of West Bengal. www.wbidc.com

¹¹⁸ Indian Express, 04 July 2005.

an attempt to depict the “reformist” Chief Minister handing over large tract of agricultural land to the industrialists and mnc’s.¹¹⁹

The Response of Left Leaders regarding criticism against the amendments was that the some of the amendments were purely technical in nature, some were administrative, for better management of land and some which rationalize the land tax provisions to benefit the people. There was only one amendment which was substantive in nature and involved a policy question. This was the amendment to section 14 (z) in the original act. The purpose of the amendment was to clear the legal hurdles so that the land locked up in closed mills, factories and industries can be put to use.¹²⁰

According to a study conducted in five districts around Kolkata, there are 41,000 acres of land lying locked in closed mills, factories and sick units which are not in industrial use. Unlocking this land could serve a number of purposes. A portion of the land can be sold for revival of some of the sick units or for the payment of the arrears of the employees. Further such land could also be allotted for small-scale industries or other industrial units. Such land has been lying unutilized for decades because of legal complications. The amendment would enable through a written order of the state government the transfer by way of open auction of such land at a price not less than the reserve price to be determined by the collector, which “in the opinion of the state government is required for the purpose of revival of the mills, factories or workshops including the payment of the outstanding liabilities of the employees of such mills, factories or workshops, in such manner as may be prescribed and the price realized from such auction shall be utilized under the supervision and control of such authority, and in such manner, as may be prescribed.”¹²¹ This move also facilitated the coming of SEZs units in the State.

¹¹⁹ *People's Democracy* vol xxix, no. 37 Sep 11 2005,

¹²⁰ *ibid*

¹²¹ *ibid*.

The CPI (M) has opposed the SEZ Act enacted by the Government of India in 2005. The party vehemently criticized the Act, stating that the initial objectives underlying the establishment of SEZs in India had been compromised. Several provisions in the SEZ Rules 2006, can possibly lead to the misuse of the Act, especially in terms of relocating existing units in SEZs in order to derive tax benefits and undertaking real-estate venture instead of building industrial infrastructure. Those apprehensions got strengthened by the way en masse approvals for SEZs were granted by the Board of Approval at the Centre. Concerns were also raised regarding the use of agricultural land for setting up of SEZs which is leading towards the displacement of the farmers. The Left further criticized the central government on the note that the tax concessions given under the SEZ Rules would possibly lead towards huge revenue loss.¹²²

The note submitted by the Left parties to the Government of India in 2006, on SEZs Act/Rules raised several issues regarding the setting up of SEZs in the country. Some of the points raised by the Left parties are:¹²³

- ❖ There should be no transfer of land ownership to the private developer. Private developers should only be allowed to take land on lease or build the infrastructure on a BOT basis. Moreover, the Board of Approval for SEZs at the centre should only consider those proposals, which have been duly approved by the state governments.
- ❖ The central government should set an appropriate ceiling on the total land area under a SEZ, which can be developed by a private entity.
- ❖ SEZs should be built on non-agricultural land and acquisition of agricultural land for the purpose of SEZs should be discouraged. A provision limiting the acquisition of agricultural land should be built into the SEZs Act itself.

¹²² Bose, Prasenjit. *The Special Economic zones Act: Urgent Need for Amendment*. Marxist Vol. XXII, No. 4, (2006)

¹²³ Note on *Special Economic Zones-Left Parties Demand SEZ Act's Review, Proper Changes Submitted on 19th October to UPA seeking a review of the SEZ Act and calling for corrective steps*. *People's Democracy*. Vol. XXX, No. 44, October 29, (2006)

The CPI (M)'s had been insistent in its opposition to the centre's SEZs Act yet, in the West Bengal's own SEZ Act that which was enacted in 2003, the state government had kept a similar provision itself. The chapter iv of the West Bengal Special Economic Zone Act, 2003, the state government had empowered the developer "to purchase land or to acquire legal right and title independently, in respect of land which is proposed to be developed as a Special Economic Zone".¹²⁴ The contradiction that emerged is that on one hand the Left parties criticized the SEZs established by the centre and on the other the West Bengal government itself enacted SEZs in the state in 2003, even before the central government. The issues raised by the Left concerning the SEZs were implemented by the West Bengal government. The issue of using agricultural land for the development of SEZs which was raised by the Left parties was overlooked by the state government when it acquired tracts of land for the Tata motors ltd. in Singur was multi crop land.

Case – Study Of Nandigram and Singur

Nandigram

Nandigram came into news when the government of west Bengal chose it for the setting up of the chemical hub by the Salim group of Indonesia under SEZ. In 2006 chief minister Buddhadeb Bhattacharjee announced the project of developing a chemical hub around the port of Haldia. Nandigram is located around 70km from kolkata on the bank of Haldi River, opposite to the industrial city of Haldia. The area falls under Haldia development authority.

The industrial development projects proposed as per the agreement include the setting up of a mega chemical industrial estate, including a chemical SEZ, spread across 10,000 acres in a 50:50 joint venture with WBIDC. The agreement

¹²⁴ Sengupta, Tamal. *Home Rule: West Bengal is special zone for Left Front. India Today*, 29 May, (2007)

provides for construction of the Eastern Link Highway, which would be 100 km long and 100 m wide and spread over 2,500 acres.¹²⁵

The villagers of Nandigram were averse to the idea of setting up of chemical hub there. Ever since the idea was proposed the people of the area had raised their voice and have shown resistance to give up their land. The chemical hub required the acquisition of over 10,000 acres of land. The SEZ would have spread over 29 villages. With the prospect of losing their land raised concern for livelihood amongst the farmers there. The villagers, which included supporters of the Left party in power, joined hands with other opposition supporters, organized a resistance movement under the banner of the newly formed Bhumi Uchhed Pratirodh Committee or BUPC (Committee for the Resistance to Eviction from Land).

Nandigram gained prominence worldwide when on March 14 2007, 14th people were killed in police firing. The incident took place after nearly 3000 policemen stormed the area with the aim of stamping out protests against the West Bengal government to expropriate around 10,000 acres of land for SEZ to be developed by the Salim group of Indonesia. The problem had started way back in Dec 2006, when the Haldia Development Authority issued notice regarding the land acquisition in the area. The people of the Nandigram were apprehensive from the beginning. They had been following the agitations made by the farmers in Singur against the Tata motor plan there.

Small incidents of violence had already started taking place since early January 2007. Like on 7th January 2007 five people were killed after CPI (M) cadres allegedly hurled bombs and fired bullets. Tensions escalated and fuelled leading to the road block and cut off access to the area by the people. There were

¹²⁵ Bengal inks pact with Indonesian group. The Hindu Business Line August 01, 2006
www.thehindubusinessline.com

several clashes between pro-government and anti land acquisition groups basically it was between the CPI (M) cadres and the members of the BUPC, TMC etc.¹²⁶

After the 7th January incident the Chief Minister Mr. Buddhadeb Bhattacharjee accepted that a mistake had been made on the part of HDA for issuing notice for acquisition of lands at Nandigram for the chemical hub project. The Chief Minister further stated that the notice created confusion in the minds of the people even before the actual process of land acquisition could begin. Addressing a public meeting at Haldia on 12th feb 2007 the chief minister stated that no land will be taken from those who are unwilling to give. But the very next day at a press conference in Tamluk Mr. Lakshman Seth CPI (M) MP said that the land mentioned in the notice issued by the had would be acquired.

The Association for Protection of Democratic Rights in its report and the report by People's Tribunal on Nandigram clearly stated that the administration was directed to breakup the BUPC's resistance in Nandigram. The reports further states that nearly 3000 policemen accompanied by armed CPI (M) cadres disguised in police uniform stormed the area. it is alleged that the police opened fire on innocent people.¹²⁷ The firing in Nandigram created uproar throughout the country. Even the allies of the CPI (M) like CPI, FB RSP openly criticized the chief minister and the government. The allies of the CPI (M) were critical from the beginning regarding the industrial policies being pursued by the state government. Leaders of FB and RSP have vocally raised concerns regarding the SEZ spolicy in the state.

After the 14th March incident cracks within the left front deepened and came out in the open. The CPI, the Forward Bloc and the RSP also distanced themselves from the CPI (M) over the violence in Nandigram. The verbal feud over the ideological differences has taken a violent turn in west Bengal, with activists of the dominant Communist Party of India Marxist and the Forward Bloc

¹²⁶ Deaths in Nandigram, Bangla Bandh today. The Telegraph, kolkata. March 08, 2007

¹²⁷ For full report refer to the report on Nandigram by Association for protection of democratic rights www.apdr.org.in and report by People's Tribunal www.labournet.de/international

clashing in Burdwan district.¹²⁸ The difference became so apparent that the Forward bloc the second largest party in ruling left front decided to contest the 23rd Feb. 2008, election in Tripura alone. G. Devarajan, the Forward Bloc's national secretary stated that "Our fight is against the high-handedness and policies of the CPI (M),"¹²⁹

Following the violence the governor of West Bengal Gopal Krishna Gandhi criticized the state government over its handling of the Nandigram incident. He described it as cold horror. An editorial in *The Indian Express* said that the party machinery has become the "sword arm of an industrialization policy that involves settling complicated property rights issues."¹³⁰

After this the government of West Bengal declared that the land acquisition will not be made without the consent of the people of Nandigram. The proposed SEZ has ostensibly been shelved following the March 14 incident. The Chief Minister in its statement to the state assembly on 15th March 2007 stated that no final decision has been taken for the setting up of the chemical hub in Nandigram. The proposal is still in consideration with state government.¹³¹

A two judge bench consisting of The Hon'ble Chief Justice S. S. Nijjar, and the Hon'ble Justice Pinaki Chandra Ghose, on 16.11.07 declared that "The action of the police department to open fire at Nandigram on 14.03.2007 was wholly unconstitutional and cannot be justified under any provision of the law" and further that "The action of the police cannot be protected or justified on the ground of sovereign immunity." and also that "The action of the police cannot be justified even under the provisions of Criminal Procedure Code; The Police Act, 1861 for The Police Regulations, 1943". The Hon'ble judges also ordered that "we direct the State of West Bengal to pay to the victims of the deceased as a result of

¹²⁸ Mathew, Liz. cracks widen in left front, CPI (M) accused of hegemony. In *National*. 06.02.08

¹²⁹ Ibid.

¹³⁰ Editorial, *Indian Express* dated 17.03.07

¹³¹ Chief Minister's statement in Assembly. *People's Democracy*. Vol. xxxi No. 11 March 18th 2007

the indiscriminating police firing on 14th of March, 2007 immediate compensation in the sum of Rs.5 (five) lakhs each" and further that "We further direct the State Government to pay immediate compensation to the persons who were injured and whose particulars have been given the pleadings sum of Rs. not less than 1 (one) lakh each" and also "We further direct the State Government to pay compensation to the victims of rape who have been duly identified in the pleadings a sum of Rs.2 (two) lakhs each".¹³²

The National Human Rights Commission in November 2007 had sent a notice to the Chief Secretary, West Bengal, directing him to submit a factual report within 10 days on the conditions prevailing in Nandigram and around. A team of the Investigation Division of the Commission would also visit the disturbed areas in Nandigram to study the situation and suggest remedial measures. The Commission has further requested Secretary, MHA, to take all necessary steps to restore peace in the area, protect human life, dignity and property and submit an action taken report within two weeks.¹³³

In its final report the People's Tribunal on Nandigram has called the violence of 14 March 2007 a 'pre-planned, state-sponsored massacre' carried out 'to teach a lesson' to people opposing the SEZ project on their land.¹³⁴

Union Information and Broadcasting Minister Priyaranjan Dasmunsi and a section of intellectuals including Aparna Sen from Kolkata, in separate press statements, demanded that panchayat polls, due on 11th May, in the areas falling within the jurisdiction of the Nandigram thana be deferred, for, elections might not be "peaceful and democratic".¹³⁵

¹³² The Telegraph, Kolkata, 17.11.07 (front page)

¹³³ www.nhrc.nic.in 12.11.07

¹³⁴ Executive summary of the report: People's Tribunal on Nandigram
<http://www.labournet.de/internationales/in/peopletribunal.pdf>

¹³⁵ www.hindu.com 07.05.08

Following the incident on March 14th, 2007 the Polit Bureau of the CPI (M) issued a statement on the very same day stating that it is regrettable that innocent lives have been lost in the police firing. Though the government had already declared that no land is being acquired in Nandigram but the TMC, naxalites and other elements have continuously stirred disruption in the area.¹³⁶

The electorate of Nandigram reacted strongly against the Left Front government's policy of industrialization through farmland acquisition and its continuous terror tactics. In a major setback for the ruling CPI-M for the first time in the history of Left regime in the West Bengal the opposition wrested control of the East Midnapore Zilla Parishad by bagging 35 seats out of 53 Zilla Parishad seats in the elections that were held on 11th May 2008. In the previous panchayat polls in 2003, the TMC had only two seats out of 51 Zilla Parishad seats. The results of the election are TMC-35, SUCI-1, CPI (M)-14, CPI-2 and RSP-1. In all four seats of Nandigram - I and II blocks, which saw violence after protests against the government's bid for land acquisition for a chemical hub, the Trinamool candidates have won the polls by defeating the CPI (M) candidates including a heavyweight leader. Sheikh Sufian, a Bhumi Uchhed Pratirodh Committee leader backed by the TMC, defeated his rival CPI (M) candidate Mr Ashok Jana by a margin of over 13,000 votes whilst Mr Pijush Bhunia, another TMC leader defeated Mr Ashok Bera, a CPI-M zonal committee secretary by over 21,00 votes.¹³⁷

Singur

Singur first hogged the limelight May 2006, when soon after the seventh Left Front government was sworn into power West Bengal, Chief Minister,

¹³⁶ Press Statement by the Polit Bureau of the CPI (M) on Nandigram incident March 14, 2007
www.cpin.org

¹³⁷ The Statesman

Buddhadeb Bhattacharjee announced that Tata Motors was going to set up a car factory in Singur. Bengal has been suffering a stagnant economy for decades. This was to be the proud flagship of a new, aggressively industrializing Bengal. On 18th May 2006, in a press conference held in Kolkata Ratan Tata the chairman of Tata group said that we have scanned the country, looked at various locations and has decided to locate this rather revolutionary plant that will give India a true people's car in West Bengal.”¹³⁸ Singur is in Hooghly district and is about 45 km. from Kolkata. The nearest railway stations are Singur, Kamarkundu and Madhusudanpur. In the agreement signed between the TML and Government of West Bengal and WBDIC in 2006 it was stated by the West Bengal government that it had to offer incentives equal to the offer made by Uttarakhand and Himachal Pradesh. The incentives given by both the government were:¹³⁹

- ❖ 100% exemption from excise duty for 10 years.
- ❖ 100% exemption from corporate income tax for first 5 years and 30% for the next 5 years

The agricultural land that was earmarked for the Tata project stands alongside an arc of the Durgapur expressway near the Ratanpur crossing with NH1. The six *moujas* whose land falls under the Tata project site are Gopalnagar, Beraberi, Bajemelia, Khaser Bheri, Singher Bheri and Joymollar Bheri. They stand on the other side of the project site completing the expressway's arc into a circle.

But trouble began almost immediately. Rallies, demonstrations, petitions, and then as the government persisted in acquiring the land, escalating tension and violence. In July 2006, the Work on acquisition of land for Tata Motors' factory for producing small cars at Singur has begun with the West Bengal Industrial Development Corporation submitting its proposals to Hooghly District magistrate. Ignoring the rising protests against acquisition of the land the Government of West Bengal issued 13 notices under Section 9 (1) of the Land Acquisition Act of 1894

¹³⁸ *The Indian Express* 19th May 2006

¹³⁹ Agreement between the TML and Govt. of West Bengal an WBDIC signed in 2006. www.WBDIC.com

to the affected farmers between July 19th and 24th 2006.¹⁴⁰ As a result immediately the Durgapur Expressway was blocked by the angry protestors.

On 20th September, The West Bengal government declared that the lands at Singur, for which notification was issued earlier under Land Acquisition Act of 1894, have been vest absolutely in the government, free from all encumbrances. Following this voices were raised regarding the acquisition were it was urged that the Government must not forcibly evict people and must review its stand on Singur. As a result of the government's reluctance on its part to change its stand on Singur the resistance movement gained massive support from all quarters be it the opposition parties like the Trinamool Congress, the Congress (I), BJP, Civil Society Organizations, intellectuals, film personalities etc.

Despite repeated attempts by the Government of West Bengal, the government could not pacify the agitated farmers. Even the Government was unable to bring the Trinamool Congress around for a compromise. by early 2008, the situation had flared up in Singur with the opposition looking more sterned on their demand for the returning of 400 acres of land from the allotted 1000 acres given to the Tata motors. The leaders of the CPI (M) made repeated attempts to persuade Mamata Banerjee to cooperate for talks but failed. In June 2007, Jyoti Basu the Veteran Leader of CPI (M) and the Former chief Minister of West Bengal asked Mamata Banerjee to come for talks. The Trinamool leader agreed and there were clear indications that some progress had been made.¹⁴¹

In a meeting the Government decided that those farmers who have refused to accept the compensation cheques would be given alternate plots since it is not possible to shift the Tata factory from here due to legal implications. But this proposition was refused by Mamata Banerjee. She refused to accept alternative plots for Singur farmers whose land had been acquired for the Tata motors'

¹⁴⁰ *A Time Line Of Singur* (18h May 2006 – 15th June 2008) Mazdoor Mukti Publication

¹⁴¹ Telegraph July 2007

factory. The government plans to distribute land available in Singur and adjoining blocks, but outside the factory's fenced-off area. She asked why should farmers suffer while the Tata's build malls on their land?" According to her, more than 600 acres were not necessary to build the small-car factory and a part of the land that had been acquired would be used for real estate projects. "¹⁴²

The State government admitted in June 2007, before Calcutta High Court that it has not been able to reach an agreement with farmers over the acquisition of around 300 acres of land in Singur. The government, in an affidavit, has stated that till April 25, 2007, Rs 90.35 crore has been disbursed to 10,021 people for 671 acres. The state has so far acquired 997.11 acres for the Tata small car project.¹⁴³

In a Judgment given on 18th January 2008, the Kolkata High Court put its seal on the state's land acquisition in Singur, paving way for Tata Motors' Nano to roll out from there. A division bench comprising Chief Justice S S Nijjar and Justice Pinaki Chandra Ghosh dismissed all the 11 petitions against land acquisition in Singur. The bench observed there was no malafide intention on the part of the state in acquiring land there. "There was no colourable exercise of power by the government during acquisition of the land. Landowners who are not satisfied with the compensation amount may move the land acquisition collector."¹⁴⁴ The judgment had been held up on since August 30 2007

In the seventh Panchayat poll results in West Bengal for the first time in the past 30 years, the results reflected a distinct dent in its rural support base. In Singur Block 1, the area where the Tata factory is coming up, the CPM had control of all the three Zilla Parishad seats. The CPM and CPI had won 32 of the 44 Panchayat Samiti seats in 2003. This year, all the three Zilla Parishad seats have been won by Trinamool which also won 37 of the 45 Panchayat Samiti seats this time. The CPM managed only 8. But unlike East Midnapore Zilla Parishad, the

¹⁴² Mamata Banerjee Speaking to press in 2008

¹⁴³ State files Singur affidavit. Times of India 8th June, 2007.

¹⁴⁴ The Telegraph. 19th January, 2008.

CPM managed to win the Hooghly Zilla Parishad. CPI (M) leader Benoy Konar stated that the party won't roll back its controversial policy of industrialisation through farmland acquisition despite the defeat it suffered in areas it sought aggressively to implement its policy, he further said "It's an oversimplification to suggest that our defeat in Midnapore East, which includes Nandigram, Singur in Hooghly, South 24-Parganas and North Dinajpur means a rejection of our policy."¹⁴⁵

For the first time during its three decades of uninterrupted rule the CPI-M today suffered the worst defeat in rural Bengal, its main support base, when Nandigram, the whole of East Midnapore, Singur, South 24-Parganas and North Dinajpur voted the Marxists out giving a body blow to the Buddhadeb Bhattacharjee-government's controversial and audacious policy of industrialisation through farm land acquisition. The Trinamul Congress and the Congress wrested the Zilla Parishads from the CPI-M in three districts completely overshadowing the Left Front's victory in 13 districts. Nandigram and Singur not only stood out as metaphors for the resentment in rural Bengal against the LF policy of industrialisation that spilled innocent blood on the fertile soil of East Midnapore, but spurred the agrarian community in other parts of the state to vote resoundingly against the policy that threatens to forcibly take away their only means of livelihood ~ the land ~ via an archaic colonial-era legislation.¹⁴⁶

Following the Singur siege the CPI (M) leaders expressed that those spearheading this agitation have used as one of their fundamental pillars of opposition, the canard that industrialization in Bengal is impossible under the Left Front government. This has been their constant refrain for the last three decades. Now when concrete and significant industrialization efforts are successfully advancing, these very forces seek to thwart them. The politics of this is not far to

¹⁴⁵ *CPI (M) won't change its land policy. The Statesmen Kolkata 21st May, 2008*

¹⁴⁶ *Cracks in Red Citadel. The Statesmen kolkata 21st May 2008*

seek. If industrialization advances in Bengal under the Left Front government, then the *raison d'etre* of the opposition's political existence will simply cease. Hence, for their political survival, they need to prevent industrialization in Bengal and, therefore, to sabotage greater employment opportunities and better livelihood for the people. They, thus, emerge as the enemies of Bengal's prosperity.¹⁴⁷

Following the siege the Governor Gopalkrishna Gandhi met the Trinamool leaders to carve out a possible solution which could break the deadlock. By early September the Tatas suspend their work in the plant following a series of attacks on the workers working in the plant. The siege of the Durgapur Expressway was withdrawn only on 7th September after a meeting moderated by the governor Gopalkrishna Gandhi, the state government agreed to allot as much land as possible from inside or near the Tata factory to some unwilling farm owners. By end of September it becomes apparent that the situation would likely to remain the same in near future as result on 3rd October 2008, Ratan Tata finally announces that there will be no Nano from Singur. The decision by the Tatas to pull out of Singur caused great dismay all over the state.

The State Governments role in both Nandigram and Singur was widely criticized by people belonging to all sections of the society. The Governments Land Acquisition Policy for setting up of SEZ units in the State had been criticized since beginning.

In his article *Industrialization in West Bengal: Some Inescapable Questions* Kalyan Sanyal criticizes the West Bengal Governments casual approach towards industrialization which according to him will render thousands displaced. He stated that though industrialization is needed but the way it is pursued by the state government is wrong. He accepted the need for industrialization in West Bengal. He argued that no calculation has been made by the government about the net

¹⁴⁷ Editorial *Singur Siege: Meet the Challenge Politically*. *People's Democracy* vol.xxxii, no 34. 31st August 2008

employment to be created through its proposed industries. He pointed out that the government talks about the linkage effect of industrialization, but is silent about the loss of agriculture-related occupations. When asked about the alternative path of industrialization, Sanyal stated that a sizable number of people have got employment in the non-farm sector in West Bengal in recent times without any government effort. So, one has to know the possibilities of alternative employment. He highlighted the need for a sound compensation policy in case of land acquisition keeping in mind the complexities of land tenure in West Bengal. He cited the case of Singur to show the limits of cash compensation to farmers because loss of land implies loss of source of livelihood and makes life vulnerable.¹⁴⁸

Summing up

SEZ has come into controversy right from the beginning all over the country. One of the Main Concerns Regarding it was the Giving up of Agricultural lands for the purpose of setting up of the SEZ units. Regardless of the compensations given the farmers were not ready to part away from the land. The fear of displacement loomed largely on their minds. this fear was further escalated by the manner in which lands for the development of SEZ units were taken up by the State Government. This was further fuelled by the Stand taken by different oppositions parties like the Trinamool Congress who repeatedly refused to budge from its stand which ultimately lead to the withdrawal of Nano plan from Singur. The happenings o March 14th 2007, in Nandigram could not be justified on any account. Both Nandigram and Singur had been the strong hold of the Left for the

¹⁴⁸ *Land Acquisition and Industrialisation in West Bengal : Mainstream*, Vol XLV, No 29 7th July 2007.

past 30 years but the panchayat elections of May 2008 proved that how badly the State Government had faltered on its policy. Tata motors decision to locate the flagship Nano project in West Bengal provided an opportunity for West Bengal to make a return to industrial growth. The experience of China, South Korea and other States in India showed that industries create well-paying jobs at rate agriculture cannot match. If the Nano project is successful, more industries will locate to West Bengal and over time the wrenching poverty of its rural workers will start to become history. Several States had proposed to offer land to Tata Motors if they abandon the project in Singur which unfortunately did take place. After withdrawing from Singur the Tata motors relocated the Nano plant in Gujarat. The process of industrialisation in the state has received serious jolt following the incidents of Nandigram and Singur. The Left front suffered serious setbacks both in the panchayat elections as well as in the 15th Lok Sabha elections.

The West Bengal government on 19th July, 2009 declared that it will no longer go ahead with the prestigious highway project connecting Barasat in North 24-Paragans and Raichak in South 24-Paragans. This project was undertaken by the Salim group of Indonesia. This decision comes after the dismal performance of the Left in 15th Lok Sabha elections.¹⁴⁹

¹⁴⁹ Bengal Government moves to abandon showpiece highways irks partner. Hindustan Times. 20th July, 2009.

Chapter IV- Centre-State Economic and Financial Relations **under Liberalisation Phase**

Liberalisation ushered in 1990 – 91, has affected all the aspect of the Indian political system. At one hand where the country saw the breaking up of the planned economic regime giving way to new economic regime based on the doctrine of liberalisation and privatization and on the other the Indian political system saw the rise of coalition politics at the national level. Since 1989, the centre has not being ruled by any single party rather by alliances made up of different political parties. Liberalisation not only affected the economic aspect of the country but it significantly impacted the federal relations in the country as well.

The centre – state relations have undergone significant changes since 1990. With the rise and strengthening of several regional parties a new era of federal coalition has been ushered in. This development has increased the bargaining powers of state vis-à-vis the centre. The political authority of the centre has weakened over the 1990's, providing more 'political space' for states to plough their own course. The average tenure of Government has fallen at the Central level, and there has been a shift to coalition governments as no single party has been able to claim a majority in its own right. By contrast, at the state level many, though by no means all, governments are relatively stable, regional parties are naturally associated with the greater diversity of economic policies. Few states now exist at the mercy of the centre government: state governments are either important regional allies of the central government or are in the opposition.¹⁵⁰ Economic development has favored the growth of state reforms. Reforms at the centre in the early 1990's set the stage, and made reforms at the state level legitimate endeavor.

¹⁵⁰ Howes Stephen, Ashok K. Lahiri, and Nicholas stern, *State Level reforms in India* Macmilian India ltd. p5 (2003)

Liberalisation has also made state reforms more important. With the central government no longer able to direct investment through licensing, the enabling environment provided by a state has become a more important determinant.¹⁵¹

In the context of the new scenario posed by the introduction of the liberalisation policies new constraints have been imposed on the states. Along with the old issues, new issues have emerged in the centre-state relations which bring out the necessity of restructuring the centre – state relations in the present era. The Left has supported the idea of restructuring of the centre- state relations since the beginning. Since 1967 the Left has demanded radical restructuring of centre – state relations. The party documents of the CPI (M) clearly state the party’s position regarding the centre-State relations.¹⁵²

The Left parties especially the CPI (M) has in its party documents for e.g. the West Bengal governments memorandum on Centre-State relations in 1977, as well in its submission to the Sarkaria Commission have repeatedly raised the demand for restructuring of centre-state relations. The party believes that a country like India which is marked with so many diversities in every aspect cannot remain strong and stable unless the constituent units are granted enough autonomy. With the ushering of the new economic regime in the 1990’s the demand for restructuring of centre-state has also grown. The joint election manifesto released by the Left parties on the occasion of general elections in 1998, stated that the Left parties will strive for adequate powers to the states for decision making in both political and economic spheres, along with demanding necessary Constitutional amendments for devolving more powers to the states.¹⁵³

¹⁵¹ Ibid.

¹⁵² See, West Bengal governments *memorandum on Centre-State relations 1977*, CPI (M)’s position regarding Centre-State relations expressed at the Srinagar conclave held in 1983, Submission’s before the Sarkaria Commission 1988.

¹⁵³ *Joint manifesto* of the Left parties for the Lok Sabha election in 1998. www.cpim.org.com

Fiscal federalism is the economic counterpart to political federalism. Fiscal federalism is concerned with the assignment on the one hand of functions to different levels of government and on the other with appropriate fiscal instruments for carrying out these functions. It is generally believed that the central Government must provide national public goods that render services to the entire population of the country. Local governments are expected to provide goods that services whose consumption is limited to their own jurisdictions. The arguments here is that output of such goods and services can be tailored to meet the preferences and circumstances the people in that jurisdiction.¹⁵⁴

Liberalization and economic reforms have reduced the span of control of the central government in many areas while increasing the potential importance of state level policies and administrative action. Some state governments have recognized this transition and are adopting a pro-active role in the management of economic change.¹⁵⁵ These new challenges have further accentuated the constraints on the limited financial powers enjoyed by the states. The norms for how state governments deal with the central government has changed. Much of investment in the pre reform period used to come from the centre. But things changed in the 90's. Amaresh Bagchi points out that with the initiation of the new economic policy in the 90's, the centre's role in controlling major industries has undergone a radical change. The balance of power in India's federal system leans towards the centre. States in India have very limited fiscal autonomy. The economic liberalization process has in some fundamental ways shifted the balance of power between the states and the central government. As the role of the central Government has declined as a source of public investment, state governments have to look not at the centre for investment rather private investors.¹⁵⁶ C. Rangarajan has that remarked

¹⁵⁴ C. Rangarajan, *Fiscal Federalism: Some Current Concerns Indian Journal of Federal Studies*, January 2004. (The paper is based on the inaugural address deliver by C. Rangarajan at the Theme Conference on Distribution of Responsibilities in Federal Polities", organized by the Centre for Federal Studies, in Nov.03, under the Global project on Federalism sponsored by the Forum of Federation)

¹⁵⁵ Ahluwalia Montek Singh, *Economic Performance of the States in the Post-Reforms Period.* *Economic and Political Weekly*. May 6, (2000)

¹⁵⁶ Bajpai, Sachs and Varshney (Ed) *India in the Era of Economic Reforms* OUP p36 (1999)

on the role played by the state in the market led economy that the role a state as a producer of marketable goods and services is being de-emphasized. However, this has not diminished the role of the government. “More market does not mean less government but only different government.”¹⁵⁷

Interface at the State and National level

The period from 1990's witnessed a see – saw change in all the aspects Indian political system. The opening up of the economy along with rise of federal coalition at the centre significantly impacted the Indian polity. The balance of power in India's federal system leans towards the centre. States in India have very limited autonomy. The economic liberalization process has in some fundamental ways shifted the balance of power between the states and the central Government. As the role of the central Government has declined as a source of public investment, state governments have to look not at the centre for investment rather to the private investors.¹⁵⁸ The political autonomy of the constituents units of a federation cannot be deemed complete unless they enjoy financial autonomy. The essence of a federation is the distribution of functions but no state can function independently if it does not have specified financial resources. Though centre - state relations have undergone drastic changes in the post liberalization period, but the tussle continues though in a new paradigm now. Even in this period of liberalization states have still accused the centre of using its power inappropriately especially in the financial sphere. States are saying that even in this period of liberalization we are not free to pursue our own path of development; the centre is still giving us directions.

¹⁵⁷ C. Rangarajan, *Art.cit.*

¹⁵⁸ Bajpai, Sachs and Varshney, *Opcit.*

The broad issues encompassing the entire spectrum of centre – state relations may be specified as devolution of more legislative and executive powers to the states, enlargement of the divisible pool, pattern of devolution, role of the FC specific problems and institutions and states indebtedness, market borrowing and sharing of capital resources. In the wake of liberalization new issues have come up which are confronting the federal relations today and further have brought about significant changes into the federal relations. With changes in the economic setup, the federal relations also underwent change. The shift in economic paradigm brought new challenges at the forefront confronting the existing federal setup. The structural reforms implemented represented a break from the strategy adopted until then. The developmental strategy based on planned economy took a backseat, making way for the market economy.

The Left parties have pointed out that even the restricted autonomy and powers of the states have been steadily eroded and undermined over the years. There has been a growing concentration of power and authority at the centre. The centre has been abrogating and eroding the powers of the states. This kind of center's nature is not an accident. When the Constitution was framed after independence, the seeds of the central domination were sown. In any federal structure the centre derives its strength and authority from the willing cooperation of the constituents units. At the same time, the states must be invested with necessary powers and authority. The centre-states should have their legitimate due in the field of power, authority, resources and opportunity. The centre and the states should have all these powers to discharge their respective responsibilities to the people and the country. The present problem is that all the powers and resources are concentrated into the hands of centre. The states badly lack resources, and at the same time the development responsibilities have continued to be expanding.

Though the states have been receiving the overdrafts, market borrowings and advances from the centre, the resource gap between the centre and the states

has been increasing. The major source of revenue including banking, insurance and public financial institutions are exclusively under the control of the centre. The states too have had no voice in formulating the country's economic and fiscal policies.

Economic and Financial Issues

Fiscal federalism has always been a contentious area. Resources have always been concentrated into the hands of centre. As a result states have depended on the centre since the beginning. The limited financial resources and the states decision making powers have become more constrained in the liberalisation period. A federal system consists of two sets of government operating at the same time. In order to oblivate the conflict the constitution provides for a clear cut division of powers, spheres of authority between the different levels of government. This division of power is necessary for all levels to fulfill their obligations be it executive, legislative or financial. The states in India are not free or independent to work even in their own spheres.

The paramount position of the centre places the states in a very disadvantageous position. The overriding powers enjoyed by the centre compared to states, places them to a certain extent at the mercy of the centre. If we go back at the period before liberalization we can certainly see that the states control over the fiscal aspect was absolutely negligible. The centre decided over the allocation of industries in each state and also the grants to be sanctioned. Well this scenario changed a lot in the liberalization period with centre no longer directing the allocation of industries but the centre still has the hold on the allocation of resources. In this present period states are themselves taking the initiative of attracting the investors to invest in the state. Though the virtual dependence of states on the centre might no longer be there but to assume that in this present era of liberalization states are totally free to pursue there own path of

industrial development wont be correct. The traditional issues in fiscal federalism have been how to determine the assignment of taxes and responsibilities to different levels of government.

The genesis of fiscal federalism in India can be traced back to the Govt. of India Acts 1919 and 1935. While the Govt. of India Act of 1919 provided for the separation of revenue heads between the centre and the Provinces, whereas the Govt. of India Act of 1935 provided for the sharing of centre's revenues and for the provision of grants-in-aid to Provinces. The Government of India Act of 1919, devolved some authority to the provinces, and nominally restricted the powers of the central government over matters assigned to the provinces. While the Indian government remained essentially unitary, there was some relaxation of central control over provinces by separating the subjects of administration and sources of revenue into central and provincial jurisdictions. Provinces received unambiguous control over sources of revenue such as land, irrigation and judicial stamps. The initial assignment of revenue authority proposed would have required provincial contributions to fund the central government, but this scheme was quickly modified towards greater central fiscal autonomy, including the sharing of central income taxes with the provinces. The 1935 Act provided for the distribution of legislative jurisdictions with the three-fold division of powers into Federal, Provincial and Concurrent Lists. The legislature, however, did not have the features of a sovereign legislature, as its powers were subject to several limitations. The Act also enabled the establishment of Federal Court to adjudicate the disputes between units of the federation and was also the Appellate Court to decide on constitutional questions. On the fiscal front, the Act provided an assignment of tax authorities and a scheme of revenue sharing that, in many respects, laid the foundations of fiscal federalism in independent India.¹⁵⁹

¹⁵⁹ Singh Nirvikar, *India's System of Governmental Fiscal Relations*. University of California Santa Cruz, This is a revised version of a paper presented at the 10th Anniversary Conference of the Financial and Fiscal Commission of South Africa, held on August 10-12 2004 at the Capetown International Convention Center, Capetown, South Africa. p3. (revised) August 2004

Since the beginning of economic liberalization and the parallel process of regional representation in national governments (that began in 1996), India's regional states now enjoy considerable political and economic autonomy, but also face intense fiscal pressures on their fragile economies.¹⁶⁰

In the fiscal sphere the confrontation between centre and states have always been deeply entrenched, especially with regard to the allocation of industries and distribution of resources. Earlier, the major percentage of the funds was released through institutions like PC which is not a constitutional body and was not independent of the centre's sphere of influence. West Bengal has pointed out that the centre has used and is still using institutions like PC, FC to pull strings on the states. Since majority of the grants were released through these institutions the centre used them for gaining political leverage on the state government. The FC was envisaged in the Constitution as the key institution responsible for dealing with fiscal imbalances between the center and states, as well as among the states. But unfortunately its role has been circumscribed by the working of the PC, which has typically been put outside the FC'S terms of reference. Furthermore, as PC transfers became formulaic, there has been a tendency to move toward using discretionary grants determined by the central ministries. Thus, the overall tendency seems to have been for the central government to try to exercise as much political control as possible over transfers to the states. Also, within each channel for transfers, there has been anecdotal evidence that there are attempts to influence the outcomes of the process.¹⁶¹

¹⁶⁰Sinha, Aseema The Changing Political Economy of Federalism in India: A Historical Institutional Approach, *India Review*, vol. 3, no. 1, January 2004, pp. 25–63

¹⁶¹ Rao and Singh, *Federalism in India: Political Economy and Reform. Paper presentation at the conference on "Ten Years of Economic Reforms"* at the William Davidson Institute, University Of Michigan (2001).

The Indian Constitution, in its Seventh Schedule, assigns the powers and functions of the center and the states. The schedule specifies the exclusive powers of the Center in the Union list; exclusive powers of the states in the state list; and those falling under the joint jurisdiction are placed in the Concurrent list. All residuary powers are assigned to the Center. The functions of the central government are those required to maintain macroeconomic stability, international trade and relations and those having implications for more than one state. The major subjects assigned to the states comprise public order, public health, agriculture, irrigation, land rights, fisheries and industries and minor minerals. The states also assume a significant role for subjects in the concurrent list like education and transportation, social security and social insurance.

The FC in India determines the distribution of taxes and grants-in-aid between the centre and states. Art. 280 clause (3) of the Constitution requires the FC to make recommendations regarding the distribution of net proceeds of sharable taxes between centre and states, and allocation and the allocation the states of their shares in such proceeds. The amendment made to the Art.80 in 2000 has changed the pattern of sharing of central taxes between the centre and states. It has enlarged the ambit of the sharable central taxes. The 80th amendment has substituted a new Art for art 270 and omitted the old Art. 272.¹⁶² The enlargement of the sharable pools covers all the Central taxes except those mentioned in the Arts. 268 and 269. Central transfers to states are not generally confined to recommendations made by the FC. Here the PC plays an important role. The 11th FC recommended that 1.5% of all the shareable Union taxes be kept separately for the states thus, increasing the net proceeds to 29.5% of the total taxes. It was suggested that in the overall scheme of transfer, 37.5% of the gross revenue receipts of the centre should be transferred to the states. One important issue that has been raised in this regard in the light of the recent changes of economic policy

¹⁶² See *11 the FC report, Chapter iv, Sharing Union Revenue Taxes* June 2000

aimed at liberalisation is whether the vertical imbalance has increased or decreased.¹⁶³

In India, income tax is levied by the centre only but is share with the states. The Centre in India collects nearly 65% of the total revenue. Union grants are routed through central ministries to their counterparts in the states, each Union ministry is in a position to use the strings of financial power to superintend, direct, and control the corresponding state department. In this way, besides the territorial or horizontal federation setup by the constitution, sort of vertical federation has come into being.¹⁶⁴ The assignment of tax powers in India is based on a principle of separation, i.e., tax categories are exclusively assigned either to the center or to the states. Most broad-based taxes have been assigned to the center, including taxes on income and wealth from non-agricultural sources, corporation tax, taxes on production (excluding those on alcoholic liquors) and customs duty. A long list of taxes is assigned to the states. However, only the tax on the sale and purchase of goods has been significant for state revenues.

The center has also been assigned all residual powers, which implies that the taxes not mentioned in any of the lists automatically fall into its domain. The tax assignment system has some notable anomalies. The separation of income tax powers between the center and states based on whether the source of income is agriculture or non-agriculture has opened up avenues for both avoidance and evasion of personal income tax. Second, even though in a legal sense taxes on production (central manufacturing excises) and sale (state sales taxes) are separate, they tax the same base, causing overlapping and leaving less tax room to the latter. Finally, the states are allowed to levy taxes on the sale and purchase of goods (entry 54 in the State list) but not services. This, besides providing avenues for tax evasion and avoidance, has also posed problems in the levy of a

¹⁶³ Ibid.

¹⁶⁴ Majeed, *Republic of India. A Global Dialogues on Federalism - Constitutional origins, Structures and Change in Federal Countries* Ed. by John Kincaid and Alan Tarr, published by McGill-Queen's University Press. Pg 201 (2005)

comprehensive value added tax. The result of the Indian assignments of tax and expenditure authority, and their implementation in practice has been a substantial vertical fiscal imbalance. In 1997-98, the states on average raised about 31 per cent of total revenues, but incurred about 57 per cent of total expenditures. The balance was made up by transfers from the Center. In fact, the ability of the states to finance their current expenditures from their own sources of revenues has tended to decline over time, from 69 per cent in 1955-56 to around 55 per cent in the 1990s.¹⁶⁵

The Constitution recognizes that its assignment of tax powers and expenditure functions would create imbalances between expenditure 'needs' and abilities to raise revenue. The imbalances could be both vertical, among different levels of government, and horizontal, among different units within a sub-central level. Therefore, the Constitution provides for the assignment of revenues (as contrasted to assignment of tax powers), sharing of the proceeds of certain centrally levied taxes with the states, and making grants to the states from the Consolidated Fund of India. The Constitution also provided for the compulsory sharing of the net revenue from non-corporate income tax (Article 270), and optional sharing of the proceeds of Union excise duty (Article 272). The shares of the center and the states and their allocation among different states of both the taxes are determined by the Finance Commission appointed by the President of India every five years (or earlier if needed). In addition to tax devolution, the Finance Commission is also required to recommend grants to the states in need of assistance under Article 275.¹⁶⁶

The Constitution gives the states a share in the resources available to the Center. Any amendment of the lists from the Union and the states derive their power of taxation is covered by the provision to Article 368. This requires ratification by

¹⁶⁵ Rao M.Govinda and Nirvikar Singh, *Federalism in India: Political Economy and reforms. Working paper no. 108.* Centre for policy research on economic development and policy reforms September 2001 Stanford university. Art.cit

¹⁶⁶ Ibid. p9

the Legislatures of not less than one half of the states. On the other hand, if any provisions of the Part XII are to be amended, this could be done under Article 368(2), which requires the approval of only half of the members of each house of the Parliament. This means that the share of the Union resources that the states are entitled to, can be altered by Parliament by its power of amendment. The Union List includes among others, taxes on income other than agricultural income, excise duties, customs and corporation tax. The State list includes land revenue, excise on Alcoholic liquors, tax on agricultural incomes, estate duty, taxes on sale or purchase of goods, taxes on vehicles, on professions, on luxuries, on entertainment, on stamp duties, etc. the concurrent list does not include any important taxes. The distribution of resources between centre and the state follows as:¹⁶⁷

- ❖ The taxes levied by the Union but collected and retained by the states.
- ❖ Taxes levied and collected by the union but whose proceeds are given over to the states.
- ❖ Taxes levied and collected by the Union but whose proceeds are shared between both Union and the states.
- ❖ Taxes which are levied and collected by the government of India but whose proceeds may be distributed among the states in accordance with such principle as may be formulated by the Union.

Grant-in-aids: Besides the above sources of the revenues the Constitution provides for certain grants-in-aids of the states from the Union fund. The Union levies and collects the proceeds on items out of receipts the states are given revenues

The basic imbalance in the Indian Constitution in regard to centre-state relations arises out of the fact that, while the major responsibilities in the sphere of development expenditure (irrigation, roads, power, education, health etc.) and administrative expenditure (law and order, general administration etc.) have been

¹⁶⁷ Basu D.D. *Introduction to the Constitution of India*, 18th edition Prentice Hall of India Pvt. Ltd. New Delhi p 319-322, (1999)

given to the states, the more important powers of revenue-raising have been given to the centre. This vertical imbalance remains the basic problem in centre-state financial relations.¹⁶⁸

It is essential to work out a fair principle for sharing of central taxes with the states. The central taxes net of transfer to the states and the state taxes including states' share in central taxes should be in proportion to the development expenditures incurred by the centre and the states respectively. On the basis of this principle and the available data on the trend of existing as well as the required development expenditure of the states, it had been worked out that the state's share of central tax revenue should be at least 50%. The states, over a long period, have therefore been demanding that 50% of the total pool of collection of central taxes be devolved to the states. However, this demand has been ignored so far and the states' share of central taxes currently stands at 30.5% only. This needs to be increased to 50% on an urgent basis.

The Constitution recognized that its assignment of tax powers and expenditure functions would create imbalances between expenditure 'needs' and abilities to raise revenue. The imbalances could be both vertical, among different levels of government, and horizontal, among different units within a sub-central level. Therefore, the Constitution originally provided for the sharing of the proceeds of certain centrally levied taxes (e.g., non-corporate income tax, Article 270; and Union excise duty, Article 272) with the states, as well as grants to the states from the Consolidated Fund of India. Recent constitutional changes in this scheme have simplified this sharing arrangement, replacing it with an overall share of the Consolidated Fund. The shares of the center and the states, and their allocation among different states are determined by the FC.¹⁶⁹

¹⁶⁸ Saxena Naresh C. Central Transfers to States & Centrally Sponsored Schemes Paper prepared for the discussion in NAC p 7. (The author is a member of the Planning Commission is designated as an ex-officio member of the FC (even this was not done for the Eleventh FC), it has been a mere formality and in actual practice there is little exchange of data or views between the two Commissions.)

¹⁶⁹ *ibid.* p 8.

Inadequacy of the revenue raising powers assigned to the States relative to their expenditure has been compensated by statutory provision for the transfer of funds from the center to the states via the FC. Further, states receive plan funds from the PC through two routes, via support to states' plans (called Central Assistance), and via the CSS of Government of India Ministries.¹⁷⁰ As already noted, in addition to transfers via the Finance and Planning Commissions, States received roughly Rs25,000 crores during 2001-02 for implementation of CSS pertaining to subjects that are under the state domain. Grants for CSS are meant to supplement the resources of the state governments, who are responsible for the implementation of these schemes and who are expected to pay a matching contribution, typically of 25 percent. These schemes are designed by the central Ministries, who then pass on the funds to the states from the central plan budget that the Ministries control. The outlay and nature of the individual schemes is determined by the provisions and guidelines attached to schemes, are relatively inflexible, and cannot be altered by the states, at least on paper. CSS were originally to be formulated only where an important national objective such as poverty alleviation was to be addressed, or the program had a regional or inter-state character or was in the nature of pace setter, or for the purpose of survey or research. However, the CSS have proliferated enormously, and in the terminal year of the Ninth plan there were as many as 360 CSS.¹⁷¹

Government of India has increased its control over the states sector in three ways, firstly through substantial funding of CSS, the budget for which is about 60 percent of the Central Assistance; secondly much of it goes straight to the districts, thus bypassing the states and placing district bureaucracy directly under the supervision of the Government of India; and thirdly more than half of Central Assistance is given in the form of ACA, which is often not formula based but where the Government of India Ministries have a great deal of control over the state allocations and releases. Some of these schemes with their outlays in

¹⁷⁰Ibid

¹⁷¹ ibid. p 6-7

2002-03 are PMGY (2800 crores), AIBP (2800), APDRP (3500 crores), and Development and Reform Facility (2500 crores). Though for budgetary purposes they are shown as ACA, they share many common features with CSS, as these entail adequate control over flow of funds with the central Ministries but states too have flexibility in deciding the details of schemes. This new hybrid form of transfers must be seen as a healthy development, as it can be used for promoting reforms in the states.¹⁷²

The states had justifiably demanded the transfer of at least the residual powers of taxation, particularly the power to tax services, to the states. Ignoring this demand, the centre acquired for itself the entire power of taxing services through a Constitutional amendment. Fairness demands that the states are allowed to tax certain services including some services, which are currently being taxed by the centre. Central surcharges and cesses do not form a part of the divisible pool, thus denying the states their due share in total revenue receipts. These surcharges and cesses should also be made a part of the divisible pool. There is also a need to evolve a suitable model for the proposed Goods and Services Tax so that the states have a fair share in the revenues especially keeping in mind the interests of the special category states.

The post-liberalization period witnessed a fall in revenue mobilization of the centre, mainly on account of reductions in direct and indirect taxes and the overall weakening of the resource mobilization effort. Revenue mobilization by the central government declined from 12.17% of GDP in 1990-91 to 10.74% of GDP in 1998-99. States' own revenues, however, remained fairly stable at around 7% during this period. Central transfers to the States also declined from 4.73% of GDP in 1990-91 to 3.79% of GDP in 1999-00. During the reference period of the 11th FC (2000-05), the actual collection of central taxes fell significantly short of the projected amount. As a result, the actual amount received by the states has also

¹⁷² *ibid.* p 8

been substantially less, by nearly 19%, from what was recommended by the Commission.¹⁷³

In the present setup where the function of the state has increased many folds, the resources have gown down. The total transfer of resources has fallen down over the years. States have to shoulder the responsibilities of maintaining not only the economy of the state as well as the social development also. States have been demanding greater revenues shares for carrying out their responsibilities effectively. The states share in the revenue transfers have gone down over the years. The table 4.1 below shows the decline in the total revenue transfers from the centre to the state.

Total transfer of resources from centre to state % of GDP at market price

Year	Total transfers % of GDP
1997-1998	4.81
1998-1999	3.69
1999-2000	3.74
2000-2001	4.38
2001-2002	4.61
2002-2003	4.09

Sources: Fiscal federalism undermined under NDA. People's Democracy. Vol. xxviii, no. 13 March 2004

In the existing sales tax structure, there are problems of double taxation of commodities and multiplicity of taxes, resulting in a cascading tax burden. For instance, in the existing structure, before a commodity is produced, inputs are first taxed, and then after the commodity is produced with input tax load, output is taxed again. This causes an unfair double taxation with cascading effects.

¹⁷³ *II the FC report OpCit*

VAT was introduced in India on 1 April 2005. Introduction of State VAT is the most significant tax reform measure at state level. The state VAT has replaced the earlier Sales Tax systems of the states. The decision to implement state VAT was taken in the meeting of the Empowered Committee of State Finance Ministers held on 18 June 2004, where a broad consensus was arrived to introduce VAT w.e.f. 01 April 2005.¹⁷⁴ The Empowered Committee noted that the prevailing sales tax structure, there is in several states also a multiplicity of taxes, such as turnover tax, surcharge on sales tax, additional surcharge, etc. With introduction of VAT, these other taxes will be abolished.¹⁷⁵

The near decade-long efforts to introduce the value-added tax (VAT) regime, which began with a meeting of chief ministers convened in 1995 by then Finance Minister, Dr Manmohan Singh, appeared to be succeeding in most respects at the Empowered Committee of State Finance Ministers held on June 18, 2004, with all except one state agreeing to its introduction from April 1, 2005. The Empowered Committee issued a white paper on "State-level Value Added Tax" on January 17, outlining the modalities for introducing VAT.¹⁷⁶

While the states have thus taken several steps towards introduction of VAT, certain supporting decisions were critically needed at the national level for more effective implementation of VAT from April 1, 2005. It needs to be carefully noted that although introduction of VAT may, after a few years, lead to revenue growth, there may be a loss of revenue in some states in the initial years of transition. It is with this in view that the Government of India had agreed to compensate for 100 per cent of the loss in the first year, 75 per cent of the loss in

¹⁷⁴ *White Paper on State level VAT* By The Empowered Committee of State Finance Ministers (Constituted By the Ministry of Finance, Government of India On the Basis of Resolution Adopted in the Conference of the Chief Ministers on November 16, 1999) New Delhi January 17, 2005

¹⁷⁵ State tax section www.finmin.nic.in

¹⁷⁶ Srinivasan V.K. Vat on slippery track The Hindu business line (internet edition) Tuesday, Mar 29, 2005

the second year and 50 per cent of the loss in the third year of introduction of VAT, and the loss would be computed on the basis of an agreed formula.¹⁷⁷

In the existing sales tax structure, there are problems of double taxation of commodities and multiplicity of taxes, resulting in a cascading tax burden. For instance, in the existing structure, before a commodity is produced, inputs are first taxed, and then after the commodity is produced with input tax load, output is taxed again. This causes an unfair double taxation with cascading effects. In the VAT, a set-off is given for input tax as well as tax paid on previous purchases. In the prevailing sales tax structure, there is in several states also a multiplicity of taxes, such as turnover tax, surcharge on sales tax, additional surcharge, etc. With introduction of VAT, these other taxes will be abolished. In addition, Central sales tax is also going to be phased out. As a result, overall tax burden will be rationalized, and prices in general will also fall. Moreover, VAT will replace the existing system of inspection by a system of built-in self-assessment by the dealers and auditing. The tax structure will become simple and more transparent. That will improve tax compliance and also augment revenue growth. Thus, to repeat, with the introduction of VAT, benefits will be as follows:¹⁷⁸

- ❖ a set-off will be given for input tax as well as tax paid on previous purchases
- ❖ other taxes, such as turnover tax, surcharge, additional
- ❖ surcharge, etc. will be abolished
- ❖ overall tax burden will be rationalized
- ❖ prices will in general fall
- ❖ there will be self-assessment by dealers
- ❖ transparency will increase
- ❖ there will be higher revenue growth

¹⁷⁷ *ibid.*

¹⁷⁸ *ibid.*

VAT is a general indirect tax assessed and collected on the value added to goods in each business transaction. It is levied on all commercial activities involving manufacture and trading of goods and services (services are not included in India). It is charged at a uniform rate as a percentage of prices at which the goods are transacted and it is affected at each stage of transaction in the production and distribution chain. Introduction of VAT is considered to be a major tax reform as it eliminates the cascading effect of multipoint taxation associated with the existing sales tax regime. Sales tax is levied on the gross value without allowing any set-off for taxes paid on inputs. VAT is levied only on the value added after setting off the tax already paid on the inputs. Since VAT requires computerized records it provides for greater transparency. Thereby VAT reduces tax evasion and improves compliance. In a federal set-up like India, uniform VAT rates eliminate competition among states to offer tax reduction concessions to attract investment and thereby it prevents reduction of revenues. Once VAT is implemented India will become a common market and sales between states will become totally free. Each producer will have a big common market before him. However, in a federal country like India consensus among states is a precondition to introduce VAT. The Kelkar committee in its report recommended the implementation of VAT.¹⁷⁹ The Union Budget for the year 2003-2004 also recommended the implementation of the VAT across the country from April 1, 2003.

Sales Tax/ VAT is a state subject, the central government is playing the role of a facilitator for successful implementation of VAT. A compensation package has been finalised in consultation with the states for providing compensation to them during 2005-06, 2006-07 and 2007-08 for any revenue loss on account of introduction of VAT and the compensation is being released accordingly. Technical and financial support has also been provided to the states for VAT computerization, publicity and awareness and other related aspects. The

¹⁷⁹ For details see Kelkar Committee Report on Direct Taxes. 2003. www.finmin.nic.in

West Bengal Value Added Tax Act, 2003 as amended by West Bengal Finance Act, 2005.

The VAT has courted controversy since its inception. state governments have not been very positive on the subject in the beginning. The CPI (M) has criticized the VAT but the West Bengal government enacted its own VAT Act in 2003 which was later amended by West Bengal Finance Act, 2005. VAT was opposed on several grounds. The traders associations opposed the introduction of VAT. The CAIT declared that the VAT in its present form is not acceptable. It demanded that the VAT laws should be modified.¹⁸⁰

States have been reluctant to introduce VAT because it would reduce the revenue. The centre has acknowledged the possibility of reduction in revenue following substitution of sales tax by VAT and had offered to compensate the states for the revenue reduction for three years. Though initially there might be a fall in the revenue, after a period of time the revenue would be buoyant as the compliance would improve. Though the former Finance minister Jaswant Singh announced in his budget for the year 2003-2004 said that the VAT would be implemented from April 1 2003, but had made no allocation in his budget to compensate the states for their revenue loss.¹⁸¹

Dr. Ashok Mitra the former finance minister of West Bengal has been at the forefront in criticizing the VAT. He argues that VAT negates of the federal principle as it would concentrate more powers at the centre and also because it is being introduced at the behest of the WTO. Recently the World Bank has also urged India to expedite the introduction of VAT as this is the best way to tax services, which now form more that half of the GDP. Some commentators have expressed concern that the benefits of VAT may not materialize if the Government keeps colluding with the trading community - a big part of the

¹⁸⁰ 'VAT in present form not acceptable' Traders Charter on VAT' released by the CAIT in 2004. Business Line April 14, 2004 www.thehindubusinessline.com

¹⁸¹ The Value Added Tax Controversy www.cpiiml.org

currently formal economy may turn informal - to avoid paying any tax at all. Giving automatic input credit to dealers and manufacturers under VAT without proper computerization is like giving blank cheques to them. False input credit will eat up revenue. While addressing a press conference in Kolkata 2005, Dr. Mitra stated that VAT would snatch away revenue from the state government which used tax collections for local development. He further said that "The right to impose sales tax has been granted to the states under Article 246 of the Constitution. Neither the centre nor the state government has the power to abolish this right without amending the Constitution. The initiative of the Union government to do away with sales tax is therefore illegal and unconstitutional," He further pointed out that no state government could enact legislation on VAT since such a tax was not included in the state list of the Seventh Schedule. The centre could use the residual powers granted to do so.¹⁸²

Dr. Mitra in 2005 filed a case in the Kolkata High Court challenging the implementation of the VAT. Given an interview to the Indian express in March 2005, Dr. Mitra stated that "I will fight it (VAT) tooth and nail. I will take the issue to the apex court, if necessary" According to the Constitution, neither the state government nor the union government has the power to abolish sales tax, which is one of the major sources for states to generate revenue. By forfeiting it to the centre, the states will be more dependent on the centre,"¹⁸³ Asim Dasgupta the Finance minister of West Bengal was also the chairperson of the empowered committee of state finance ministers appointed to implement VAT by Finance Ministry, in a interview given to the Times of India in August 2004 had commented that the VAT would replace the Inspector Raj. Introduction of Value Added Tax from April 2005 will 'replace' Inspector Raj and pave the way for elimination of 'mistrust' between the traders and the tax authorities, "Inspector

¹⁸² Ashok Mitra slams VAT plan, *Business Standard* January 15, (2005) www.business-standard.com

¹⁸³ Bandopadhyay Sabyasachi. VAT's right case for HC: *Ashok Mitra on* March 23, (2005) www.indianexpress.com

Raj will be replaced and in place of mistrust and harassment, there will be compliance and cooperation with the introduction of VAT,"¹⁸⁴

Chanchal Kumar Sharma in his article *Implementing VAT in India: Implications for Federal Polity* stated that "Although the implementation of broad-base federal VAT system has been considered as the most desirable consumption tax for India since the early 1990s, such a reform would involve serious problems for the finances of regional governments. In addition, implementing VAT in India in context of current economic reforms would have paradoxical dimensions for Indian federalism. On one hand economic reforms have led to decentralization of expenditure responsibilities, which in turn demands more decentralization of revenue raising power if fiscal accountability is to be maintained. On the other hand, implementing VAT (to make India a single integrated market) would lead to revenue losses for the states and reduce their autonomy indicating greater centralization"¹⁸⁵ The economic reforms have definitely increased the level of expenditure borne by the states in India therefore it becomes necessary that the states have access to necessary resources. But the implementation of Vat will result in the revenue loss for the states. A uniform VAT rate will also eliminate competition among the states to offer tax concessions to attract investment.

The West Bengal government stated that the present pitfalls in the financial relation cannot be corrected within the present setup. Control of the centre over the borrowing powers of the state governments is also subject to limitations imposed by the Union government. A state can only borrow within India and cannot raise a new loan without the consent of the Union government. Over the years there has been an increased in the revenues of the states but with that its dependence on the centre has also increased.

¹⁸⁴ Dasgupta, Asim. *VAT to replace Inspector Raj*: www.timesofindia.com 14 August 2004

¹⁸⁵ Sharma Chanchal Kumar, *Implementing VAT in India: Implications for Federal Polity* Indian Journal of Political Science Vol.66, No. 4, Oct-Dec, 2005

All FC have made recommendations regarding inter-se distribution amongst the states of the net proceeds of income tax and certain other taxes. Criteria for devolution of taxes are not uniform. Rather, the FC often suggests conflicting criteria. For instances richer states emphasize 'collection factors' as the important parameters while the poorer states feel that greater weightage should be given to 'backwardness.' The more recent FC especially the 10th and the 11th made sincere efforts in improving vertical transfers. Poorer states including West Bengal welcomed the recommendations made by the recent FC's.¹⁸⁶

According to the West Bengal's ruling Left front in any federal structure the centre derives its strength and authority from the willing cooperation of the constituents units. At the same time, the states must be invested with necessary powers and authority. The centre - states should have their legitimate due in the field of power, authority, resources and opportunity. The centre and the states should have all these powers to discharge their respective responsibilities to the people and the country. The present problem is that all the powers and resources are concentrated into the hands of centre. The states badly lack resources, and at the same time the development responsibilities have continued to be expanding. The frustrating and restrictive impact of centre - states relations has pervasively and acutely been felt in the field of finance and economic development. The friction and the conflict between the centre and the states have continued. The problem of resources for national development arises basically from the present's socio-economic order. This is also due to capitalist path of development and from the grip of monopoly capital. It further stated that the centre has been making inroads into the states autonomy. This is not only in the field of financial and economic sphere but also in the sphere of executive and legislative too. The states are handicapped as the exclusive legislative jurisdiction of the states and their executive powers have been encroached upon. In the spheres of financial

¹⁸⁶ For details see the recommendation on revenue sharing aspect between Centre and States made by the 10th and the 11th FC reports.

relations it was suggested that the states have had inadequate financial resources for their development activities and other welfare measures. The states have been raising their revenue sources but they are equally inelastic. As a result, the gap between their legitimate needs and their resources is widening. Though the states have been receiving the overdrafts, market borrowings and advances from the centre, the resource gap between the centre and the states has been increasing.¹⁸⁷

The major source of revenue including banking, insurance and public financial institutions are exclusively under the control of the centre. The states too have had no voice in formulating the country's economic and fiscal policies. These factors have escalating negative impact on the whole spectrum of centre-state relations. There is a clear vertical imbalance between the powers of taxation assigned to the Union and the states and the social and economic responsibilities assigned to the states. That is, the states' responsibilities exceed their own-source revenues. The states have been denied the revenue from the major sources. The states have not been getting any revenue receipts from customs, exports duties and corporation tax. The central assistance like grants in aid, discretionary grants and the states share in the income-tax receipts of the centre are inadequate. The discretionary grants are not constitutional ones. These are predominated over the national financial scene. They cover and constitute the major share of the total aid. It gives the central government a powerful leverage for unjustly pressuring and influencing the policies of the states in many fields of the latter's activity.¹⁸⁸

Division of financial powers and functions among different levels of the federal polity are asymmetrical, with a pronounced bias for revenue taxing powers at the Union level while the states carry the responsibility for subjects that affect the day to day life of the people entailing larger expenditure than can be met from their own resources. On an average, the revenue of states from their own resources suffices only for about 50 to 60 percent of states' current

¹⁸⁷ CPI (M)'s *on Approach paper on Centre-State Relations* Adopted by the Central Committee at its October 12-14 2008, Meeting at Kolkata)

¹⁸⁸ Rao and Singh, *The Political Economy of Federalism in India*. Published by OUP p.97 (2005)

expenditure. Since the insufficiency of the states' fiscal resources had been foreseen at the time of framing the Constitution, a mechanism in the shape of FC was provided under article 280 for financial transfers from the Union. Its function is to ensure orderly and judicious devolution that is deemed necessary from the point of view of avoiding vertical or horizontal imbalances.¹⁸⁹

After the introduction of policies of economic liberalization, fiscal conservatism and deregulation, there has been considerable weakening of the fiscal condition of state governments and consequent erosion of their policy making space. This has happened through a combination of factors. There has been a slowdown in genuine decentralization or federalism with inadequate devolution of finances and powers. The states' autonomy to formulate policies in areas falling within their constitutional jurisdiction has in fact narrowed. Central policies have played the most significant role in weakening the fiscal health of the states on the one hand and forcing centrally-determined policies on the other. These policies of the centre fall under seven categories:¹⁹⁰

- ❖ falling resource mobilization and tax effort by the centre;
- ❖ centralization of resources;
- ❖ increasing discretion with the centre in deciding transfers to the states;
- ❖ conversion of statutory transfers to conditionality-linked transfers;
- ❖ declining devolution and failure to meet FC commitments to state finances;
and
- ❖ escalating committed expenditure on interest and salaries and pensions due to the Pay Commission recommendations.
- ❖ Proliferating CSS, with rigid centrally determined design in terms of technique, institutions, outcomes, etc.

Time again the ruling Left front in West Bengal has pointed out that the fiscal dependence of states on the centre is underlined by the centre's practically unlimited

¹⁸⁹ *ibid.*

¹⁹⁰ CPI(M)'s *Response to the questionnaire from the commission on Centre-State relations* p 12 (2008)

power to borrow and to control the states borrowing power in the event of their distribution. The Constitution provides that the distribution between the Union and the states of the net proceeds of taxes that are to be divided between them, and the allocation between states of the respective shares of such proceeds, shall be done on the recommendations of a FC that is appointed by the President every five years. The Commission also recommends the principles that should govern grants-in-aid to the states. The grants are both a means to assist development schemes in states lacking adequate financial resources and an instrument to exercise control and coordination over the states' welfare schemes.

West Bengal has vocally criticized the way distribution of resources takes place between the centre and states. The Constitution gives more powers to the centre in regard to the mobilization of resources. The centre has almost full control over the mobilization of resources. This again places the state a very vulnerable position compared to the centre. The states are entrusted with huge responsibilities but little power to mobilize effective resources themselves. This has created dependence of states on the centre. States have alleged that the centre does not share revenues with them as a result they are unable to carry out their responsibilities properly. Further this constraints states activity hampering their developmental prospects. The imbalance created with the improper distribution of resources works as constraints on the states. States don't have proper resources to carry out functions and responsibilities entrusted by the Constitution. The major sources of the revenue are exclusively under control of the centre. The states have voiced that they have been denied share from major revenue sources. The central assistance like the grant-in-aids, discretionary grants and the states share in the income tax receipts of the centre are inadequate.

The post-liberalization period witnessed a sharp deterioration in the fiscal health of the state governments, with most states facing fiscal crises. An important factor behind the fiscal strain was the Union Government's policy of charging unfairly high rate of interest on the central loans to the states,

particularly for the loans related to small savings (with interest rate exceeding 16%). This compounded the debt burden of the states, as reflected in the sharp increase in the ratio of interest payment to the revenue receipts.¹⁹¹

The West Bengal Government stated that the present pitfalls in the financial relation cannot be corrected within the present setup. Control of the centre over the borrowing powers of the state governments is also subject to limitations imposed by the Union government. A state can only borrow within India and cannot raise a new loan without the consent of the Union Government. Over the years there has been an increase in the revenues of the states but with that its dependence on the centre has also increased.

In federal form of governments inter-governmental fiscal relation, which refers to the division of financial powers to raise revenue and to spend it by the central and lower level of governments, is a complex issue. One of the vital issues is the mismatch between revenue sources and expenditure functions vertically across different layers of government. Horizontally, there is the problem of varying fiscal strengths of different jurisdictions. Thus financial powers are concentrated in the hands of central government while the responsibilities are entrusted to the state governments. The Constitution provides for the provision regarding the inter-governmental transfers of revenue within the centre and the states. Such transfers are made with the objective of correcting imbalances and regional imbalances in the standards of public services, financial resources and per capita incomes (i.e., allocative efficiency objective); ensuring fiscal equalization and correcting spillovers or internalizing externalities. Barring these economic rationale for federal transfers, in practice, such transfers are mapped out both overtly and covertly on political plane in India. Thus, transfers serve not only economic objectives but also political objectives¹⁹²

¹⁹¹ CPI (M)'s *on Approach paper on Centre-State Relations* Art cit. p 6

¹⁹² Rao and Singh, *Opcit* p 119, 2005,

All FC have made recommendations regarding inter-se distribution amongst the states of the net proceeds of income tax and certain other taxes. Criteria for devolution of taxes are not uniform. Rather, the FC often suggests conflicting criteria. For instances richer states emphasize 'collection factors' as the important parameters while the poorer states feel that greater weightage should be given to 'backwardness.' The more recent FC especially the 10th and the 11th made sincere efforts in improving vertical transfers. West Bengal welcomed the recommendations made by the recent FC's

Institutional Arrangements

There are both formal and informal institutional and informal political arrangements for centre – state coordination. Among the formal mechanism are the PC, FC, NDC, ISC, etc

Role Played by the Finance Commission

The FC is constituted to define financial relations between the center and the states. Under the provision of Article 280 of the constitution, the President appoints a FC for the specific purpose of devolution of non-plan revenue resources. The FC came into existence in 1951. The President of India is empowered with the selection and responsibilities of the FC of India. Further, the President of India assigns the term of their office of the Finance Commissioner and the four other member of the Commission.

The West Bengal Government has always demanded a greater role for the FC. The West Bengal Government demanded that the 75% of the total revenue should be allocated to all states by the FC. The West Bengal Government has argued that both PC and FC have ignored West Bengal while distributing and devolving funds to States. The Left front of West Bengal argues that its composition, powers and functions are open to question. It has not made any material difference to the centre-state relations over the question of resources.

The Left parties like the CPI (M) and the CPI have raised several objections regard to composition, powers and functions are open to question. it has not made any material difference to the centre – state relations over the question of resources. The administration of FY plans has demarcated between the planned and non-planned sectors. But the advantage of their administration has been taken by the centre. In this field, the centre has established its control over a number of subjects in the concurrent and State lists, which come within the scope of planning. The ability of the FC to work as an independent semi-judicial authority is undermined by its unilateral formation by the Central Government, without prior consultation with or representation from the states. Therefore they propose that all constitutionally mandated bodies like the FC, which arbitrate between the centre and the states, must be formed only after prior consultation with the states and subsequent ratification by the ISC, where both the centre and the states are represented.

The FC was envisaged in the Constitution as the key institution responsible for dealing with fiscal imbalances between the center and states, as well as among the states. Instead, its role has been circumscribed by the working of the PC, which has typically been put outside the FC's terms of reference. Furthermore, as PC transfers became formulaic, there has been a tendency to move toward using discretionary grants determined by the central ministries. Thus, the overall tendency seems to have been for the central government to try to exercise as much political control as possible over transfers to the states. Also,

within each channel for transfers, there has been anecdotal evidence that there are attempts to influence the outcomes of the process. For example, even though the FC has used ‘objective’ formulae to determine tax sharing, it also makes various grants, and it has been suggested that states that are represented in the membership of the Commission do relatively well in terms of such awards.¹⁹³

The CPI (M), in its approach paper on centre-state relations pointed out that, the centre through FC is imposing conditionalities on the states. For e.g. the Left front government has criticized the 11th FC on the note that it has recommended the revenue deficit grants for the state’s be linked up with the condition that 15% of the state’s entitlement would be with held unless the states had complied with a progressive reduction of the revenue deficit over the period 2000-2005.¹⁹⁴ This move was criticized by Dr. Amaresh Bagchi who was a member of the Commission. This condition imposed by the centre hampered he states ability to carry out developmental activities effectively. So in short, it could be said that the centre is using FC as a leverage tool against the states. Which points out the fact that his institution is considered to be an essential part of the federal structure of the country but is being misused by the centre to make states tow their line of development regardless of the fact whether that is the best possible option for the state or not.

The transfers made by the FC over the years has fallen, which impinges upon the overall resources of the states. The Table 4.2 shows the transfers made by the FC to all the states.

Table 4.2

Year	FC transfer % of GDP
1997-1998	3.06

¹⁹³ Rao and Singh, *Opcit.* p 132. (2005).

¹⁹⁴ CPI (M)’s *on Approach paper on Centre-State Relations* , Art cit. p 6.

1998-1999	2.41
1999-2000	2.44
2000-2001	3.01
2001-2002	2.87
2002-2003	2.78

Source: Fiscal federalism undermined under NDA. People's Democracy. Vol. xxviii, no. 13 March 2004

Table 4.3 States share in Central Taxes: 2000-01 to 2004-05

Year	Amount recommended by the 11 th FC (Rs. crores)	Actual amount given to states. (Rs. crores)
2000-01	54,059	50,734
2001-02	63,026	52,215
202-03	73,493	56,655
2003-04	85,724	67,079
2004-05	1,00,013	78,551
Total	3,76,315	3,05,234

Source: Handbook of Statistics on India Economy, Reserve Bank of India 2005-2006, Report of the 11th FC June 2000

It was pointed out that the 12th FC also imposed several conditions on states like the enactment of Fiscal responsibility Budget Management Act (FRBM) Act. The Left government argues that the basic problem with the FC is that the views expressed by the states are never taken into account seriously, while determining the terms of reference of the Commission. All the members of the FC are nominated by the centre and representatives of the states are never

included. These practices need to be changed. In determining the terms of reference, the views of the states should be taken into account seriously, and if there is any difference of views on the terms of reference, the same should be settled in the ISC. In the choice of members of the Commission, unlike the present practice, there should be adequate representation of the state governments.¹⁹⁵ The CPI (M) argues that conditions contravenes the principles of fiscal federalism and severely impinges upon the financial autonomy of the states¹⁹⁶ and that in order to uphold the federal spirit,¹⁹⁷ the FC must include representatives of states.

The CPI (M) in its note to the 13th FC pointed out that there has been a growing tendency on the part of the centre to concentrate and consolidate various administrative, legislative and financial powers, despite the federal character of the Constitution, the recommendations of the Sarkaria Commission and the demands of state governments. This problem has been aggravated in the financial sphere, with newer forms of intervention and restriction on the powers of the states after the adoption of neo-liberal economic policies by the central government since 1991.¹⁹⁸

The share of total market borrowing to which the States may be entitled is fixed by the centre. While in 1950s, the shares of market borrowing of the states and the centre in the total government market borrowings were approximately in the proportion of 50:50, this ratio has now fallen to 15:85, with the dominant share of market borrowing being appropriated by the centre. Moreover, the states have also justifiably urged for transfer of at least residuary powers in the Constitution, particularly residuary powers of taxation of services to the states. Unfortunately, through a Constitutional amendment of late, the centre has acquired for itself the entire power of levy of service taxation. Fairness requires

¹⁹⁵ Ibid.

¹⁹⁶ Ibid p 7

¹⁹⁷ CPI(M)'s *Response to questionnaire CCSR*, Art cit p 9.

¹⁹⁸ CPI(M), *Note to the Thirteenth Finance Commission, The Marxist* Volume XXIV, No. 2 April (2009)

that the States may now at least be given the concurrent powers of taxation of all services. An opportunity in this regard has arisen in the context of the proposed introduction of Goods and Services Tax by the centre and the states beginning April 1, 2010. Therefore it was demanded:

- ❖ Consistent with the development responsibilities of the states, the share of market borrowing of the states should be increased from the absurdly low proportion of about 15 % to 33.33% immediately and then steadily to 50 % within a period of five years.
- ❖ State governments should be given concurrent powers for taxation of all services.

The Twelfth Finance Commission have not resolved the major problems in the centre-state relations. The gains for West Bengal have been partial and transitory.¹⁹⁹

Role played by the Planning Commission and National Development Council

The Planning Commission was set up by a Resolution of the Government of India in March 1950 in pursuance of declared objectives of the government to promote a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country, increasing production and offering opportunities to all for employment. The PC was charged with the responsibility of making assessment of all resources of the country, augmenting deficient resources, formulating plans for the most effective and balanced utilization of resources and determining priorities. Since the independence PC has played the dominant role not only in the allocation of resources to the states but also how development project in each state will take place. PC decides on the priorities of

¹⁹⁹ Budget speech by Asim Dasgupta, Finance minister of West Bengal Govt. (2008-09)

economic development to be followed in the course of a period of five years. The government, either in the Union Budget or in Cabinet announcements, speeches or discussions normally indicates these priorities.

The modernizing and interventionist role of the state took concrete shape in the form of the planning commission. This was the first major institutional expanse that the state affected immediately after its formation. Planning had emerged as a crucial institutional modality by which the state would determine the material allocation of productive resources within the nation. But this institutional modality was located outside the democratic political process. Planning was seen as an expert's job. PC was thus conceived as a competent economic bureaucracy working as an extension of the executive branch of the state. It was in planning that the post-colonial state would claim its legitimacy as a single will and consciousness- the will of the nation- pursuing a task that was both universal and rational: the well-being of the people as a whole. It is in its legitimizing role, therefore, that planning, constituted as a domain outside politics, was to become an instrument of politics.²⁰⁰

Since the independence planning commission has played the dominant role not only in the allocation of resources to the states but also how development project in each state will take place. PC decides on the priorities of economic development to be followed in the course of a period of five years. The government, either in the Union Budget or in Cabinet announcements, speeches or discussions normally indicates these priorities. After these discussions, the job of formulating the Plan will be taken up. First, working groups are set up on each subject. The Secretaries of the departments concerned and the nodal Ministries head these working groups. External experts are also included in these groups, which then prepare the reports. The working group reports are considered by a Steering Committee headed by the PC member concerned. Past experience is

²⁰⁰ State and Democracy in India Strategies of Accommodation and Manipulation By Rajeshwari Deshpande *Paper prepared for the Project on State of Democracy in South Asia as part of the Qualitative Assessment of Democracy Lokniti (Programme of Comparative Democracy) Centre for the Study of Developing Societies Delhi, pp 5.*

reviewed, the present position is taken into account and the emerging issues are considered.

Since its inception the planning commission dominated the process of economic development and the states struggled for rise in revenue availabilities. But development priorities were not decided by the states. The National Development Council was formed in which states participated along with the center. However the meetings of the council soon became a formality. The constitution also provides for a Finance commission that would decide revenue distribution between the center and the states and among the states. Till the eighties, under the strong influence of the planning commission, the central government reduced functions of the Finance Commission to a very technical level. Issues of equitable distribution of financial powers became more relevant for the states under the changing political context after 1967.

M.Govinda Rao has severely criticized the role played by the PC He says that despite the introduction of market-based economic reforms, the elaborate planning exercise in the country has continued, though the basic objective of planning in a market economy is yet to be achieved. The PC, on its part, has not been able to reinvent a proper role for itself in creating an enabling environment for market-based resource allocations.²⁰¹

In deference to the federal nature of the Indian polity, the NDC was set up in 1952 to involve the states in the formulation of plans and to “to strengthen and mobilize the efforts and resources of the nation in support of the plans.”²⁰² The NDC reviews the implementation of the national plans from time to time and recommends measures for achieving the aims and targets set out in the plan. The prime measures for achieving the aims and targets set out in the plans. The NDC is required to supervise the work of national planning, to recommend measures for achieving plans targets, and to consider important questions of social and

²⁰¹ Rao, *Planning in a market economy* www.rediffnews.com July 04, 2007

²⁰² Majeed Akhtar, *Republic of India*. Op cit. Pg 200 (2005)

economic policy affecting national development. NDC is a policy making body, and its recommendations are not just advisory suggestions but policy decisions and policy directives. It is a national forum for planning that gives informal sanction to the underlying concept of cooperation between the Union and the states. It brings the states into an organic relationship with the Union because, through national planning, States become an integral part of the Indian federal setup because it consists of the chief executives of the central and state governments and therefore, its advice can hardly be distinguished from a clear mandate.²⁰³

The West Bengal government had stated that the role of the PC and NDC should be reappraised. West Bengal Government has always been highly critical of the role played by the PC in allocation of resources. The PC has become an appendage of the centre with no mind of its own. It has no constitutional sanction nor does it have any statutory sanctions. The CPI (M) has argued that the PC cannot access the objectively the needs of the individual states.

The West Bengal government considers NDC to be a supreme policy making body concerning problems of social and economic development. This body does not have a constitutional sanction behind it. It is in fact, a non-functioning apparatus, as it has no been carrying on any serious activities and is unable to take a substantive decision. The crucial issues for the development of respective states do not have any scope for discussion in the council.

The CPI (M) has suggested that to avoid centre's domination the PC should be converted into a full time secretariat of the centre and the states. The NDC should be granted Constitutional status. The PC should act as an executive wing of the NDC. The NDC has to be developed as an effective instrument for centre-state co-ordination on all financial and developmental issues and should be given, through an appropriate amendment, a statutory and Constitutional status as was suggested in the

²⁰³ *ibid.*

Srinagar Conclave. The NDC should comprise Chief Ministers of all the states and Union Territories. It was demanded that the meetings of the NDC should be more frequent (at least once in every quarter), and its functioning should not be one of hastily imposing a pre-conceived view of the centre as a consensus on the states, as is now often practiced. Instead, each issue should be discussed seriously with written notes from the Union Government and the states, and decisions should be taken democratically and implemented expeditiously.²⁰⁴

The PC should act as an executive wing of the NDC with statutory and constitutional backing. Unlike the present composition of the PC where members and experts are all nominated by the Union Government, there should be adequate representation of the states – both as members as well as experts – with at least one from each region with periodic rotation among the states in a region. The restructured PC must not act primarily as a representative of the Union Government as it is now, but should also represent the interests of the states.

While the FC decides on tax shares and makes grants, a separate body, the PC, makes grants and loans for implementing development plans. As development planning gained emphasis, the PC became a major dispenser of such funds to the states. As there is no specific provision in the Constitution for such plan transfers, the central government channeled them under the miscellaneous – and limited – provisions of Art. 282.²⁰⁵

Inter-State Council

The Inter-State Council (ISC) was established under Article 263 of the Constitution of India through a Presidential Order dated May 28, 1990. The Council has been entrusted with the tasks of: i) inquiring into and advising upon

²⁰⁴ CPI(M)'s *Response to questionnaire by CCSR* Art.cit, p.9

²⁰⁵ Singh Nirvikar, *State Finances in India: A Case Study for Systemic Reforms* MPRA Paper no 1281, p 6, March 2006. Posted online on 07, November 2007. www.mpra.ub.uni-muenchen.de

disputes between states, ii) investigating and discussing subjects in which the Union and the states have a common interest, and iii) recommending steps for coordinating policy and action with respect to these common interest subjects. The Council is a recommendatory body for making recommendations upon any such subject and in particular, recommendations for the better coordination of policy and action with respect to that subject and deliberating upon such other matters of general interest to the states as may be referred by the Chairman of the Council. The Council comprises the Prime Minister as Chairperson and Chief Ministers of all the states, Chief Ministers of Union territories having Legislative Assemblies, Administrators of Union territories not having Legislative Assemblies, Governors of States under President's rule, six Ministers of Cabinet rank in the Union Council of Ministers nominated by the Prime Minister as Members and four Ministers of Cabinet rank in the Union Council of Ministers nominated by the Prime Minister as permanent invitees.

The Left argues that the functioning of the ISC again did not rise up to the expectations of the states. Despite the Council arriving at several decisions regarding implementation of the Sarkaria Commission's recommendations, they have not been implemented by the Union Government. The decisions of the ISC therefore have to be made binding on the Union Government, through appropriate Constitutional amendment. All major issues involving centre-state relations, including legislations under the Concurrent List, have to be discussed and decided by the ISC. The schedule of meetings of the Council as well as the Standing Committee of the Council has to be made mandatory. The ISC should mandatorily meet twice a year. The Secretariat of the ISC should have better representation from the states.

The CPI (M) views that the ISC has lost its steam.²⁰⁶ The Council had made several suggestions regarding the implementation of the Sarkaria Commission's recommendations but unfortunately the centre has not given any credential to

²⁰⁶ CPI(M)'s Response to questionnaire by CCSR Art. cit, p.9

those suggestions. The Left argues that the recommendations of the ISC should be made binding on the centre and for this necessary amendments to the Constitution should be made. The meetings of the Council should be made mandatory. The secretariat of the Council should include representatives of the states which presently is missing. The states are in the best position to assess and evaluate their needs therefore it is important that states should have proper representation in the Council secretariat to voice their concerns properly. At present the convening of the Council is solely at the discretion of President. The Art.263 states that if at any time it appears to the President that the public interests would be served by the establishment of a Council charged with the duty of—

- ❖ inquiring into and advising upon disputes which may have arisen between States;
- ❖ investigating and discussing subjects in which some or all of the States, or the Union and one or more of the States, have a common interest; or
- ❖ making recommendations upon any such subject and, in particular, recommendations for the better co-ordination of policy and action with respect to that subject, but also it shall be lawful for the President by order to establish such a Council, and to define the nature of the duties to be performed by it and its organisation and procedure.

So therefore not only the convening of the ISC is at the discretion of the President but also it is in the hands of the President to decide its duties, organisation and procedures. The Left has rallied the point that necessary amendments need to be made in Art.263 so that it becomes mandatory for the centre to constitute the Council with Chief Ministers, as the members, and convene meetings at least twice a year. Further, it has been pointed out that all legislative, administrative, and executive and other non financial matters should be brought under the purview of the Council.

At the seventh ISC meeting held in 2002, the Left-led governments of West Bengal and Tripura and various other governments led by regional parties demanded that the residuary powers, including those of taxation, be vested in the states. Although the centre rejected their demand for the transfer of residuary powers to the State List, most states agreed to their transfer to the Concurrent List on the grounds that it was a small step forward. In defence of its decision to transfer the residuary powers to the Concurrent List rather than to the States List, the centre pointed to the strong unitary bias of the country's federal structure.²⁰⁷

The Congress-led government has been insensitive to the rights of states and failed to implement steps to devolve more powers and resources to them. Despite the CMP commitment, the debts of states were not substantially reduced nor was the share of the states in the divisible pool of taxes enhanced. The ISC was not activated, nor were CSS transferred to states. The UPA government violated the CMP in framing the terms of reference for the 13th FC and the Commission on centre-state relations.²⁰⁸

The Constitution provides the central government with overarching powers and concentrates administrative and financial powers in its hands. At the same time, there is sharing of powers and resources between the central government and the states in a limited fashion. The experience of partition at the time of independence conditioned the Constitution makers to build in various features in the Constitution which worked against the federal principle. The centre has the power to reorganize the states through Parliament; Governors appointed by the centre can withhold assent to legislation passed by the state legislature; Parliament can override legislation passed by the states in the national interests; the Governor can play a role in the formation of state governments and the Centre is vested with the power to dismiss the state governments under Article 356; residuary powers are vested with the centre and

²⁰⁷ Venkatesh, V *A blow for federalism*, *Frontline* Vol 18 - Issue 25, Dec. 08 -21, (2001)

²⁰⁸ CPI (M), Election manifesto for 2009 Lok sabha election. www.cpim.org

the major taxation powers lie with the Central authority. Alongside these unitary features, there is a division of subjects between the centre and states and a Concurrent List.²⁰⁹

The liberalization of the Indian economy not only encouraged the private sector but also empowered state governments, thus decentralizing decision-making in the federation. In most of their economic policies, the states were now free from direction by the center. The states' responses to these changing circumstances have been uneven, and liberalization has contributed to regional disparities.²¹⁰ In the present era of deregulated economy, with the centre retreating from certain vital economic functions, the states are expected to compete for attracting capital and foreign direct investment. Such “inter-jurisdictional competition” is harmful to the federal spirit.

It leads to competition in providing tax incentives and tax cuts which weaken the states' fiscal position. The centre, in turn, seeks to impose neo-liberal policies in centre-state relations. These policies entail passing off of the fiscal problems of the centre to the states; hiking up the interest rates on loans to state governments and using the debt-trap the states land into, to thrust more neo-liberal policies on the states.²¹¹ This has led to the weakening of the state's bargaining powers and a deterioration of its financial position at a time when powerful political parties representing these states have emerged as players of the centre. The liberalisation drive has adverse implications for federalism. The NDC, the ISC and the PC – all institutions which deal with centre-state and inter-governmental relations have been weakened. The FC has become an instrument to push neo-liberal policies.

²⁰⁹Karat Prakash, *Federalism And the Political System in India* Lecture at Public Forum, Bandaranaike Centre for International Studies, Colombo, Srilanka on September 13. (2004)

²¹⁰Singh Mahendra P. and Douglas V. Verney, *Challenges to India's Centralized Parliamentary Federalism Publius: The Journal of Federalism* Vol 33, issue no 4. p 9, (Fall 2003)

²¹¹ Karat Prakash Art cit.

Nirupam Sen, Minister-in-charge, Development and Planning Department, West Bengal Govt. said that the financial problems of the state stem basically from the high debt and interest burden, and rising salary and wage bills. He requested that the centre should take new initiatives for providing effective debt relief to the states. It also needed to be considered if, given the declining trend in the interest rates, prevailing interest rates could be made applicable in respect of the outstanding debt of the states. He opined that ultimately firm political will was of crucial importance in resolving the fiscal crisis of the states for strengthening the federal polity of the Nation. The country cannot be stronger if the states were weakened. Time was ripe when we must strive for collective good for a stronger national economy, and it was possible only when the collective interests of the states were adequately protected.²¹²

States have become dependent on the center economically, they have become increasingly politically independent and indeed, powerful. As subjects under states' jurisdiction are politically more important (land, water, law & order, education and health), the center has often used the funds for CSS as a tool to enhance its political visibility at state level.²¹³

In the sphere of centre-state relations, not only have the major problems relating to the inadequacy of proportion of devolution of central taxes collected from the states, the unjust burden of the central loans on the states etc. not been solved, but new conditions are being imposed on the States in the name of reorganizing the existing central schemes. For instance, while the prevailing Mega-city Programme has been transformed into JNNURM, new conditions have been added, such as the repeal of Urban Land Ceiling Acts in the states. This intrusion into the state subjects has been followed by withholding of the release of central funds until compliance has been ensured by the state governments. It is also a matter of regret that assaults have been made on the

²¹² Record of the discussion of 50th meeting of the NDC 21st December 2002, Vigyan Bhavan New Delhi

²¹³ Saxena Naresh C. Arcit p 7

small savings programmes which are known to be significant for both the common people as well as the state governments. On the other hand, encouragement has been given to the Private Mutual Funds, including the Foreign Mutual Funds.²¹⁴

The CPI (M) in its manifesto released on the occasion of the Lok Sabha elections in 1999 asserted that it will work for greater powers to the States in the economic and political spheres; along with making suitable Constitutional amendments for devolving more powers in the economic, fiscal and administrative areas; decentralization of powers to the district bodies and panchayat's; ensuring local participation in formulation of plans and projects. It also pointed out that the federal system has to be institutionalized by activating the ISC and empowering the NDC with sufficient powers and lastly it stressed upon the replacement of Art.356 with a suitable provision so that the draconian power of the centre to dismiss state governments is curbed; this power to be exercised only in extreme contingencies where there is a direct threat to national unity or an onslaught on the secular basis of the state.²¹⁵

Summing up

The Left has time and again it has advocated time greater powers for the states in the economic and political spheres, institutionalizing the federal system through the ISC and empowering the NDC with sufficient powers. Constitutional amendments for devolving more powers in the economic, fiscal and administrative areas; decentralization of powers to the district bodies and panchayat's; ensuring local participation in formulation of plans and projects. Replacing Article 356 with suitable provisions so that the draconian powers of the centre to dismiss state governments are curbed. Maximum autonomy for the state of Jammu & Kashmir to

²¹⁴ Budget statement by Asim Dasgupta Finance Minister West Bengal Govt. 2006-07

²¹⁵ CPI (M) *election manifesto* for the Lok Sabha election part II (1999)

be provided for within the ambit of Article 370 of the Constitution; regional autonomy to be provided to Jammu and Ladakh regions. Special provision for the development of the north-eastern region with particular emphasis on infrastructure development and creation of employment opportunities. Reversing the process of central dictates on devolving finances to the states by imposing conditionalities to pursue the central government's economic policy directives.²¹⁶

Similarly the CPI in its election manifesto also pointed out that it will strive for upholding the federal structure of our governance and polity. States must have adequate political and financial powers. States should get reasonable share from the central funds. No efforts will be allowed which undermines the powers of the state governments.²¹⁷

During a meeting of the ISC at Srinagar in J&K in 2008, it was decided that checks and balances would be exercised vis-à-vis Article 356. The Union Government will henceforth impose Article 356 as a weapon of last resort to dislodge the elected government in a state following breakdown of constitutional machinery therein when all the possible avenues of federal dynamics have been explored and resources of federal solutions to set up an alternative administration exhausted. Art. 356 will not be imposed in an indiscriminate manner. Its use shall be rule-bound and guided by constitutional conventions in order to safeguard India's federal democratic ethos. The concerned State government will have to be duly notified / alerted well in advance that such a contingent situation may arise in the near future so that corrective steps may be taken and remedial measures adopted. The notification of President's Rule will be subject to prior approval / ratification by the Lok Sabha and Rajya Sabha of the Union Parliament. This was earlier suggested by the Supreme Court of India in one of its judgments. The notification of President's Rule will be subject to prior ratification by the Lok Sabha and Rajya Sabha, as recommended by the Supreme Court. The State must also be given fair warning of the likelihood of this imposition. The Government

²¹⁶ CPI (M) *election manifesto for the Lok Sabha election*, p 10, (2004)

²¹⁷ CPI *election manifesto* p 9 (2004)

of India will explain the rationale of President's Rule in its notification issued in this connection by the President of India. The West Bengal Chief Minister Buddhadeb Bhattacharya strongly asserted the above points in the meeting.²¹⁸

In a significant move the states presented the 13th FC with a joint memorandum on the devolution of more powers to the State. This memorandum was adopted at the meeting of the Empowered Committee of State Finance Ministers in Chandigarh.²¹⁹

Financial and economic relations form an important part of the overall federal relations. In the present context the financial issues pose a great challenge to the federal relations in the country. Though liberalisation did result in the devolution of powers from centre to state but the crucial fact remains that the centre still holds the strings where majority of the powers are concerned. The issues like sharing of resources, devolution of taxes remains unsolved till date. At one hand the liberalisation resulted in the gradual withdrawal of the centre from the economic spheres leaving space for the market to come in resulting in further deterioration of the fiscal imbalances in states. States not only undertake economic development but also the social development. In the current period states financial burdens are increasing but their shares in the revenue transfers are declining.

²¹⁸ Prasad K.V. *CPI(M) for reforms in Centre-State relations The Hindu*, online edition Nov 06, 2008

²¹⁹ Venkatesh V. *Federalism, Frontline* Volume 25 - Issue 25 :: Dec. 06-19, 2008

Conclusion

The state of West Bengal has been ruled by a coalition for the last 32 years which is ideologically opposite to the parties that have come to rule the centre since 1977. This impacted the relation between centre and state. The tension between the centre and state reached new scales with the Left government demanding radical restructuring of the centre-state relations.

Soon after ascending to the office the Left government came out with scathing attacks on the centre for the slump in the development especially industrial development in the state. The Left Parties to a certain extent blamed the lopsided nature of the centre-state relation for the poor economic performance since independence. Further it States that the present format of economic and financial administration in the country is highly centralized. The Centre has been endowed with maximum amount of resources which has strengthened is authoritarian attitude. The Left government argued that the reason behind the decline of industries in West Bengal was due to the discriminatory policies of the centre.

In the present setup it becomes important to address the centre-state relations. The conditions generated by the adoption of the new economic policy in 1991, new issues have emerged in the financial and economic relation between the centre and state. The states are no longer relying fully upon the centre for industrial development and for the resource mobilization.

States in India have from a long time complained and accused the centre of using the constitutional provisions as a garb to infringe upon the territory and autonomy of the state governments. West Bengal is one of the most vocal states that has continuously accused the centre of suppressing the autonomy of the state governments. The left government has been in power in the state since 1977. The ideological difference between the party ruling the centre and state has been so

wide, that their difference had intensified the level of animosities between the two sets of the government. The Left has always accused the centre of harboring ill feelings towards the state. The state government virtually blamed the centre for industrial decline in the state. The left government in West Bengal has since the time it ascended power in the state in 1977, have demanded for radical restructuring of the centre – state relations. The 1977 memorandum brought out by the left explicitly dealt with the subject of centre–state relations. The period after the fourth general election in 1967, especially in the 70's and 80's witnessed the growing hostilities between the centre and state. The level of confrontation scaled new heights with states like West Bengal and Tamil Nadu demanding radical restructuring of the centre-state relations. The state government argued that there is a tendency of strong centralization by the centre. The have Constitution is tilted towards the centre and this creates imbalance therefore it requires immediate restructuring. There were suggestions for drastic changes in the Constitution regard to the distribution of powers between centre and states.

The Indian economy underwent a series of structural changes and reforms. These reforms emphasized on the opening up of the Indian economy, and a reduction in the role played by the state in the economy. Apart from these, changes were made in the tax regime, subsidies wee reduced to a large extent, and private players were encouraged into the areas which were till then kept exclusively for the public enterprises. The structural reforms implemented by the government of India were a sharp departure from the economic strategy pursued since the independence. India had followed a Socialist model based on planned economy since independence. Under the guidance of economist Mahalanobis Indian adopted the strategy of planned economy with emphasis on public sector units. For this PC was formed. The structural reforms implemented by the government of India were a sharp departure from the economic strategy pursued since the independence. India had followed a Socialist model based on planned economy since independence. Under the guidance of economist Mahalanobis Indian adopted the strategy of planned economy with emphasis on public sector

units. For this PC was formed. In this change scenario where the role played by the centre has diminished to a large extent the role played by the state has increased. It was realized that the states can no longer rely on centre for guidance in the industrial development in the state.

The Liberalisation has not only impacted the economic condition of the country but has made a very significant impact on the centre – state relations. Scholars have argued that economic liberalisation of the 1990's did have an impact on the federal relations changing from inter-governmental cooperation towards inter-jurisdictional competition between states in India.²²⁰ Liberalization has ushered in a new era in the centre – state relations in India, virtually shaping new contours in the federal relations. For example scholars like Rob Jenkins points out that federalism facilitated the political sustainability of India's reform process displacing opposition to the state level. Many states saw in liberalization policies an opportunity to reassert their own regional agenda and extract further regional autonomy in development policy. Thus, states such as West Bengal, Andhra Pradesh, Tamil Nadu, and Madhya Pradesh sought to re-regulate economic reform for their regionally specific ends. This led to a commonly noted transformation in sub national roles.

In 2004, election the Left parties joined hands with Congress-I to form the UPA. After the Cong. the Left was the second largest party in the UPA. The Left did not join the Government but supported it from outside. But unfortunately the Left withdrew its support form the UPA when the centre went ahead and signed the nuclear deal with the U.S.A. Even being part of the coalition at the centre the Left continued to stand on its demand for radical re-structuring of the centre – state relations. The CPI (M) in its party meet held in March 2008, pointed out that there has been steady deterioration of centre – state relations in

²²⁰ Saez, Lawrence. *Federalism without Centre: impact of Political and Economic reforms on India's Federal System*. Sage publication pg 137. (2002)

all spheres. The party wanted the centre to review the revenue sharing system in the federal structure. CPI (M) politburo member Sitaram Yechury, while addressing to the reporters stated that there is a serious need to re-look into the federal concept. The party conference passed a resolution introduced by the West Bengal Chief Minister Buddhadeb Bhattacharya asking the centre to review the present arrangements of revenue sharing.

The 2009 general elections brought together the TMC and Cong-I against the in West Bengal. It is well known that the TMC' chief Mamata Banerjee is keen to see the down fall of the West Bengal government. Since the creation of TMC, Mamata Banerjee has not left a single opportunity to criticize and demand for the removal of the West Bengal government. The 2009 election brought forth the new alliance between the TMC and Cong-I. The Nandigram and Singur controversies coupled with Left's decision to withdraw support on the issue of nuclear deal did not go down well with the masses. It was felt that the Left's decision to withdraw support on such an issue which did not have a direct affected the daily life of the common man. All these gave the TMC-Cong-I alliance the necessary impetus it needed to counter the Left in West Bengal. The result of 2009 election came as a rude shock to the Left which got reduced to 15 seats whereas the TMC-Cong-I alliance secured 25 seats with TMC alone winning 19 seats, this result brought forth a definite change in the equation in West Bengal.

With the growing demand for review of centre – state relation the UPA government constituted the second commission on centre – state relations on 27th April, 2007. The Commission is former Chief Justice of India Madan Mohan Pundhi. In wake of the Commission the CPI(M) in its Central Committee meeting in Kolkata held from 12 – 14 October 2008, adopted the approach paper on centre-state relations brought forth issues both old and new which needs to be addressed properly.

Annexure – A

SPECIAL ECONOMIC ZONES ACT – 2005

THE GAZETTE OF INDIA

EXTRAORDINARY

PART II – SECTION I

PUBLISHED BY AUTHORITY

NEW DELHI, THURSDAY, JUNE 23, 2005

MINISTRY OF LAW AND JUSTICE

(Legislative Department)

New Delhi, the 23rd June, 2005/Asadha 2, 1927 (Saka)

The following Act of Parliament received the assent of the President on the 23rd June, 2005, and it hereby published for general information: -

THE SPECIAL ECONOMIC ZONES ACT, 2005

No. 28 OF 2005

[23rd June, 2005]

An Act to provide for the establishment, development and management of the Special Economic Zones for the promotion of exports and for matters connected therewith or incidental thereto.

Be it enacted by Parliament in the Fifty-sixth Year of the Republic of India as follows:-

	<p align="center">CHAPTER- PRELIMINARY</p>	<p>Short title, extent and commencement</p>
<p>Definitions</p>	<p>1. (1) This Act may be called the Special economic Zones Act, 2005.</p> <p>(2) It extends to the whole of India.</p> <p>(3) It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint, and different dates may be appointed for different provisions of this Act and any reference in any such provision to the commencement of this Act shall be construed as a reference to the coming into force of that provision</p> <p>2. In this Act, unless the context otherwise requires,-</p> <p>(a) "appointed day" with reference to a Special Economic Zone means the date on which the Special Economic Zone is notified by the Central Government under sub-section (1) of section 4;</p> <p>(b) "Approval Committee" means an Approval Committee constituted under sub-section (1) of section 13;</p> <p>(c) "authorised operations" means operations which may be authorised under sub-section (2) of section 4 and sub-section (9) of section 15;</p> <p>(d) "Authority" means a Special Economic Zone Authority</p>	

	<p>constituted under sub-section (1) of section 31</p> <p>e) "Board" means the Board of Approval constituted under sub-section (1) of section 8;</p> <p>(f) "Co-Developer" means a person who, or a State Government which, has been granted by the Central Government a letter of approval under sub-section (12) of section 3;</p> <p>(g) "Developer" means a person who, or a State Government which, has been granted by the Central Government a letter of approval under sub-section (10) of section 3 and includes an Authority and a Co-Developer;</p> <p>(h) "Development Commissioner" means the Development Commissioner appointed for one or more Special Economic Zones under sub-section (1) of section 11;</p> <p>(i) "Domestic Tariff Area" means the whole of India (including the territorial waters and continental shelf) but does not include the areas of the Special Economic Zones;</p> <p>(j) "entrepreneur" means a person who has been granted a letter of approval by the Development Commissioner under sub-section (9) of section 15;</p> <p>(k) "existing Special Economic Zone" means every Special Economic Zone which is in existence on or before the commencement of this Act;</p> <p>(l) "existing Unit" means every Unit which has been set up on or before the commencement of this Act;</p> <p>(m) "export" means –</p> <p>(i) taking goods, or providing services, out of India, from a Special Economic Zone, by land, sea or air or by any other mode, whether physical or otherwise; or</p> <p>(ii) supplying goods, or providing services, from the Domestic Tariff Area to a Unit or Developer; or</p> <p>(iii) supplying goods, or providing services, from one Unit to another Unit or Developer, in the same or different Special Economic Zone;</p> <p>(n) "Free Trade and Warehousing Zone" means a Special Economic Zone wherein mainly trading and warehousing and other activities related thereto are carried on;</p>	
<p>Procedure for making proposal to establish Special Economic Zone</p>	<p style="text-align: center;">CHAPTER II</p> <p style="text-align: center;">ESTABLISHMENT OF SPECIAL ECONOMIC ZONE</p> <p>3. (1) A Special Economic Zone may be established under this Act, either jointly or severally by the Central Government, State Government, or any person for manufacture of goods or rendering services or for both or as a Free Trade and Warehousing Zone.</p> <p>(2) Any person, who intends to set up a Special Economic</p>	

	<p>Zone, may, after identifying the area, make a proposal to the State Government concerned for the purpose of setting up the Special Economic Zone.</p> <p>(3) Notwithstanding anything contained in sub-section (2), any person, who intends to set up a Special Economic Zone, may, after identifying the area, at his option, make a proposal directly to the Board for the purpose of setting up the Special Economic Zone:</p> <p>Provided that where such a proposal has been received directly from a person under sub-section, the Board may grant approval and after receipt of such approval, the person concerned shall obtain the concurrence of the State Government within the period, as may be prescribed.</p> <p>(4) In case a State Government intends to set up a Special Economic Zone, it may after identifying the area, forward the proposal directly to the Board for the purpose of setting up the Special Economic Zone:</p> <p>Provided that the Central Government may:-</p> <ul style="list-style-type: none"> (a) after consulting the State Government concerned; (b) without referring the proposal for setting up the Special Economic Zone to the Board; and (c) after identifying the area; <p><i>suo moto</i> set up and notify the Special Economic Zone</p> <p>(5) Every proposal under sub-sections (2) to (4) shall be made in such form and manner containing such particulars as may be prescribed.</p> <p>(6) The State Government may, on receipt of the proposal made under sub-section (2), forward the same together with its recommendations to the Board within such period as may be prescribed.</p> <p>(7) Without prejudice to the provisions contained in sub-section (8), the Board may, after receipt of the proposal under sub-section (2) to (4), approve the proposal subject to such terms and conditions as it may deem fit to impose, or modify or reject the proposal.</p> <p>(8) The Central Government may prescribe the following requirement for establishment of a Special Economic Zone, namely:-</p> <ul style="list-style-type: none"> (a) the minimum area of land and other terms and conditions subject to which the Board shall approve, modify or reject any proposal received by it under sub-section (2) to (4) ; and (b) the terms and conditions, subject to which the Developer shall undertake the authorized operations and his obligations and entitlements. <p>Provided that different minimum are of land and other terms</p>	
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	<p>and conditions referred to in clause (a) may be prescribed by the Central Government for a class or classes of Special Economic Zones.</p> <p>(9) If the Board,-</p> <p>(a) approves without any modification, the proposal received under sub-section (2) to (4), it shall communicate the same to the Central Government;</p> <p>(b) approves with modifications the proposal received under sub-section (2) to (4), it shall, communicate such modifications to the person or the State Government concerned and if such modifications have been accepted by such person or the State Government, the Board shall communicate the approval to the Central Government;</p> <p>(c) rejects the proposal, received under sub-section (2) to (4), it shall record the reasons therefore and communicate the rejection to the Central Government which shall intimate to the State Government or the person concerned.</p> <p>(10) The Central Government shall, on receipt of communication under clause (a) or clause (b) of sub-section (9), grant, within such time as may be prescribed, a letter of approval on such terms and conditions and obligations and entitlements as may be approved by the Board, to the Developer, being the person or the State Government concerned:</p> <p>Provided that the Central Government may, on the basis of approval of the Board, approve more than one Developer in a Special Economic Zone in cases where one Developer does not have in his possession the minimum area of contiguous land, as may be prescribed, for setting up a Special Economic Zone and in such cases, each Developer shall be considered as a Developer in respect of the land in his possession.</p>	
<p>Constitution of Board of Approval</p>	<p style="text-align: center;">CHAPTER III</p> <p style="text-align: center;">CONSTITUTION OF BOARD OF APPROVAL</p> <p>8. (1) The Central Government shall, within fifteen days of the commencement of this Act, by notification, constitute, for the purposes of this Act, a Board to be called the Board of Approval</p> <p>(2) The Board shall consists of:</p> <p>(a) an officer not below the rank of an Additional Secretary to the Government of India in the Ministry or Department of the Central government dealing with Commerce-chairperson, ex-officio:</p> <p>(b) two officers, not below the rank of an Joint Secretary to the government of India, to be nominated by the Central Government to represent the Ministry or Department of the Central Government. dealing with revenue-Members, ex-</p>	

	<p>officio;</p> <p>(c) one officer not below the rank of an Joint Secretary to the government of India, to be nominated by the Central Government to represent the Ministry or Department of the Central Government dealing with economic affairs (financial services)-Members, ex-officio;</p> <p>(d) such numbers of officers, not below the rank of the an Joint Secretary to the government of India, to be nominated by the Central Government to represent the Ministry or Department of the Central Government dealing with commerce, industrial policy and promotion, science and technology, small scale industries and agro and rural industries, home affairs, defence, environment and forests, law, overseas Indian affairs, and urban development – Members, ex-officio;</p> <p>(e) a nominee of the State Government concerned – Member, ex-officio;</p> <p>(f) the Director General of Foreign Trade or his nominee-Member, ex-officio;</p> <p>(g) the Development Commissioner concerned – Member, ex-officio;</p> <p>(h) a Professor in the Indian Institute of Management, being a society registered under the Societies Registration Act, 1860 or the Indian Institute of Foreign Trade, being a society registered under the Societies Registration Act, 1860, as may be nominated by the Central Government- Member, ex-officio;(…)</p>	
	<p style="text-align: center;">CHAPTER IV DEVELOPMENT COMMISSIONER</p> <p>11. (1) The Central Government may appoint any of its officers not below the rank of Deputy Secretary to the Government of India as the Development Commissioner of one or more Special Economic Zones.</p> <p>(2) The Central Government may appoint such officers and other employees as it considers necessary to assist the Development Commissioner in the performance of his functions in the Special Economic Zones established by a Developer (other than Central Government) under this Act on such terms and conditions as it deems fit.</p> <p>(3) Every Development Commissioner, officers and other employee shall be entitled to such salary and allowances and subject to such terms and conditions of service in respect of leave, pension, provident fund and other matters as may, from time to time, be specified by the Central Government</p> <p>12. (1) Every Development Commissioner shall take all steps in order to discharge his functions under this Act to ensure</p>	<p>Development Commissioner</p> <p>Functions of Development</p>

	<p>speedy development of the Special Economic Zone and promotion of exports there from</p> <p>(2) Without prejudice to the generality of the foregoing provisions, the Development Commissioner shall-</p> <p>(a) guide the entrepreneurs for setting up of Units in the Special Economic Zone;</p> <p>(b) ensure and take suitable steps for effective promotion of exports from the Special Economic Zone;</p> <p>(c) ensure proper co-ordination with the Central Government or State Government Departments concerned or agencies with respect to, or for the purposes, of clauses (a) and (b);</p> <p>(d) monitor the performance of the Developer and the Units in a Special Economic Zone ;</p> <p>(e) discharge such other functions as may be assigned to him by the Central Government under this Act or any other law for the time being in force; and</p> <p>(f) discharge such other functions as may be delegated to him by the Board.</p> <p>3) Every Development Commissioner shall be overall in charge of the Special Economic Zone and shall exercise administrative control and supervision over the officers and employees appointed under sub-section (2) of section 11 (including the officials deputed to such Special Economic Zone) to discharge any of the functions under this Act.</p> <p>(4) Without prejudice to the provisions of sub-section (1) to (3), every Development Commissioner shall discharge such functions and exercise such powers as may be delegated to him by a general or special order by the Central Government or the State Government concerned, as the case may be.</p>	Commissioner
Constitution of Approval Committee	<p style="text-align: center;">CHAPTER V SINGLE WINDOW CLEARANCE</p> <p>13. (1) The Central Government shall,-</p> <p>(a) in the case of existing Special Economic Zones, within six months from the date of commencement of this Act;</p> <p>(b) in case of other Special Economic Zones established after the commencement of this Act, within six months from the date of establishment of such Special Economic Zone, by notification, constitute a Committee for every Special Economic Zone, to be called the Approval Committee to exercise the powers and perform the functions specified in section 14.</p> <p>(2) Every Approval Committee shall consist of –</p> <p>(a) the Development Commissioner - Chairperson, ex officio;</p> <p>(b) two officers of the Central Government to be nominated by the Central Government - Members, ex officio;</p>	

	<p>(c) two officers of the Central Government to represent the Ministry or Department dealing with revenue – Members, ex officio;</p> <p>(d) one officer of the Central Government to be nominated by that Government to represent the Ministry or Department dealing with the economic affairs (financial services) – Members, ex officio;</p> <p>(e) two officers of the State Government concerned to be nominated by that Stated Government – Member, ex officio;</p> <p>(f) a representative of the Developer concerned – Special invitee.</p> <p>(3) For the purpose of exercising its powers and performing its functions, the Approval Committee may invite to its meetings, such persons as the Committee deems fit, whose assistance or advice it may consider necessary.</p>	
<p>52 of 1962 51 of 1975</p> <p>52 of 1962. 51 of 1975.</p> <p>1 of 1944. 5 of 1986</p> <p>32 of 1994.</p>	<p style="text-align: center;">CHAPTER VI</p> <p style="text-align: center;">Special Fiscal Provisions for Special Economic Zones</p> <p>26. (1) Subject to the provisions of sub-section (2), every Developer and the entrepreneur shall be entitled to the following exemptions, drawbacks and concessions, namely: -</p> <p>(a) exemption from any duty of customs, under the Customs Act, 1962 or the Custom Tariff Act, 1975 or any other law for the time being in force, on goods imported into, or service provided in, a Special Economic Zone or a Unit, to carry on the authorised operations by the Developer or entrepreneur;</p> <p>(b) exemption from any duty of customs, under the Customs Act, 1962 or the Customs Tariff Act, 1975 or any other law for the time being in force, on goods exported from, or services provided, from a Special Economic Zone or from a Unit, to any place outside India:</p> <p>(c) exemption from any duty of excise, under the Central Excise Act, 1944 or the Central Excise Tariff Act, 1985 or any other law for the time being in force, on goods brought from Domestic Tariff Area to a Special Economic Zone or Unit, to carry on the authorised operations by the Developer or entrepreneur;</p> <p>(d) drawback or such other benefits as may be admissible from time to time on goods brought or services provided from the Domestic Tariff Area into a Special Economic Zone or Unit or services provided in a Special Economic Zone or Unit by the service providers located outside India to carry on the authorised operations by the Developer or entrepreneur;</p> <p>(e) exemption from service tax under Chapter-V of the Finance Act, 1994 on taxable services provided to a</p>	<p>Exemptions, drawbacks and concessions to every Developer and entrepreneur</p>

<p>23 of 2004</p> <p>74 of 1956.</p> <p>43 of 1961</p> <p>Transfer of ownership and removal of goods.</p>	<p>Developer or Unit to carry on the authorised operations in a Special Economic Zone;</p> <p>(f) exemption from the securities transaction tax leviable under section 98 of the Finance (No. 2) Act, 2004 in case the taxable securities transactions are entered into by a non-resident through the International Financial Services Centre;</p> <p>(g) exemption from the levy of taxes on the sale or purchase of goods other than newspapers under the Central Sales Tax Act, 1956 if such goods are meant to carry on the authorised operations by the Developer or entrepreneur.</p> <p>(2) The Central Government may prescribe the manner in which, and the terms and conditions subject to which, the exemptions, concessions, drawback or other benefits shall be granted to the Developer or entrepreneur under sub-section (1).</p> <p>27. The provisions of the Income-tax Act, 1961, as in force for the time being, shall apply to, or in relation to, the Developer or entrepreneur for carrying on the authorised operations in a Special Economic Zone or Unit subject to the modifications specified in the Second Schedule.</p> <p>28. The Central Government may prescribe the period during which any goods brought into, or services provided in, any Unit or Special Economic Zone without payment of taxes, duties or cess shall remain or continue to be provided in such Unit or Special Economic Zone.</p> <p>29. The transfer of ownership in any goods brought into, or produced or manufactured in, any Unit or Special Economic Zone or removal thereof from such Unit or Zone shall be allowed, subject to such terms and conditions as the Central Government may prescribe.</p>	<p>Provisions of Income-tax Act, 1961 to apply with certain modification in relation to Developers and entrepreneurs</p> <p>Duration of goods or services in Special Economic Zones</p>
<p>Constitution of Authority</p>	<p style="text-align: center;">CHAPTER VII SPECIAL ECONOMIC ZONE AUTHORITY</p> <p>31. (1) The Central Government shall, by notification in the Official Gazette, constitute, for every Special Economic Zone established by it before the commencement of this Act or which may be established by it after such commencement by the Central Government, an Authority to be called the (name of the Special Economic Zone) Authority to exercise the powers conferred on, and discharge the functions assigned to, it under this Act:</p> <p>Provided that in respect of existing Special Economic Zone established by the Central Government, such Authority shall</p>	

	<p>be constituted by the Central Government within six months from the date of commencement of this Act: Provided further that until such Authority is constituted, the person or the authority including the Development Commissioner exercising control over such existing Special Economic Zones shall continue to exercise such control over the Special Economic Zones till the Authority is constituted.</p> <p>(2) Every Authority shall be a body corporate by the name aforesaid, having perpetual succession and a common seal, with a power, subject to the provisions of this Act, to acquire, hold and dispose of property, both movable and immovable, and to contract and shall, by the said name, sue and be sued.</p> <p>(3) The head office of every Authority shall be at such place as the Central Government may specify in the notification referred to in sub-section (1).</p> <p>(4) Any Authority may, with the previous approval of the Central Government, establish branch offices at other places in India.</p> <p>(5) Every Authority shall consist of -</p> <p>(a) the Development Commissioner of the Special Economic Zone over which the Authority exercises its jurisdiction - Chairperson, ex officio;</p> <p>(b) two officers of the Central Government to be nominated by that Government having knowledge of, or experience in, dealing with matters relating to Special Economic Zones - Members, ex officio;</p> <p>(c) an officer of the Government of India in the Ministry or Department dealing with Commerce on matters relating to Special Economic Zone - Member, ex officio; Members of an Authority (other than ex officio Members) and the manner of filling of vacancies shall be such as may be prescribed.</p> <p>34. (1) Subject to the provisions of this Act, it shall be the duty of each Authority to undertake such measures as it thinks fit for the development, operation and management of the Special Economic Zone for which it is constituted.</p> <p>(2) Without prejudice to the generality of the provisions of sub-section (1), the measures referred to therein may provide for -</p> <p>(a) the development of infrastructure in the Special Economic Zone;</p> <p>(b) promoting exports from the Special Economic Zone;</p>	<p>Functions of Authority</p>
<p>Power to modify provisions of this Act or other enactments in relation to</p>	<p style="text-align: center;">CHAPTER VIII MISCELLANEOUS</p> <p>49. (1) The Central Government may, by notification, direct that any of the provisions of this Act (other than sections 54</p>	

<p>Special Economic Zones</p>	<p>and 56) or any other Central Act or any rules or regulations made thereunder or any notification or order issued or direction given thereunder (other than the provisions relating to making of the rules or regulations) specified in the notification--</p> <p>(a) shall not apply to a Special Economic Zone or a class of Special Economic Zones or all Special Economic Zones; or (b) shall apply to a Special Economic Zone or a class of Special Economic Zones or all Special Economic Zones only with such exceptions, modifications and adaptation, as may be specified in the notification.</p> <p>Provided that nothing contained in this section shall apply to any modifications of any Central Act or any rules or regulations made thereunder or any notification or order issued or direction given or scheme made thereunder so far as such modification, rule, regulation, notification, order or direction or scheme relates to the matters relating to trade unions, industrial and labour disputes, welfare of labour including conditions of work, provident funds, employers' liability, workmen's compensation, invalidity and old age pensions and maternity benefits applicable in any Special Economic Zones.</p> <p>50. The State Government may, for the purposes of giving effect to the provisions of this Act, notify policies for Developers and Units and take suitable steps for enactment of any law:-</p> <p>(a) granting exemption from the State taxes, levies and duties to the Developer or the entrepreneur;</p> <p>(b) delegating the powers conferred upon any person or authority under any State Act to the Development Commissioner in relation to the Developer or the entrepreneur.</p> <p>51. (1) The provisions of this Act shall have effect notwithstanding anything inconsistent therewith contained in any other law for the time being in force or in any instrument having effect by virtue of any law other than this Act.</p>	<p>Act to have overriding effect</p>
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Sources: SEZ Authority of India, Ministry of Commerce and Industry, Government of India, www.sezindia.nic.in

Note: This is only the excerpts of the SEZ ACT 2005. For original version please refer to official document published by the Dept. of Commerce.

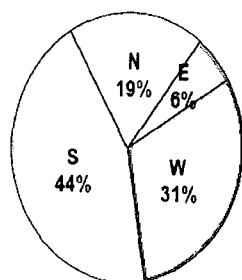
Annexure – B

SEZs: State wise Distribution under SEZs Act 2005

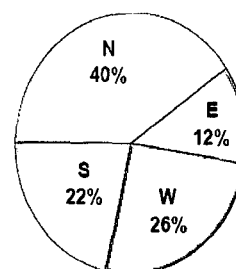
State	Formal Approval	In-Principal approvals	Notified SEZs
Andhra Pradesh	103	4	68
Chandigarh	2		2
Chattisgarh	1	2	
Delhi	1		
Dadar&Nagar Haveli	4		
Goa	7		3
Gujarat	50	11	27
Haryana	46	17	30
Himachal Pradesh		3	
Jharkhand	1		1
Karnataka	52	9	27
Kerala	24	0	11
Madhya Pradesh	14	6	5
Maharashtra	111	36	55
Nagaland	2		
Orissa	10	3	6
Pondicherry	1	1	
Punjab	10	7	2
Rajasthan	10	11	7
Tamil Nadu	69	18	49
Uttar Pradesh	34	5	16
Uttarakhand	3	-	2
West Bengal	25	13	11
Total	578	146	322

Sources: Sources: SEZ Authority of India, Ministry of Commerce and Industry, Government of India, www.sezindia.nic.in

Formal



In-principle



ANNEXURE-C

A Status Report On Singur

Total land acquired: 997.11

acre

Mouzas involved: Beraberi
Gopalnagar
Singherbheri
Bajemelia
Khaserbheri

Land details:

Name of Mouza	Total area of the Mouza (in acres)	Land acquired in the Mouzas (in acres)
Gopalnagar	1656.55	399.98
Beraberi	1043.82	327.21
Khasbheri	229.62	180.68
Bajemelia	335.13	47.77
Singherbheri	310.75	41.47
Total	3959.87	997.11

Land Acquisition compensation to owners:

Sali Land:

Basic Price: Rs. 6.02 Lakh per acre
Amount paid: Rs. 8.60 Lakh per acre²²¹

Suna Land:

Basic Price: Rs. 8.92 Lakh per acre
Amount paid: Rs.12.76 Lakh per acre²²²

Land Acquisition compensation to recorded bargadars:

The total number of recorded bargadars (according to Collector): 237

²²¹ On basic price, solatium @ 30%, Interest (@12% per annum) for 3 months 3% and consent award 10%

i.e. 143% of the basic price and in addition to that crop compensation

²²² On basic price, solatium @ 30%, Interest(@12% per annum) for 3 months 3% and consent award 10%

i.e. 143% of the basic price and in addition to that crop compensation

25% of the total compensation (including crop compensation) paid to the recorded bargadars.

Unrecorded Bargadars:

According to local enquiry, the total number of unrecorded bargadars is about 170.

Till date 60 such unrecorded bargadars have applied to Collector requesting that they be considered for some compensation to be paid to them.

Land Acquisition compensation:

Total compensation payable: Rs. 131.49 crore

Mouza	LA Compensation Total Rs. in lakh	Bargadars Total Rs. in lakh	Total Rs. in lakh
Beraberi	4,148.84	24.61	4,173.71
Khaserbheri	3,765.90	11.81	3,777.71
Singherbheri	743.43	1.85	745.19
Bejamelia	429.88	2.13	432.02
Gopalnagar	3,997.02	23.58	4,020.60
Total	13,084.98	63.99	13,148.96

Disbursement till 2nd December 2006: Rs. 76.64 Crore
 Number of persons to whom disbursement has been made: 9020
 Area of land in respect of which payment has been made: 635 acres
 Bargadars who has received payment: 88
 Compensation amount disbursed to recorded bargadars: Rs. 17 lakh
 Total Disbursement yet to be made: Rs.54.85 Crore
 Persons yet to receive payment: 3000 (approx)

Consent Status:

Pre award: Raiyati consent: 548 acre

	Factory consent:	38
acre		
	Vested Land:	34
acre		
	Total:	620
acre		
	Post award consent till 4th December 2006:	332
acre		
	Total consent till 4th December 2006:	952
acres		

Rehabilitation and Training Program at Singur

WBIDC camp office:

The camp office has been opened on 11th October 2006. The office is located within the acquired land. Till 2nd December 1372 landlosers and 443 landless workers have been enrolled in the office with details as under:

Category	Total	Men	Women
Land losers	1372	1050	322
Landless workers	443	405	38

Training programs initiated:

Belur Math Ramkrishna Shilpa Mandir

179 landlosers are undergoing training at Belur Math Ramkrishna Shilpa Mandir in the following trades:

Trade	No. of Trainees
Machinist	42
Welding	31
Two & Three wheeler repairing	2
Automobile repairing	77
House wiring and electrical gadget repairing	27
Total	179

The total training program is of four months duration. In the second phase of the training program, another 180 landlosers would be sent for training of which 146 would be graduate.

Community Development works undertaken and proposed:**Drinking water:**

63 tubewells have been repaired / installed in Gopalnagar (27 tubewells), Beraberi (24) and K-G-D (12) Gram Panchayets.

School Repair:

Beraberi High School has been repaired and upgraded for vocational training by Singer. India in sewing.

Road Improvement:

Initial work for road improvement has been initiated. The works for widening and strengthening the road used by the local villagers from National Highway to Kamarkundu station would be taken up next week.

Re-excavation of Julkia Canal:

Survey work for re-excavation of Julkia canal has been completed. Rehabilitation of this canal would improve the irrigation potential of adjoining lands as well as facilitate drainage of the entire area. Drainage channels are also being planned within the villages to reduce waterlogging during monsoon.

Irrigation facility:

It has been proposed to install 4 to 5 deep tube wells in the area to improve the cropping intensity of the adjoining area.

Mandays generated:

All the works are being executed with local labours mostly landless agriculture workers and landlosers. Till date about 2000 mandays have been generated through the above community works taken up with the active help of local Panchayet Samity and all 3 Gram Panchayets. In addition, the work of fencing the entire land is being executed with local landless agriculture workers and landlosers and about 5500 mandays have been generated till 5th December 2006.

Total Expenditure:

On account of various community development work, about Rs. 10 lakh has been expended till date on account of wage payment.

Classification of lands:**Mouza wise classification of Land Acquired at Singur in Hooghly District**

Mouza	Path/ Rasta	Sali6	Suna	Others	Total
Beraberi	1.71	292.74	19.37	13.39	327.21
Khasherberi	0.00	161.05	8.13	11.50	41.47
Singherberi	0.00	29.36	2.58	9.53	41.47
Bajemelia	0.02	46.91	00	0.84	47.77
Gopalnagar	0.00	370.14	6.49	23.35	399.98
Total	1.73	900.02	36.57	58.61	997.11

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