Special Category Status

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Manifest Pedagogy

Special Category Status has gained relevance due to increasing number of demands and also politicisation surrounding it. The best way to prepare for this topic is ti cover it from 2 dimensions :

1. Economy
2. Polity – Fiscal Federation

In news

Andhra Pradesh demand for Special Category Status

Placing it in the syllabus

Functions and responsibilities of the Union and the States, issues and challenges pertaining to the federal structure, devolution of powers and finances up to local levels and challenges therein

Static dimensions

1. Special Category Status concept and history
2. Advantages of the status
3. States having it presently and its impact on health of the economy
4. Concept of Fiscal Federalism and SCS

Current dimensions

1. New demands and politicization and solutions to it

Content

What is Special Category Status – History and Development

Special Category Status used to be granted to some regions that have historically been at a disadvantage compared with the rest of the country. This **decision was taken by the National Development Council (NDC), a body of the former Planning Commission.**

The Constitution does not include any provision for categorization of any State in India as a Special Category Status (SCS) State.

History

- **In the year 1969, the 5th Finance Commission** (Chairman Mahavir Tyagi) had given status of Special Category States to 3 states (Jammu & Kashmir, Assam and Nagaland) **on the basis of Gadgil Formula**. The reason for giving special status to these 3 states was the **social, economic and geographical backwardness.**
- National Development Council (NDC) granted this status based on a number of features of the States which included: hilly and difficult terrain, low population density or the presence of sizeable tribal population, strategic location along international borders, economic and infrastructural backwardness and non-viable nature of State finances.
- The SCS States used to receive block grants based on the **Gadgil-Mukherjee formula**, which effectively allowed for nearly 30 percent of the total Central Assistance to be transferred to SCS States as late as 2009-10.
- Following the constitution of the **NITI Aayog** (after the dissolution of the Planning Commission) and the recommendations of the **Fourteenth Finance Commission** (FFC), Central plan assistance to SCS States has been subsumed in an **increased devolution of the divisible**

pool to all States (from 32% in the 13th FC recommendations to 42%) and do not any longer appear in plan expenditure.

- The FFC also recommended variables such as "**forest cover"** to be included in devolution, with a weightage of 7.5 in the criteria and which could benefit north-eastern States that were previously given SCS assistance. **Besides, assistance to Centrally Sponsored Schemes for SCS States was given with 90% Central share and 10% State share.**

What assistance do states with Special Category Status get?

The Centre pays 90 percent of the funds required in a centrally-sponsored scheme to special category status category states as against 60 percent in case of normal category states, while the remaining funds are provided by the state governments.

Advantages in case of getting a status

1. Special-category states get a significant **excise duty concession & other such tax breaks** that attract industries to relocate/locate manufacturing units within their territory.
2. A major portion of the **Normal Central Assistance (56.25%) is distributed to 11 Special Category States and the remaining (43.75%)** among 18 General Category States.
3. Only Special Category States **receive Special Plan Assistance and Special Central Assistance grants.**
4. The assistance for **Externally Aided Projects (EAPs)** flows to Special category States as 90 percent grant whereas, for the General Category States, it flows as loans.
5. The state share in Centrally Sponsored Schemes is usually lower for the Special Category States, especially the States of North East region as compared

to the General Category States.

Criteria for granting status are :

1. The state which is facing the problem of resources crunch.
2. Hilly and difficult terrain.
3. Low per capita income.
4. Non-viable nature of state finances.
5. Economic and infrastructural backwardness.
6. Presence of sizeable tribal population.
7. Strategic location along international borders.
8. Low population density.

Special Category States at present :

They are 7 States of North-Eastern region (Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura), Sikkim, Jammu & Kashmir, Himachal Pradesh and Uttarakhand.

Benefits and disadvantages of SCS concept with respect to financial health and economy

- These states are highly dependent on the central grants from the Union Government for meeting their financial requirements.
- These states show a revenue surplus position because any expenditure that they make on creating assets out of grants from the centre is not treated as revenue expenditure. This is contrary to the existing accounting standards which treats all expenditure from grants as revenue expenditure.

Should further SCS be given ?

- The 14th Finance Commission did away with the distinction between general and special category states since it had taken into account the level of backwardness of states in the proposed transfer of funds to states.

- The idea was that adequate resources would be allocated through tax devolution and grants to address interstate inequalities.
- The special category status was therefore restricted to the three hill states (J&K, Himachal Pradesh and Uttarakhand) and those in the Northeast. It was also decided that a revenue deficit grant would be provided for certain states for which devolution alone would be insufficient.