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News: Bihar requesting the status of special category states

- Recently, the Bihar Chief Minister reiterated the State's long-standing demand to be granted special category status by the Centre, a move that would increase the amount of tax revenues that the State gets from the Centre.

Reasons behind Bihar demanding Special Category Status

- **Historical and Structural Challenges:** Bihar faces significant economic challenges, including a lack of industrial development and limited investment opportunities.
- The bifurcation of the state resulted in the shifting of industries to Jharkhand, exacerbating the employment and economic growth issues in Bihar.
- **Natural Calamities:** The state grapples with natural calamities like floods in the northern region and severe droughts in the southern part.
- These recurring disasters disrupt agricultural activities, especially in terms of irrigation facilities and the water supply remains inadequate affecting livelihoods and economic stability.

- **Lack of Infrastructure:** Bihar's inadequate infrastructure hampers its overall development, characterised by poor road networks, limited healthcare access, and challenges in educational facilities.
- In 2013, the Raghuram Rajan Committee set up by the Centre, placed Bihar in the “least developed category”.
- **Poverty and Social Development:** Bihar has a high poverty rate, with a significant number of families living below the poverty line.
- A recent survey by NITI Aayog reveals that Bihar is the state with the highest number of poor with 26.59% multidimensionally poor in 2022-23 which is much higher than the national average of 11.28%.
- Per-capita GDP of Bihar is Rs. 60,000 compared to Rs. 1, 69,496 as the National average for 2022-23.
- The state also lags in various human development indicators as well.
- **Funding for Development:** Seeking SCS is also a means to secure substantial financial assistance from the central government to address long-standing socio-economic challenges.
- The Bihar government last year estimated that the granting of the special category status will help the State receive an additional 2.5 lakh crore rupees over five years to spend on the welfare of 94 lakh crore poor families.

Arguments against Bihar Getting the SCS

- However, some critics argue that increased funds might incentivise poor policies and penalise well-performing states, as the funds will be diverted to poorer states.
- Historically poor rule of law in Bihar has been a major barrier to growth and investment.
- The Centre already devolves 42% of taxes from earlier 32% to states as per the 14th Finance Commission. Any additional strain on the Centre's funds will potentially impact other national schemes and welfare measures.
- Bihar is one of the fastest-growing states in India. In 2022-23, Bihar's GDP grew by 10.6%, higher than the national average of 7.2%.
- Per capita income in real terms grew by 9.4% in the previous year.
- More funds might offer short-term relief, but long-term growth depends on improving governance and investment climate.
- Although Bihar meets most of the criteria for the grant of SCS, it does not fulfil the requirement of hilly terrain and geographically difficult areas, which is considered to be the primary reason for difficulty in infrastructural development.

- The Central government citing the 14th Finance Commission FC report, which made a recommendation to the Centre that no State be accorded the SCS, has repeatedly denied the demands.

Special Category Status

- Special Category Status (SCS) is a classification given by the Centre to assist the development of states that face geographical and socio-economic disadvantages.
- The Constitution does not make a provision for SCS and this classification was later done on the recommendations of the 5th Finance Commission in 1969.
- Status was first accorded to Jammu and Kashmir. Telangana is the newest State of India to be accorded the status.
- Presently, Eleven States including Assam, Nagaland, Himachal Pradesh, Manipur, Meghalaya, Sikkim, Tripura, Arunachal Pradesh, Mizoram, Uttarakhand and Telangana have been accorded the special category state status.
- SCS is different from Special status which imparts enhanced legislative and political rights, while SCS deals with only economic and financial aspects.
- For instance, J&K used to have Special status before Article 370 was repealed.

Parameters (Based on Gadgil Formula)

- Hilly Terrain
- Low Population Density and/or Sizeable Share of Tribal Population
- Strategic Location along Borders with Neighbouring Countries
- Economic and Infrastructure Backwardness
- Nonviable Nature of State Finances

Benefits

- The Centre pays 90% of the funds required in a Centrally-Sponsored Scheme to special category status states as against 60% or 75% in the case of other states, while the remaining funds are provided by the state governments.
- Unspent money in a financial year does not lapse and is carried forward.
- Significant concessions are provided to these states in excise and customs duties, income tax and corporate tax.
- 30% of the Centre's Gross Budget goes to Special Category states.

Challenges

- **Resource Allocation:** Granting SCS entails providing additional financial assistance to the state, which can strain the central government's resources.

- **Dependency on Central Assistance:** States with SCS often become heavily reliant on central assistance discouraging efforts toward self-sufficiency and independent economic growth strategies.
- **Implementation Challenges:** Even after the grant of SCS, there might be challenges in utilising the funds effectively due to administrative inefficiencies, corruption, or lack of proper planning.