



Federal finance in India: A study of centre-Assam financial relationship

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Abstract

This paper deals with the nature of constitutional provisions pertaining to Centre-State financial relations in India, including arrangements regarding taxation powers of different tiers of government in India. It also highlights the role of the Finance Commission and now defunct Planning Commission in effecting fund transfers from the Centre to the States with special emphasis on Centre-Assam financial relations. Besides it focuses on the causes of infrastructural underdevelopment of Assam in the post-colonial period which finally leads to precipitation of anti-Centre feeling in the minds of the people of Assam.

Keywords: centre-state relations, India, Assam, economic underdevelopment, financial autonomy

Introduction

The working of the Indian Federal System has been affected by the predominant position enjoyed by the Centre and the lack of adequate politicization of the masses in the country. Further, lack of well organized opposition capable of offering an effective challenge to the ruling party at the Centre has been responsible for the steady growth of a trend of centralization of power in India. It has tended to reduce the States to the status of 'glorified and magnified municipalities.' Centralization of political powers in the hands of central leaders is bound to create reaction from regions whose interests seem to have been ignored. The emergence of regional forces in India is rooted in this malady. They are also emphasizing the need for reshaping the federal polity. Hence, among other issues of Centre's continued indifference to Assam's socio-political and economic issues, one concomitant issue was the federal financial relations which were beset with the associated problems of centripetal division of powers regarding taxation, grants and sharing of revenues and resources between the Centre and States. This paper will deal with the nature of constitutional provisions pertaining to Centre-State financial relations in India, including arrangements regarding taxation powers of different tiers of government in India. It will also highlight the role of the Finance Commission and now defunct Planning Commission in effecting fund transfers from the Centre to the States with special emphasis on Centre-Assam financial relations. Besides we shall focus on the causes of infrastructural underdevelopment of Assam in the post-colonial period which finally leads to precipitation of anti-Centre feeling in the minds of the people of Assam.

In Indian federation, there is constitutional demarcation of financial powers and responsibilities between the Centre and the States. The present federal system of finance in India has been achieved through an evolutionary process spread over the last 100 years. Out of colonial necessity, finances of British India were highly centralized but the British gradually adopted the scheme of financial decentralization with the adoption of draft of Lord Mayo in 1871. The next step towards decentralization of finances came in 1877

when heads of revenue were demarcated into Centre and Provinces. However, the mechanisms of division of heads of revenues were purely administrative arrangements. The system of federal finance or financial decentralization consolidated further with the passing of the Government of India Act, 1919. Under the Act provincial governments were awarded some sort of financial autonomy for the first time. Moreover, the Government of India Act passed in 1935 envisaged the formation of a federal form of government at the Centre with autonomy granted to provinces. Sir Otto Niemeyer, a financial expert from England, was asked to investigate the relations between the Centre and the provinces. The Niemeyer Award ^[1] continued until 1947, although it did not satisfy any of the governments at the Centre and at the provinces. However, C. D. Deshmukh gave the final shape of decentralized finance in 1947 that recommended a new scheme of distribution of tax revenues between the Centre and the States. The Constitution of India adopted in 1950 opted for federal financial arrangements.

The Indian Constitution makes detailed arrangements relating to the distribution of taxes, the power of borrowing, and provision for grants-in-aid between the Union and the States. Through these arrangements, the Constitution places adequate financial resources at the disposal of the two tiers of Government to discharge their respective responsibilities. Article 265 of the Constitution specifically states that no taxes shall be levied or collected except by the authority of law. Entries 82 to 92B of List I in the Seventh Schedule refer to the taxation powers of the Union Government. Entries 45 to 63 of List II in the same Schedule specify the taxation powers of the State Governments. On the other hand the Union and the States have no concurrent powers of taxation. The residual powers of taxation belong to the Union vide entry 97 of List I in the Seventh Schedule ^[2]. Constitutional division of taxation powers between the Union and the States have been made on the basis of economic and administrative considerations in India. Taxes with an inter-State base, and those in the case of which uniformity in rates is desirable, are vested in the Central Government. Taxes which are location-specific and relate to

subjects of local consumption are with the States. The distribution of taxation powers between the Centre and the States is meant to minimize tax problems in a federal set up such as double taxation, tax rivalry among States, duplicate tax administration, and tax evasion^[3].

Although the taxation powers allocated to the Union and the States are mutually exclusive, all the taxes and duties levied by the Union are not meant entirely for the purpose of the Union. Revenues from certain taxes and duties leviable by the Union are totally assigned to or shared with the States to supplement their revenues in accordance with their needs. The framers of the Constitution realized that the sources of revenue allocated to the States may not prove sufficient in view of their growing welfare, maintenance, and developmental activities. Hence, specific provisions were made to set apart a portion of Central revenues for the benefit of States. These provisions indicate the flexibility of India's Constitution in terms of distribution of financial resources between different layers of the Government.

However, regionalists feel that the Constitution of India with pronounced centralizing features could be termed 'quasi-federal' or 'a federation with a strong centralizing tendency.' Constitutional provisions, regarding taxation and borrowing powers of the Centre and the States, place the former in a commanding position. Not only the major sources of tax revenue belong to the Centre, its borrowing (internal and external) powers are also unlimited.

Moreover, the Central Government enjoys the exclusive right to print currency. For example, budget estimates for the year 2006-07 showed total tax collections at the all-India level at Rs. 6,99,135 crore of which Central taxes (gross) accounted for Rs. 4,42,153 crore (63.2 per cent). The remaining Rs. 2,56,982 crore (36.8 per cent) was shown the share of all the States put together. In the case of non-tax revenue of Rs. 1,13,532 crore at the all-India level for the same year, the shares of Centre and the States were Rs. 75,964 crore (66.9 per cent) and Rs. 37,568 crore (33.1 per cent) respectively. Similarly, total revenue collections (tax plus non-tax) at the all-India level were projected at Rs. 8,12,667 crore with shares of the Centre and the States standing at Rs. 5,18,117 crore (63.8 per cent) and Rs. 2,94,550 crore (36.2 per cent) respectively^[4].

The framers of India's Constitution recognized the fact that the financial resources of the States may prove inadequate for undertaking welfare, maintenance, and development activities. They made elaborate arrangements relating to flow of funds from the Centre to the States. The disequilibrium between proliferating functional responsibilities of the States and their own resources is corrected by Central transfers effected through three main channels, firstly, Statutory transfers through the Finance Commission; secondly, Plan transfers through the Planning Commission; and thirdly, Discretionary transfers through Centrally Sponsored Schemes, relief for natural calamities, and relief and rehabilitation of displaced persons. Apart from these direct transfers, resources also flow to the States indirectly through the establishment or expansion of Central public sector enterprises; subsidized lending by banking and financial institutions; and subsidized borrowing by the States from the Central Government and the banking system^[5]. The funds transferred through the Finance Commission pertain to sharing of certain Central taxes, and grants-in-aid of revenues of the States. Although the Constitution provides for Central transfers, it neither indicates the share

of the States in the divisible taxes nor prescribes any principles for the distribution of States' share among the States themselves. The precise manner of sharing taxes and the actual determination of grants is left to the deliberations of the Finance Commission. On the other hand, the Planning Commission makes an assessment of the existing resources of the individual States and the country as a whole and sets objectives in various fields and formulates plans for economic development in the light of requirements of each State. With the establishment of the Planning Commission in 1950, the Central Government invoked Article 282 for making grants to the States for plan purposes. Ever since the launching of the First Five Year Plan, these grants have occupied an important place in Central financial transfers to the States. These grants were intended by the Constitution makers to meet unforeseeable emergencies and were not envisaged as part of normal Centre-State financial relations. Thus, grants given under Article 282 are a subject matter of controversy. Another contentious issue related to Plan assistance pertains to Centrally Sponsored Schemes. In view of their national importance, these schemes are launched by the Centre and implemented by the State Governments with Central assistance. The States execute these schemes under the guidance and supervision of the Centre. The States are generally unhappy with their inadequate involvement in the execution of centrally sponsored schemes which mainly pertain to subjects included in the State List. Sponsoring these schemes by the Centre is also considered an intrusion into subjects reserved for States. The States have also complained against centrally sponsored schemes on the ground that the system of matching grants involved in the schemes favours the richer States because they are better placed to provide matching funds to avail Central assistance. Regarding the magnitude of Central transfers to the States, it is natural to expect claims and counter claims by the two levels of the Government. The States have often complained that resources allocated to them are inadequate to enable them to discharge their responsibilities. They complain against widening gap between their own resources and needs, a trend indicating their increasing dependence on the Centre for resources. They assert that their resources should be commensurate with their obligations and responsibilities. Sanjib Baruah argued:

India's Central Government controls the great bulk of financial resources including income tax, corporate tax, import and export duties, and excise duties on major items. It controls the money supply and exercises control over the central bank besides the nationalized banks, currency, and foreign exchange. Except for taxes on agricultural income and property, and sales taxes on certain goods and services, all the major sources of tax revenue are in the hands of the Centre. The Constitution provides for a Finance Commission to allocate the proceeds of the centrally collected revenue to the states. But over the years an extra-constitutional body, the Planning Commission, has overshadowed the Finance Commission, further strengthening the hands of the Central Government as the arbiter of fiscal resources^[6].

Thus, in the area of distribution of fiscal resources, Indian federalism is probably at its weakest. The Constitution of India empowers the Central Government to exercise enormous powers in fiscal field. Therefore it has been criticized that, as far as financial arrangements are concerned, the Indian Constitution is a "carbon copy" of a

colonial law, the Government of India Act of 1935. The States are certainly unhappy in this financial arrangement. Hence, the Assamese elite too sincerely felt that Assam's financial stringency continues because of the "step-motherly attitude" of the Centre.

Financially Assam depends heavily on the Centre, a result of centripetal constitution, to discharge its responsibilities. Assam failed to evoke any systematic response from the Centre for a long period. It has been argued that Assam is an endowed region, gifted with many natural resources, but the endowments have not translated into economic growth and development. The path of development adopted by the Indian State is fundamentally capitalist in nature which generates severe regional disparities including Assam. Assam is located in a strategically sensitive region which faces perennial floods, political disturbances and severely underdeveloped infrastructure of roads, railways, communication, power, terminal and institutional facilities and abject poverty^[6]. Hence, Assam fails to draw worthwhile private investment for its economic development. "Instead of investing in the region's infrastructure and allowing market forces to do the rest", Subir Bhaumik argues, "The country's federal government pumped huge quantum of funds to sustain the region's economy^[8]." Terming Assam as "colonial hinterland" Tilottama Misra stated that "there has been a systematic exploitation of the rich resources of Assam, before 1947 by the colonial rulers, and since then by the Indian State and Indian capitalists who have continued the colonial tradition^[9]." Thus, Assam continues to remain an agriculturally and industrially backward State in spite of having rich resources. It led to the growing awareness among the Assamese people of being subjected to gross economic exploitation on a scale comparable to, and even sometimes worse than in the pre-independence days. Omeo Kumar Das expressed this sentiment in the Constituent Assembly itself in the following way:

We should not weaken the provinces. After all it is the provinces which have to carry out the dynamic programme of the Congress. The financial settlement which was the outcome of this anxiety to strengthen the Centre, to bring about financial stability at the Centre only, with the Units starving for funds to carry out the nation building programme still holds good today and I do not find any change of outlook. The same policy of strengthening the Centre at the cost of the provinces still holds good today^[10]. Thus, the policy of strengthening the Centre at the cost of the States has led to serious consequences to the federalizing process of the country. This policy led to the opinion that "Assam is being subjected to colonial or 'quasi-colonial' exploitation by foreign imperialists and by the Indian State and the big industrialists" and "has been progressively sucked dry of its natural resources^[11]." Despite being the country's largest producer of tea, oil, plywood and forest products, Assam is one of the poorest and industrially most backward States of India. After decades of independence, Assam is 'lagging far behind the rest of the country in most important parameters of growth.' Its economy remained predominantly agrarian. Assam is affected by increased pressure on available land due to demographic transformation. In addition to this, Assam faces perennial floods. The failure to control the Brahmaputra and other rivers contributed decisively in keeping Assam agriculturally backward in spite of its fertile soil. The

growth in agricultural sector in Assam was virtually stagnant leading to dependence on other States for food grains^[12].

The development in industrial sector is also not encouraging. Tea has been the biggest 'extractive enterprise' of Assam founded in the colonial period. The total area under tea cultivation in Assam is accounting for more than half of the country's total area under tea. It provides average daily employment to more than six lakh persons in the State which is around 50 percent of the total average daily number of labour employed in the country. The tea gardens in the State are covering land of 322000 Hectares out of 578000 Hectares of land in the country as a whole. The estimated tea production of the State was 4875 lakh kg against 9808 lakh kg total tea produced in the country during the year 2008 as per report of Tea Board of India. The tea production in Assam constitutes more than 50 percent of the total production of the country. The total annual profit from the tea gardens of Assam is several times more than the total annual revenue receipts of the State^[13]. The State of Assam is entitled to an agriculture tax imposed on 60 per cent of the profit from the tea gardens, while the Central Government is entitled to an income tax on 40 per cent of the total profit. But Assam is deprived of her legitimate share and benefits because of the practice of concealment of real profit of tea earned by the foreign as well as big Indian capitalists^[14]. *The Statesman* wrote in its editorial:

Owners have for years been content only to siphon off profits by manipulation of books, paying ridiculously low wages to employees and showing a loss in the annual balance-sheets... but on the whole, tea garden properties live off the fat of the land making little effort to increase productivity^[15].

Moreover, except the Assam Tea Corporation which is a public sector organization owning a few sick and unprofitable tea gardens, the overwhelming majority of the big gardens are under foreign and Indian companies which are controlled from London and Calcutta. As a result, a large share of profits from the Assam gardens flow out to foreign and Indian big companies. Asserting that 'the stranglehold of foreign capital on the economy remained very much there' Amalendu Guha stated:

The imperialist domination over Assam's economy hardly slackened even after independence. Less than fifteen managing agency houses, through their control of some two hundred joint-stock sterling and rupee companies, and all of them with head offices outside the province, dominated the economy. With control over one and a half million acres of land - only a third thereof was under tea plants - and half a million work-force, the planters wielded financial power before which the provincial Government's own budgetary resources paled into insignificance^[16].

Assam did not have a Tea Auction Centre till September 1970. Before commissioning the Gauhati Tea Auction Centre, the State exchequer did not receive a single paise by way of sales tax from Assam tea^[17]. Even the main office of the Tea Board, which is the highest authority in relation to the tea industry and which besides implementing the Tea Act of 1953 is also responsible for approving grants, loans, and labour-welfare projects, is situated in Calcutta though most of the gardens it controls are in Assam. Besides, in the post-independence period majority of the gardens were bought over by Indian big capitalists such as Tatas and

Birlas. Only a very few small gardens were bought over by Assamese planters. As a result, the majority of the managerial posts under the Assam Branch of the Indian Tea Association, the Tea Association of India and the Bharatiya Chah Parishad are held by people from outside the State. Further, the head offices of the ITA, TAI and BCP are situated outside Assam. Regarding the nature of tea industry in the post independence period Tilottoma Misra maintained that 'today one rarely comes across an Assamese manager or assistant manager in gardens owned by Indian capitalists' and argued:

The transfer of ownership of a large number of tea gardens from British to Indian capitalist hands has had little perceptible effect on the economic life of the Assamese people. The only difference is that while the British in their own interests employed local hands both in managerial and clerical posts, the Indian big capitalists have started to bring people from other parts of the country to fill up all categories of posts. These people, in most cases, have almost no acquaintance with the planting and processing of tea-their only claim to the tea jobs happen to be their 'connections'^[18].

Due to the above reasons, through mass movement, demand has been raised for the sale of the entire quantity of tea produced in Assam at the Gauhati Tea Auction Centre, because all these years the State has been losing revenue from sales-tax on its tea production since its major portion is still sold in the Calcutta auction. The leading buyers of the Gauhati Tea Auction have pointed out^[19] that Assam gets very little sales tax for the tea produced in the State compared to West Bengal for auctioning Assam tea in Calcutta. Therefore, it is argued: "The demand for the nationalization of the tea industry and the shifting of the head offices of the tea companies to Assam cannot be dismissed as merely 'parochial' demands" but must be seen as reactions against "the protracted colonial exploitation in the tea sector"^[20].

Another important natural resource of Assam is crude oil which has become a cause of contention between Centre and Assam in post-independence period. Assam has an estimated reserve of 1.3 billion tones of crude oil and 156 billion cubic metres of natural gas^[21]. Assam accounts for about 15% of India's crude output. The wells at Digboi, Duliajan, and Sivasagar etc. also produce natural gas accounting to about 50% of India's total onshore production. Since this crude has a very high percentage of aromatic content, it is rated high in the world market. According to international price standards, Assam crude should cost at least 1.5 times more than the low grade OPEC crude. But, the oil industry did not develop in Assam contrary to the expectations of the people of Assam for two basic reasons: first, the foreign capital played an important role in oil industry till the beginning of the Assam movement; second, the Government of India was not interested in establishing refineries in Assam until the vigorous movements started by the people of Assam. Apart from the question of the establishment of refineries, the people of Assam have been feeling that the State is not getting adequate royalty for crude oil^[22]. There could have been no other reason except vested political interests for the establishment of the large public sector refinery for Assam crude at Barauni with more than 30 lakh tonnes, it is argued. Mass movements protesting against this unfair decision of the Centre were staged in Assam in 1956-57, as a result of which the Centre

tried to appease the people by establishing a small refinery at Gauhati with an annual refining capacity of only about 7 lakh tonnes. The decision of establishment of refinery at Barauni was criticized by the Public Undertaking Committee of the Indian Parliament as "an entirely wrong decision to have located the refinery at Barauni, a decision taken in spite of the strong objections on technical grounds both from the Indian and Russian experts^[23]." Another refinery movement shook the State in 1969, demanding the setting up of a second public sector refinery. But even this time the new refinery-cum-petrochemical complex fell far short of the size and capacity of the Barauni refinery, its refining capacity being only about 10 lakh tonnes a year. Further, Assam has been deprived of her due share of royalty on the crude produces. Oil royalty is given to States like Assam through a controversial Act passed in 1948^[24]. Assam has incurred a sizable loss because the Government of India had refused to fix royalty rates on Assam crude, as demanded by the Government of Assam through a memorandum, at 20 per cent of the price which is equivalent to Middle East crude price in India. It was pointed out in the Government's memorandum that, even the sales tax that Assam derives from her crude is much lower compared to what Central Government gets per tonne as sales tax on Assam crude oil. This well argued memorandum of the Assam Government has been rejected outright by the Centre. The Assam Government also did not react sharply to this gross injustice. Although international oil prices are going up every year, Assam's oil royalty has not been increased. These facts prompted the people of Assam to participate spontaneously in the oil blockade programme organized by the associations supporting the Assam movement.

This trend of deprivation continued till today and this was reflected again in a memorandum submitted to the Prime Minister on April 20, 2012 by the Government of Assam in which it urged the Central Government to provide the State government a portion of Oil Development Cess and maintained:

Substantial amount of Oil Development Cess (roughly Rs.1100 crore approximately) has been collected by the Central Government over the years. However these funds from the Oil Cess have not been invested for exploration and higher level of production by developing the indigenous oilfields. In view of this, an appropriate portion of the oil cess should be provisioned as committed resources for investment in the State of Assam itself. We also recommend that the rate of cess should be reduced by half and an amount equivalent to the balance half should be given to the oil producing States as additional royalty. We request you to advise the concerned Ministry to take up this matter urgently^[25].

The memorandum further argued that "Oil and Natural Gas have always been a sensitive issue in Assam" and it requested the Government of India "to take urgent necessary action so that the State gets its due share of benefits from its natural resources in the form of royalty and tax revenue, thereby removing the persisting sense of deprivation and alienation of the State"^[26]. In a pre budget meeting of the Centre with the States hosted by the new NDA Government under the auspices of the Union Finance Ministry on June 09, 2014, similar resentment was echoed by the incumbent Industries Minister of Assam Mr. Pradyut Bordoloi that Assam continued to incur a biannual loss of around Rs.10,

000 crores due to selling of Assam's crude oil at a discounted price as against a bonafide royalty based on international market price ^[27].

In addition, there was much possibility of establishment of petro-chemical and some other ancillary industries on the basis of natural gases extracted from the oil fields in Assam. But, the growing importance of natural gas as a source of energy and as raw material for a variety of modern industries does not seem to impress the Central Government much. Therefore, the Centre as well as the State Government has not adopted any clear policy in this regard. For, over 50 million cubic feet of natural gas is being flared off daily at the different oilfields of Assam for several decades. According to an estimate during the period of 1970-1987 an amount of natural gas worth Rs. 1900 crores was burnt up in Assam ^[28]. Only about a very little amount of natural gas is utilized in Assam and most of it is being used in the Namrup thermal plant. It is argued that the Central Government should allow the natural gas to be burnt up as waste when its proper utilization would have turned Assam into one of the richest States regarding power generation, production of various industrial goods and a variety of other chemicals. Due to the almost total non-utilisation of the natural gas and the by-products of the crude refined in Assam, no ancilliary industries have been set up in Assam while such industries dependent on the raw material from the Assam oilfields are multiplying at a rapid rate in the metropolitan centres of India. of late, as a result of Assam Accord the Assam Gas Cracker Project registered as 'Brahmaputra Cracker and Polymer Limited' on January 8, 2007 is coming up at Lepetkatta in Dibrugarh which has been approved by Cabinet Committee on Economic Affairs in its meeting held on April 18, 2006 with a project cost of Rs. 5460.61 crores which has already started commissioning.

Further the colonial pattern of industrialization is evident among the plywood and other forest based industries of Assam. Assam earns very little compared to the sales tax earned by the Government of India from Assam's plywood ^[29]. Eighty per cent of the produces of the plywood factories of Assam has been transferred by roads and rails to depots outside Assam. Not a single sales depot for Plywood is situated within Assam though the State produces several lakh cubic meters of plywood. On the other hand, most of the plywood industries of Assam are owned by big Indian capitalists. Only a few plywood factories of the State produce tea-chests for the tea garden of Assam and they produce only 50 percent of the total requirement of these gardens. Most of plywood factories sell their tea-chests through their agents in Calcutta. Gross discrimination against the local people of Assam is evident even in the case of employment in the plywood factories. The local people of Assam have been deprived of their rightful claim to jobs in the plywood factories. Besides, it is alleged that, every year, the plywood factories of Assam deal in a clandestine manner with plywood. Thus, the rich forest wealth of Assam has been diminishing fast to swell the purses of some unscrupulous big businessmen outside the State. The entire ecological balance of the State is being adversely affected by this indiscriminate felling of trees ^[30].

Besides, Assam has some other major Central public sector industries like Bramhaputra Valley Fertilizer Corporation Limited (BVFCL), Cement Corporation of India Limited (CCI), Hindustan Paper Corporation Ltd. (HPC), North

Eastern Electric Power Corporation Limited (NEEPCO) etc ^[31]. BVFCL Plant of Namrup produces around 45 per cent of the total output of its parent organization Hindustan Fertiliser Corporation. The production of the Namrup plant is expected to increase further with the commissioning of new plant. The Namrup unit is the largest in Hindustan Fertiliser Corporation. Yet, the headquarters of the HFC is set up in Calcutta, notwithstanding the repeated requests of the Assam Government to locate it within Assam. Similarly, the headquarters of the HPC have been set up in Calcutta in utter disregard of the legitimate claims of Assam and it is argued that since three of the four plants of the HPC are located in Assam, the headquarters of the HPC should be located in the State.

Jute textiles are listed as an important industry of Assam in the Economic Survey published by the State Government. It is one of the main commercial crops of the Eastern and Northeastern India providing livelihood security to about 5.0 million people. The major jute producing States in India are West Bengal, Assam, Andhra Pradesh, Bihar and Orissa. West Bengal ranks first in terms of area (71%) and production (81%) of jute in the country. The yield of jute in West Bengal has been significantly higher at 2573 kg/ha, as compared to the yield of all other States viz. Assam (1890 kg/ha), Bihar (1601 kg/ha) and Andhra Pradesh (1495 kg/ha) under jute cultivation. Assam is the third largest producer of jute in the country accounting for 7.87 per cent of its total area and 6.68 per cent of its total production. More importantly, Assam produces some of the best quality raw jute in the country ^[32]. Assam alone produces 1.6 million bales of jute. Nagaon, Goalpara, Barpeta and Darrang Districts are the main jute-producing district of Assam. Based on the raw material alone it is estimated that Assam can run about 15 jute mills in the State. But because of several problems like lack of infrastructural facilities, capital and entrepreneurship, there have been few jute mills in Assam. Therefore, the private traders have monopoly over the jute business. The Jute Corporation of India (JCI) and the STATFED procure only about 15 to 20 per cent of the total jute produced in the State. Moreover, even in the price fixation by the JCI, there is no uniformity in prices for the same quality jute produced by Assam and West Bengal. A very few jute mills in Assam which produce a major share of the country's jute helps to prove the Centre's colonial policy towards Assam. Assam, in spite of being the third largest jute producing State in India, has not been able to draw sustenance from development and diversification of jute products. About 70 percent of total jute produced in Assam is purchased for processing outside the State. Unfortunately, the State's efforts for starting and operating jute mills have not borne happy experience, in spite of having a good potential for the same.

Besides, Assam is the fifth largest producer of mulberry silk in India and the whole of the Northeastern region produces 90 per cent of the raw silk of the *Endi* variety. Assam is the sole producer of the coveted golden Muga silk in the world. An estimated 53,000 kg Muga raw silk has been produced in the State annually. Despite such large production of raw silk, no steps whatsoever have been taken by the Government to organize the silk industry on a sound commercial footing. The silk growers of the State have been increasingly exposed to the mercy of traders from other parts of the country who monopolise the business of processing and spinning of raw silk.

In the field of power generation too, the position of Assam has been low in the all-India list. Although Assam, as a State crisscrossed by fast mountain streams and rivers, has a large potential of hydel power in Assam, there have been very few hydroelectric generating plants in Assam at present i.e. Karbi-Langpi Hydro Electric Project (100 MW) and Kopili Hydro Electric Project (275 MW). Assam has only three thermal generating plants at Namrup (134MW), Bongaigaon (240MW) and Lakwa (126 MW) and a few diesel generating stations producing about 15 MW of power. But most of the other Indian States such as Andhra Pradesh, Gujarat, Kerala, Maharashtra, Tamil Nadu, UP, and West Bengal have each more than 1,000 MW installed capacity of power generation. A glance at the energy (thermal and nuclear) map of India shows that there are several major such power projects for the Northern, Western, Southern and Eastern region. Most of these power projects have a generating capacity of up to 600 MW. But the entire Northeastern region has been far behind in this regard. Again the per capita power consumption and the figure for rural electrification of the Northeast is at the lowest in the entire country. Of course, some new hydro electric projects are coming up in the Northeast India like Lower Subansiri Hydroelectric Power Project (2000MW), Dibang Hydroelectric Power Project (3000 MW) etc. However, these projects have experienced several problems during construction due to landslides, re-design and opposition.

In addition to this, Assam has a tremendous potential in tourism that has not been exploited at all. It can be termed as a miniature India which has diverse ethnicity, varied climatic conditions, national parks like Kaziranga and Manas, rain forests, beautiful hilly landscape, tea gardens and rivers like the Brahmaputra and Barak and its tributaries. Assam has each and everything from topographical diversity to scenic beauty and from rich historical background to unique ethnic life-style. In spite of its identification as a tourist destination it lacks the infrastructure and the marketing drive to attract tourists. Richly endowed with flora and fauna, landscape and ethnic diversity, Assam can be developed into a viable tourist hotspot. Therefore, the Government should spend on developing tourism infrastructure. Shubir Bhaumik argued: When states like Haryana have developed very profitable roadside tourism by setting up motels on the road to Delhi over a largely barren rocky soil country, it defies logic why the North East, so richly endowed with flora and fauna, landscape and ethnic diversity cannot develop a viable tourism industry^[33].

The industrial backwardness of the State can be gauged to a certain extent by the number of registered factories and the average number of workers employed daily. According to the Economic Survey published by the Government of Assam, the slow pace of industrial development in the State is "due to lack of requisite economic infrastructure and inherent inhibitions". The total SSI and MSME units in the State numbered 34327 have been providing employment to 178054 persons till the year 2010-11. At present there are 16 Industrial Estates, 4 Industrial Growth Centre, 11 Integrated Infrastructure Development (IID) Projects, 17 Industrial Areas, 11 Growth Centers, 6 Mini Industrial Estate, one Export Promotional Park, one Food Processing Industrial Park spread over the different parts of the State and they are the only major infrastructural support and facilities to the entrepreneurs of the State^[34]. These economic issues were

reflected in the Vision 2020 Document for Northeast, prepared by the Department of Development of North Eastern Region (DONER) and the North Eastern Council in the year 2008 which admits the backwardness of Assam and Northeastern region by saying:

At independence North Eastern Region was among the most prosperous regions of India. Sixty years on, the Region as a whole, and the States that comprise it, are lagging far behind the rest of the country in most important parameters of growth. The purpose of this Vision document is to return the North Eastern Region to the position of national economic eminence it held till a few decades ago^[35].

Thus, DONER, a Central Government Ministry, acknowledged that Assam is lagging far behind the rest of the country in most important parameters of growth in the post-colonial period.

The Northeastern States have so far received a very high rate of per capita Central assistance compared to heartland States, because they have been treated as 'special category'^[36] States by the Central Government. The National Development Council earmarks 30 per cent of the total plan allocations for these States as Central assistance for State plans. These 'special category' States receive 90 per cent of the plan assistance as a grant and 10 per cent as a loan, while other States only 30 percent as grant and 70 per cent as loan. The support to these States from the Planning and Finance Commissions accounts for over 80 per cent of the per capita revenue receipts in this region^[37].

However, in spite of huge fund transfers, the region lags far behind the rest of the country in terms of roads, industrial development and other indices of infrastructure development. The transferred funds from the Centre have not been used to develop infrastructure that could draw investments and create jobs. Very few new industries have come up since the British departed. Traditional industries like tea and oil are in great difficulty due to victimization caused by high production costs, poor yields, falling markets and extortion of insurgents. These conditions of Assam were revealed in the Parliament by Hem Barua in the following way:

The problems of Assam are viewed with indifference, callousness and apathy by this Government. ... You have investment in cash. At the same time, it should be supplemented by an investment in will. Will is lacking, the will to implement is absent. That is why Assam is treated in a very apathetic way, in a very indifferent way^[38].

'Indifference, callousness and apathy' on the part of Central Government lead to lack of infrastructure development which has been reflected in many fields. Expansion of railway has been quite slow in the region. Indian Railway had not paid adequate attention to improve the communication network in Assam. Inland water transport systems failed to develop because of lack of federal and provincial initiative. "The chief ministers of the North Eastern States would go to Delhi to lobby for more funds for State Plan" argues Subir Bhaumik "rather than fight for better infrastructure that could promote growth and attract investment." However, the funds they managed to secure from Delhi were "wasted to promote employment in government^[39]." Added to this the partition of the country burdened the region with the need for new infrastructure as the pre-partition links through Eastern Bengal was severed. The distance from the Indian mainland has added to the economic disadvantage in terms of higher transportation

costs. However, the Central Government did not take effective measures for the infrastructural development as well as economic advantage of Assam. B.G. Verghese argued "Assam's economy would have taken off if India had set up a big refinery in the State and not in Barauni immediately after independence and had followed it up by a gas cracker plant to use the gas available^[40]." After years of agitation Assam got the refinery, but it has not helped Assam. Now, Assam's crude output has fallen, raising fears that the large Numaligarh Refinery would have to get crude from outside the region or through foreign imports. Now Assam has refineries with an installed capacity of 7 million tones but its annual crude output is hovering around 5 million tones for several years. Again delay in the establishment of gas cracker project led to cost overruns raising question "whether the proposed Gas Cracker Project continues to remain viable or not^[41]." Besides, the Northeast has a proven exploitable reserve of 864 million tones of coal, a recoverable reserve of 421 million tones of hydrocarbons and a hydroelectric power potential of nearly 60,000 MW. Since new industries failed to take off, the whole Northeast Indian States remain at the very bottom of the process of industrialization in India despite possessing rich resources. Pointing out the economic backwardness of Assam A.N. Prabhu wrote in 1980:

Alphabetically, Assam is next to Andhra Pradesh in the list of Indian States. Economically, it is somewhere at the bottom..... Poverty is steep in the region. As the population has increased, so has the percentage of those living below poverty line. In 1960-61, 16.31 percent in the rural and 22.63 percent in the urban areas were below poverty line. In the next decade (1970-71), the percentage increased to 33.09 for rural and 40.30 for the urban areas^[42].

Prabhu maintained that Assam was at the top in the production of crude oil but had been deprived in all respect by the Centre by saying "Assam's daily production of crude is estimated to be worth about Rs. 3 crores a day or.... about Rs. 1000 crores a year. The State's annual budget has been of Rs. 300 crores only." Referring to Assam Entrepreneurs' Association memorandum to the Prime Minister in February 1980, he stated "For every tonne of crude oil processed and sold the Union Government receives a gross amount of Rs. 2000 out of which Assam gets only Rs. 42 a tonne by way of royalty."⁴³ It reflects the widening gap between their own resources and needs, a trend indicating their increasing dependence on the Centre for resources.

The problem of infrastructural underdevelopment of Assam has been further compounded by industrial backwardness of the State. The traditional tea, oil and plywood industries have been in great difficulty. Tea industry's production costs have been rising and auction prices falling over the years due to stiff competition with teas from Sri Lanka, Kenya and China. Besides, Assam's oil industry has been affected by falling crude output that is not even enough for the existing refineries in the State. The plywood industries have been also affected by the Supreme Court's order against commercial tree-felling. While the traditional industries are languishing, new-age industries like information technology have not come to the region. It is observed that in spite of huge fund transfers from the Centre for more than five decades, the regional development of the Northeast has not been up to the mark. The per capita state domestic product (NSDP) of almost all the States have been lower than the national average, while the per capita Central

assistance have been higher than the national average for all States except Assam.

Added to this the unemployment problem has been very acute in Assam. The Assamese feel that they are not getting their legitimate share of employment in Assam. In most of the Central Government organizations, the non-Assamese have a higher share of jobs than the Assamese. The Employment Review Committee formed by Assam Legislative Assembly even reported that "the Central industrial establishments show discriminatory attitude towards the local applicants in the matter of employment, though they have equal qualifications^[44]."

The infrastructural underdevelopment, industrial backwardness, colonial pattern of exploitation and deprivation and pressure on land and jobs due to unabated immigration and unemployment situation could be said to be some of the prime motivating factors behind the discontentment of the Assamese elite towards the Centre. In such a background in 1974 AASU tried to build up a mass movement based on certain economic demands like the implementation of progressive land reform in the interest of the peasantry, more industrialization of Assam under the public sector, nationalization of industries owned by the big-bourgeoisie without paying any compensation, a ban on eviction of poor peasants of Doyang, Kaki and Mingmon reserved forests, the appropriate measures to control the perennial floods in Assam and the take-over of procurement and distribution of all essential food grains by the Government.⁴⁵ In course of time the demands for economic development of the State was shifted to the foreign migrants' issue. By analyzing the economic situation of pre-Assam movement period economist Bhuban Barua maintained:

The six year long (1979-1985) Assam movement was the movement for the protection of distinct political and economic identity of the Assamese people which was at danger in the post independence three decades....This movement not only manifested the foreign nation issue, but also several fundamental economic problems of the socio-economic life of the State due to economic exploitation and deprivation. The skeleton of the movement was formed for the economic deprivation of the Centre as well as ruling elites and capitalist classes....Different sections have raised the issue that the Government of India has exploited the natural resources of Assam like the colonial period. The people of Assam was dissatisfied due to negligence of the State Government in this regard, which precipitated the Assam movement...^[46] (Translation mine)

In spite of having enough natural and economic resources the Central Government at New Delhi did not give importance to the economic development of the State of Assam, which was clearly manifested in the draft of Fifth five year plan prepared by Planning and Development Department of Assam in 1973:

In a sense, pattern of investment and exploitation of rich resources of Assam in the shape of tea, jute and oil continue on the old colonial pattern. The incomes from exploitation of these resources have little linkages with the local economy and needs. The takings over of land for tea, oil and some other industrial projects have impoverished the local people. Although compensated to some extent, they have lost their livelihood in agriculture^[47].

Another cause for the slow pace of economic development of the State has been the inadequate transport facilities.

Even after decades of independence Assam has been far behind in railway network. The British constructed the existing metre-gauge railway line in Assam in 1881 to facilitate the transportation of tea and troop movements whenever necessary. So, Assam's single main railway line passes through the tea-belts of the State without touching most of the important towns and villages. It is interesting that, even today, important Assam towns like Nowgong, Jorhat, Sibsagar, and Dibrugarh, have been connected only by branch lines and there has been no direct rail link between these towns. The railway map of Assam has remained the same since the British days, and the motives which impelled the British to construct the railway in this region appear to be shared by the administrators from Delhi. The railway route length in Assam at the end of 2009-10 was 2433.34 kms comprising of 1443.03 kms under Broad Gauge and 990.96 kms under Metre Gauge. The proportion of Broad Gauge railway route length in the State, although, has been 59.27 percent, it shares only 2.64 percent of the country's total Broad Gauge railway route length. Taking into account of the total railway route length of 64215 kms for the country as on March 2011, Assam's share in the country's railway route length turns out to be around 3.8 percent at the end of March 2011^[48]. Some of the Northeastern States like Mizoram, Manipur, and Meghalaya have not been linked at all by railway with the rest of India. Nagaland has a bare 9 km of railways. Arunachal Pradesh has been connected with railway network in the year 2014 only. Assam was linked by Broad Gauge railway with the rest of India after mass agitations in the State. Due to poor train services in the region, MP from Assam Pankaj Bora described the North East Frontier Railways as the 'North East Forgotten Railways.' Regarding railway services Biren Baishya, another MP from Assam, observed: The Indian Railways is the lifeline of India but, the role of the Indian Railways towards the Northeastern region is nothing but the story of negligence, nothing but the story of ignorance and nothing but the story of discrimination. 95 per cent of the railway lines belonging to Assam were constructed during the British regime and even after 64 years of Independence there is not a single electric railway line in Assam. Most of the capital cities in the Northeastern States are not connected by the Railways^[49].

These arguments of the members of parliament from Assam have, indeed, justifications. They pointed out with evidence that the Centre did get benefit out of Assam's resources while Assam has not been getting her due share. Hence, Assam remained backward in spite of enormous wealth due to post-colonial capitalist nature of economy of India. The severely underdeveloped infrastructure has failed to draw worthwhile investment in Assam. Thus, the legacy of colonial economy has continued in post-colonial Assam and it continues as 'colonial hinterland'.

From the above discussion, it appears that in post colonial period the pace of development of Assam has been extremely slow and lethargic. In this period, the nature of Assam politics manifests a neo-colonial trend generated by the new group of elites which emerged in independent India. As a result of India's weak federal structure and capitalist path of development, Assam financially depends heavily on the Centre to discharge its responsibilities for which, many times, it suffers from the "step-motherly attitude" of the Centre. Centre's failure to fulfill the local demand for adequate share of natural and economic resources led to

perpetuation of anti-Centre feeling among the Assamese elite. The sense of frustration of the people of Assam further aggravated as a result of worsening of the unemployment situation in the State and the upsurge of allegations of discrimination against local youth in recruitment for Central Government undertakings located in the State. Therefore, the people of Assam participated in large scale in several movements *viz.* oil refinery movement, Assam movement etc., against the Centre in the post-colonial period. This growing consciousness among the Assamese people has been further heightened by the 'hostile and colonial' attitude of the Indian ruling class towards Assam.

Actually the problem of economic underdevelopment of Assam is a colonial legacy. This legacy of exploitation and neglect towards Assam continues in the post-colonial period. Assam, it is said, is deprived of its fair share of benefits from the State's natural resources as Assam's large oil and natural gas industries are in the hands of enterprises owned by the Government of India, and the State's huge tea industry is in private sector. Again the Centre neglects Assam in locating industrial projects that use Assam's natural resources, and in allocating resources to build the infrastructure necessary for the State's economic development. Therefore, the people of Assam raised demands for economic and political self-determination. The demands of the Assamese elite, a result of internal contradiction of Indian federation, are intended to ensure larger grants for infrastructural development and considerable autonomy to Assam without much success leading to precipitation of resentment. The Assamese elite class is anxious to change this situation by accommodating adequate provisions for financial resources for Assam by raising their voice against India's weak federal structure and demanded to bring about a balanced regional development, without sacrificing 'All-India interest.' They wanted to make the central leadership aware that by ignoring the interest of Assam they would also in some sense be jeopardizing the interest of the rest of India.⁵⁰ In fact, for the consolidation of Assam's regional interests, particularly the interest of the dominant Assamese elite, they looked up to a greater and stronger India. Therefore, they wanted a strong Centre as well as a strong provincial government simultaneously. The Assamese elite sincerely felt that if Assam's financial stringency continues through the "step-motherly attitude" of the Centre, there could be no hope for an improved standard of administration and economic development of the State of Assam. Hence, they were intended to ensure that the Centre should agree to give larger grants and considerable financial autonomy to Assam for a greater and stronger India.

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