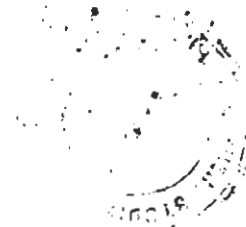


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Central Inroads in States Subjects: An
Analysis of Economic Services .

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Central Inroads in State Subjects:

An Analysis of Economic Services

Discussions on Centre-State economic and financial relations in India have largely been confined to resource transfers from the Centre to States. The inadequacy and the manner of these transfers, the inroads of the Centre in the revenue raising powers of the States, the increasing dependence of the States on the Centre and the consequent erosion of their autonomy have no doubt received wide attention. But the encroachments of the Central Government, in the fields of responsibility earmarked for the States under the Constitution ^{1/} by various means, which have led to a blurring of the distinction between the Central and State subjects, have received only ^{2/} limited attention.

In this paper, it is proposed to examine the extent of the Centre's involvement in State and concurrent subjects through its budgetary operations and through the operations of the Central financial institutions. The paper, with all its limitations, brings out that the Centre has entered the State and concurrent fields in a big way through the fiscal and financial instruments at its command and converted a large number of the State subjects virtually to concurrent if not, union subjects.

The Centre's involvement in State and concurrent subjects is both direct and indirect. Its direct involvement is through the expenditure incurred by its own departments and agencies. ^{3/} Its indirect involvement is either through the expenditure channalled through the State Governments and covered by the Central Plan (including Centrally sponsored schemes) and Non-Plan schemes ^{4/} or ^{5/} through the financial and other institutions under its control.

Methodology and Limitations

The paper concentrates on an analysis of the budgetary expenditure including loans, of the Central and State Governments on major expenditure heads. ^{6/}

All expenditures appearing in the State budgets are not initiated or controlled by them. The expenditure financed through the Centre's scheme-wise transfers really reflects the Centre's concerns and priorities. Therefore, from the States' expenditure, as appearing in their budgets, the Central transfers are deducted and treated as if they represent additional Central outlay under the respective heads of expenditure.

One of the major problems for a study of this nature is the problem of classification of expenditure heads into Central, State and Concurrent subject in the manner of Schedule VII of the constitution. An expenditure head may predominantly be belonging to the State list, but the Centre can still have some constitutional role to play there. For instance, fisheries belong to the State List in terms of Entry 21 of List II. But fishing and fisheries beyond territorial waters belong to the Union List (Entry 57 of List I). Again, roads and bridges are in the State List. But highways declared under law made by Parliament to be national highways are in the Union List (Entry 23). Detailed break up of the expenditure under each head, according to the constitutional division, is not always available. At the same time, where detailed break up is available, the constitutional position with respect to the head of expenditure or any of its components is not quite clear as, for example, is the case of agriculture. Although agriculture as such figures in the State List, there are important aspects of agriculture which, as we shall note later, come within the purview of the Concurrent List. In the circumstances, one can only go by the dominant constitutional character of the subject concerned.

The detailed analysis attempted in this paper is restricted, to the heads of expenditure falling under the group 'Economic Services'. Thus the other two groups, 'Administrative Services' and Social and Community Services are not covered by us. It ought to be added however that Economic Services account for

three-fifths of the Centre's expenditure and half of the States' expenditure (See Table I).

In analysing the Centre's involvement through the financial and other institutions, though we have attempted to cover all major institutions, the coverage cannot still be said to be total due to non-availability of information and data from a few. The exclusion of these however can only understate the Centre's involvement.

While, as stated, the role of most Central financial and other institutions in each field were possible to be covered in our analysis, the same could not be done with regard to the operations of the State level institutions to the extent that their funding does not figure in the State budgets. This could not be done as the consolidated position of the operations of these organisations, in each field for all the States is not easily available. However, since the major part of the funding of these State-level institutions came from the Central institutions, the exclusion of the ~~funds~~ from our coverage shall not in our judgement, make much difference to the appraisal of broad trends.

Thus, although, the Centre's indirect involvement through the financial institutions was necessary to be taken into account, it has to be noted that clubbing it with the budgetary operations could be open to two objections. Firstly, several of these institutions depend on the Central budget for part of their funds. To that extent, there will be double counting if we club the Centre's direct and indirect budgetary expenditure with the operations of the financial institutions. Secondly, the nature of the involvement is different. While the Central Government's budgetary expenditure is mostly of a revenue nature and therefore non-repayable, the financial institutions' involvement is by means of repayable loans.^{10/}

The data relied upon is for the year, 1978-79, the latest year for which the 'Combined Finance & Revenue Accounts of the Union & State Governments in India'

is available.^{11/} Therefore, the data used are slightly out of date. Also, our analysis relates to a point of time and cannot speak of the trend over the years. Thus the results of our study can only claim to be indicative in nature. Whatever broad inferences we have drawn on this basis, our analysis take full note of the various limitations of this exercise.

Overall Position:

It is appropriate that we start, indicating by way of background, the relative importance of each major group of services in the aggregate expenditure excluding debt servicing and block grants and loans which cannot be allocated by heads of both the Central and State Governments. As can be seen from Table I, the share of Social and Community Services in the States' total expenditure (33%) is higher than their corresponding share in the Centre's total expenditure (9%). On the other hand, the shares of General Services (29%), and Economic Services (62%) in the Centre's expenditure are higher than their shares in the States' expenditure (16% and 51% respectively). Within the Economic Services, the proportion of Central Expenditure on transport and communications (26%) is the highest followed by industry and minerals (18%). The States' single, largest expenditure under Economic Services is on water and power development (23%) followed by agriculture and allied services (15%). The States' expenditure on industry and minerals has been quite small (3%).

Table II show the relative shares of the Centre and the States in the aggregate expenditure on each groups of services. The Centre's share is considerably higher than that of the States in the expenditure on not only General Services but also Economic Services. On the other hand, the States' share is considerably higher than that of the Centre in the expenditure on Social and Community Services. Within General Services, the Centre's share is higher in regard to Fiscal services and, of course, Defence Services. In Economic Services,

the Centre's share is higher for all services except Agriculture and Allied Services and Water and Power Development. It is important to note however that the share of the Centre in Agriculture and Allied Services, is still quite high (45%). So also was the case with Transport and Communication (even excluding Railways and Posts and Telegraphs) where the Centre's expenditure commitment is 41 percent. On Industry and Minerals, the States' share has been only one-tenth.

Economic Services:

Having noted the broad pattern of the relative budgetary involvement of the Centre and the States in various groups of services, it is proposed to analyse the comparative expenditure of the Centre and States on all major subgroups and selected major and minor heads belonging to the broad group, Economic Services, in the background of their constitutional position, as it has evolved over the years.

Under Economic services, it is possible to classify expenditure under seven broad sub-groups: a) General Economic Services, b) Agriculture and Allied Services, c) Industry and Minerals, d) Water and Power Development, e) Transport and Communications, f) Railways, g) Posts and Telegraphs. We deal with each of these sub-groups in the above order.

General Economic Services:

The major heads under this group are:

(1) Secretariat Economic Services, (2) Foreign Trade and Export Promotion, (3) Co-operation, (4) Special and Backward Areas, (5) Investments in/Loans to international financial institutions and (6) Investment in/Loans to general financial and trading institutions. Of these, items 2 and 5 are clearly in the Union List, and therefore the States have not incurred any expenditure thereon.

Planning machinery

The major heads of expenditure under Secretariat Economic Services are:

(1) Planning Commission/Planning Boards, and (2) Secretariat pertaining to

economic services. It is interesting to note that the Central Planning Commission spends almost three-fifths of the total expenditure incurred on planning machinery by the Centre and the States together (see Table III). The planning boards of twenty two states and four Union Territories (with legislatures) accounted only for 41 percent of this expenditure. The Central Secretariat pertaining to economic services also accounted for a little more than half the total expenditure of the Centre and the States.

Co-operation:

Although Co-operation as such is not mentioned in any of the three lists in the Seventh Schedule to the Constitution, the subject can really be said to belong to the States as co-operative societies come under the State List (Entry 32). But this has not prevented the Centre from spending sizeable amounts on co-operation. The Centre's budgetary expenditure, including expenditure through Central and Centrally sponsored schemes, exceeded one-fifth of the combined expenditure of the Centre & States.

Apart from the Centre's direct and indirect budgetary role in the field of co-operation, the Central financial and other institutions like the Reserve Bank of India, (RBI) Commercial Banks, Life Insurance Corporation (LIC), Agricultural Refinance and Development Corporation (ARDC) and the National Co-operative Development Corporation (NCDC) ^{12/} taken together, play a pivotal role in this field. They are the major sources of finance for the co-operative institutions in the States. In fact, the budgetary role of the State and Central Governments in the field of Co-operation is overshadowed by the total operation of these institutions. As may be seen from Table VIII, the involvement of these institutions is to the tune of Rs.1546 crores ^{13/} as against Rs.381 crores set apart by the States and Rs.111 crores by the Centre. ^{14/}

Though the Centre's direct budgetary expenditure on co-operation covers the entire spectrum of cooperative societies, their largest involvement is on

consumer co-operatives and credit co-operatives. Its indirect expenditure through the Central and Centrally sponsored schemes had also been exclusively on these two heads.

Special and Backward Areas

Of the combined budgetary expenditure on the development of the Special and Backward areas, ^{15/} the share of the Centre adds up to a mere 17 percent. The rest was incurred by the States.

Investments in General Financial and Trading Institutions

The Centre's share in the investments in ~~these~~ ^{16/} institutions is 85 percent as against the States' share of 15 percent.

Agriculture and Allied Services

The share of the States in the budgetary expenditure under this major sub group is 55 percent (see Table IV). On this basis, the Centre's share is clearly lower than that of the States. However, if we take into account the involvement of the Central financial and other institutions which amounts to Rs.2,666 crores ^{17/} as against the States' budgetary expenditure of Rs.1,797 crores and the Centre's expenditure of Rs.1,458 crores, it is obvious that the States' relative involvement in this field is much less than is indicated by the figures of budgetary expenditure.

Agriculture

Within the major sub-group, the head Agriculture is the largest, taking the budgetary expenditure of the States and the Centre together. Of the expenditure on this head, the Centre, directly and indirectly, accounts for two-thirds. Despite the fact that Agriculture, by and large, is a State subject under Entry 14 of the State List which has remained unaltered, the States' involvement is much less than that of the Centre. The subsequent

introduction of Entry 33 in the Concurrent List could be given a wider import and Agriculture, for the most part, deemed to have become a concurrent subject. The Setalvad Study Group on Centre-State Relationships (of the Administrative Reforms Commission) took the view that agriculture should still be administratively treated as a State subject and that the Central encroachment in the shape of the assumption of responsibility for substantive activity was not permissible. But going by the extent of the Centre's involvement in Agriculture, the Study Group's view has evidently not been followed in practice.

Apart from the Centre's direct involvement in the field, its indirect expenditure through Plan and Non-Plan schemes too has been quite substantial. More than two-fifths of the States' expenditure, as appearing in their budgets were financed by these Centrally initiated schemes. These schemes covered mostly four areas viz, manures and fertilisers, dry land development, storage and warehousing and land reforms.

Of the Centre's direct and indirect expenditure on Agriculture, distribution of manures and fertilizers accounted for the largest single amount (17.3%). The next in order was expenditure on schemes for small farmers, marginal farmers and agricultural labourers, followed by that on agricultural research which was incurred very largely on the assistance of the Indian Council of Agricultural Research (ICAR). In all these three areas of principal concern of the Centre, its financial involvement was overwhelmingly larger than that of the States. The States' share in the expenditure on manures and fertilizers was only two fifths, in that on agricultural research it was only 14.5 per cent, in that on small and marginal farmers and agricultural labourers, it was 8.3 percent.

Minor Irrigation, Soil & Water Conservation

Although like Agriculture, these subjects also fall within the States' sphere of responsibility, the Centre's budgetary involvement in them has been

minimal (See Table IV). However, when we take the involvement of Central financing institutions also,^{21/} the States' role even in these fields gets overshadowed. This can be seen from Table VIII.

Area Development

This head covers the development of dry lands, hill areas, desert areas and other special areas. Expenditure under this head can legitimately be taken to belong to the States. But the States' share in the expenditure under this head is only two-fifths of the aggregate budgetary expenditure of the Centre and States. ~~What is more,~~ significant, the Central Plan and Non-Plan schemes financed a major portion (58%) of the expenditure of the States under this head. Dry land development and development of hill areas were the Centre's major concerns for expenditure under this head. Besides, the Centre's budgetary involvement in this area is supplemented in a big way by the financial agencies,^{22/} as may be seen from Table VIII.

Food

Although food as such does not figure in the Union List or the State List, Entry 33 of the Concurrent List covers trade, commerce, production, supply and distribution of food stuffs, including edible oils and oil seeds. The Centre's budgetary role, as also its role through the financial institutions, has been overwhelming under this head. Of the total budgetary expenditure on food, the Centre's involvement amounts to 96%. In fact, this head is the largest single head of expenditure of the Centre within the group, Agriculture & Allied Services, accounting for 43 percent of the total. It is to be noted, however, that 92 percent of the Centre's expenditure under this head was on food subsidies. It will be appropriate to note here that funds required for procurement, storage and distribution are raised by the Central agency responsible for their administration, viz. Food Corporation of India, from the commercial banking system. Food credit amounted to Rs. 3,000 crores at the end of June 1979, and formed 16 percent of the total credit of the banking system.^{23/}

Animal Husbandry and Dairy Development

These can be said to be exclusively State subjects in terms of Entry 15 of the State List. The Centre's role is confined to the prevention of cruelty to animals and the prevention of the extension from one State to another of infectious or contagious diseases or pests affecting animals and that too under entries 17 and 29 of the Concurrent List. Entry 33 of the same list extends the concurrent jurisdiction of the centre to the production, supply and distribution of not only foodstuffs which can be interpreted to include dairy products, but also cattle fodder including oil cakes and other concentrates.

Animal Husbandry

The Centre's direct role under this head has been limited to only 16 percent of the total budgetary expenditure of the Centre and the States. Of the Centre's direct (revenue) expenditure on Animal Husbandry, more than two-thirds was accounted for by the assistance extended for research purpose to I.C.A.R. It may be noted that the Centre's share of the total expenditure on research on Animal Husbandry amounted to as much as 84 percent. On Dairy Development, the Central expenditure was half the total expenditure by the Centre and the States. Of the Central expenditure, 56 percent was on milk supply schemes. The Centre's budgetary expenditure in this area is supplemented by the involvement of the Central institutions like the Indian Dairy Development Corporation, commercial banks and ARDC. If we take the institutional finance also into account, the States' role in this field becomes relatively small. This may be seen from Table VIII.

Fisheries

Fisheries belong to the State List under Entry 21. But 'fishing and fisheries beyond the territorial waters' is a Central subject under entry 57 of the Union List. Besides, under Entry 33 of the Concurrent List, fish being a food stuff, the Centre can claim a role in the production and distribution

of fish and fish products. As ports other than the major ports belong to the Concurrent List under Entry 31, the Centre can also lay claim to a role in the development of fishing harbours and landing facilities.

Of the combined expenditure of the Centre and States on Fisheries, 47 percent was incurred by the Centre. Of what is shown as the States' expenditure, one-sixth was financed by the Centre through scheme wise transfers particularly for the development of inland fisheries, again purely a State subject. If we take into account the resources deployed by the Central financing institutions like the commercial banks and ARDC, the Centre's role in Fisheries is clearly more than that of the States. It ought to be added here that the Centre, in addition to budgetary control, exercised administrative control on fisheries through its agency, Marine Products Development Authority. Reverting to the the Centre's budgetary expenditure on Fisheries, it can be seen that its main concern has not been on its constitutionally assigned field viz. deep sea fisheries where the States' share was 67 percent. The Centre's major budgetary involvement was however on research, including assistance extended for the purpose to ICAR, which accounted for nearly two-fifths of its total expenditure. Here, as is the case with all agricultural research, the States' share was small (27%). The next important head of the Centre's expenditure was fishing harbours and landing facilities, accounting for 29 percent of its total expenditure. The States' share of the expenditure on fishing harbours and landing facilities came to only half the combined expenditure of the Central and State Governments.

Forestry

Forestry and protection of wild animals and birds belonged originally to the State List (Entries 19 & 20). They were subsequently transferred to the Concurrent List (Entries 17A & 17B). Nevertheless, the Centre's budgetary involvement has been small (10%). The Centre's principal expenditure on forestry is by way of assistance for ICAR. The States' share in forest research too had been relatively small.

Community Development

This is a head of account which encompasses a variety of developmental heads, the most important of which are minor irrigation, village roads, housing and agriculture, in the order of importance. In this field, the Centre's expenditure, both direct and indirect, has been negligible.

By way of summing up, it can be seen that the Centre's involvement in Agriculture and Allied fields is quite high though most of the heads of expenditure in this group belong to the State List, notwithstanding entry 33 in the Concurrent List. If the role of the Central financial institutions also is taken into account, the role of the States becomes secondary. Among the major heads on which the Centre has been spending distinctly more than the States is agriculture proper. The Centre's expenditure on food is near total.

Research in agriculture though specifically mentioned as a State subject in the constitution (Entry 24 of List II) has now virtually become a Central subject and is concentrated in the ICAR. Centralisation ~~of~~ research in any area runs the grave risk of not only overlooking regional priorities but also neglecting regional and even subregional differences in objective conditions.^{24/} This is particularly so with respect to Agriculture and Allied subjects. Also, the danger to freedom of research is greater with centralisation.

It may also be relevant to note that, of the budgetary expenditure incurred by the States on agriculture proper, as much as 42 percent is financed out of the Centre's scheme-wise transfers. The dependence of the States in this regard appears to have been on the increase. This comes out clearly from the observations of the National Commission on Agriculture. The Commission noted that the Central and Centrally sponsored Plan schemes which comprised only 8.8% of the aggregate Plan of the Centre and the States on agriculture during the Second Plan went up to 11.4% percent during the Third Plan and 45.1 percent during the Fourth Plan. The Central schemes accounted for 43.3 percent during the Fifth

Clearly, the growing role of the Central financial and other institutions in the field of Agriculture and Allied Services which fall largely, if not exclusively, within the State jurisdiction, has to be reckoned with whatever be the factors behind this development. ^{26/} Though agricultural loans explicitly belong to the State List (Entry 18) the Centre's indirect role through the financial institutions is quite considerable both in agriculture and other allied services. In the field of dairy development also, financial institutions committed more resources than the States did out of their own budgets. In respect of fisheries, the Central financial institutions played an important role. The same is the case with area development.

Industry & Minerals

In terms of Entry 23 of the State List, regulation of mines and mineral development is a State subject. However, mineral resources necessary for the production of atomic energy, (Entry 6 of Union List), oil fields and mineral oil resources, petroleum and petroleum products, other liquids and substances declared by Parliament by law to be dangerously inflammable (Entry 53) are Central subjects. Besides, Entry 54 in the Union List confers powers on the Centre for regulation of mines and mineral development to the extent to which such Central regulation and development is declared by Parliament by law to be expedient in public interest. Entry 55 of the same list makes regulation of labour and safety in mines and oil fields also a Central responsibility.

Industry too comes under the State's purview under Entry 24 of the State List. But subsequently, the States' responsibility in this field was made subject to Entries 7 and 52 of the Union List. Entry 7 covers industry declared by Parliament by law to be necessary for the purpose of defence or for the prosecution of war. Entry 52, which has been resorted to extensively, covers all other industries, the control of which by the Centre is declared by Parliament by law to be expedient in the public interest. Entry 33 of List III places.

in the Concurrent jurisdiction trade and commerce in and the production, supply and distribution of the products of any industry where the control of such industry is declared by Parliament by law to be expedient in the public interest. The imported goods of the same kind also ~~are~~ within the purview of Entry 33. Backed by the enabling provisions in the constitution as also by these constitutional changes, the Centre has taken a number of legislative initiatives to extend its control over the various industries. The single most important legislation used by the Centre to make inroads into this State subject has been the Industries (Development & Regulation) Act 1951. The list of Industries included in the First schedule to the Act ie industries to be brought under the Central control in public interest, is ever widening and now includes ^{27/} practically every conceivable industrial product.

The constitutional changes and legislative initiatives following therefrom have been fully reinforced by the budgetary operations of the Central Government as many be seen from Table V. Today as noted already, the States account for only one-tenth of the total budgetary expenditure on Industry and Minerals. Of what is presented in the State budgets as their expenditure, more than one-fifth has been financed by the Central Government under their schemes. The Centre's involvement in mines and minerals was nearly complete as it accounted for 97.5 percent of the combined budgetary expenditure. The Centre's budgetary expenditure on large scale industries, though not as high as that of mines and minerals, accounted for nearly nine-tenths. Its budgetary outgo to industrial financial institutions was nearly seven-tenths of the total.

The Centre's involvement was however, not confined to large scale industries in respect of which an argument can possibly be advanced that the large size of the investment requirements for large scale industries makes it beyond the financial capacity of individual State Governments, or that much of the investment would call for large imports involving sizeable draft on foreign

exchange or that they need to be kept under supervision to check the growth of monopolies.

Central ^{involvement} ~~in~~ village and small scale industries also was quite high as may be seen from the share of the Centre in the total budgetary expenditure on village and small scale industries ^{which} was nearly two-thirds. What is more, the Centre's scheme-wise transfers financed one-third of what appears in the States' budgets, as their expenditure. With regard to its massive involvement in small scale industries the Centre cannot claim much legal support, constitutional or legislative, as special notifications under practically all the measures mentioned earlier exclude the small scale industries from their operations.^{28/}

It needs being emphasised that not only are not all the industries, which the Centre has brought under the umbrella of its control and regulation, defence oriented but also they are not in the core or heavy investment sectors. This may be seen from the Centre's share in the expenditure on consumer industries which accounted for 70 percent of the total. Of the agro-based consumer industries, its share was even higher (76%). Its share in the expenditure on plantations too was quite high (71%). It was noted earlier that the Centre's involvement in the distribution of manure and fertilisers, major agricultural inputs was considerable. In the production of fertilizers, also, the States have practically no role.

The virtual transformation of Industries and Minerals from a State subject to a Central subject is fully reflected in the Centre's budgetary involvement. The involvement of the Central financial institutions in this field only reinforces the hold of the Centre. As against a budgetary expenditure on large and medium scale industries of Rs.212 crores by all the States taken together, the financial institutions lent Rs.1582 crores.^{29/} This figure excludes electricity generation and transmission. ^{30/} Even on small scale industries, the outgo of the Central financial institutions amounted to Rs.501 crores as against the States'

budgetary expenditure of Rs.90 crores.

Water and Power Development

Water supplies, irrigation and canals, drainage and embankments, water storage and water power are in the State List (Entry 17). This, however, is subject to the provisions of Entry 56 of the Union List which deals with the regulation and development of inter-State rivers and river valleys to the extent to which such regulation and development under the central control is declared by Parliament by law to be expedient in the public interest. Since electricity finds a place in the Concurrent List, the Centre can claim to have concurrent jurisdiction on water power also.

Water Development

Apart from this constitutional position, one would naturally expect large Central expenditure on overheads like this with their lumpiness of investment requirements. Besides, many of the larger projects are inter-State in character. Surprisingly, the Centre's budgetary involvement in this sector has been rather limited, especially in comparison with its involvements in State subjects like agriculture and industry. In multi-purpose river valley projects, the Centre has not been spending practically any money at all, either directly or indirectly. The same was the case with regard to irrigation, drainage and flood control. Its involvement in water development services has been slightly higher, but its share has been only a little more than one-fifth of the total. The Centre's share in the total expenditure on navigation was however high (61%).

It ought to be added however that the Centre exercised substantial control on water and power projects through the Central Water and Power Commission whose clearance is required by law for all projects costing more than Rs. one crore, a limit fixed in 1948 and not revised ever since.

Power Development

The share of the Centre in the total expenditure on power projects is less than one-fourth. Its budgetary involvement in hydroelectric schemes have been only one-tenth. On thermoelectric schemes, its share was higher, but still is less than two-fifths. On transmission and distribution of power, its share was the highest (45%). But, as may be expected in view of Entry 6, of Union List, the Centre's expenditure on atomic energy was total.

Although the Centre's budgetary role was limited in this field its involvement through the financial institutions^{31/} was quite sizeable. The outgo of the financial institutions amounted to Rs.1,339 crores on electricity generation and distribution as against Rs.1,228 crores spent by the States through their budgets. As against Rs.14 crores⁴ spent by the States on rural electrification (of which, Rs.2.15 crores was the direct contribution to their budgets of the Rural Electrification Corporation), the financial institutions lent Rs.177 crores.

Transport and Communications

This is a sector in which Constitution confers an enormous responsibility on the Centre. Railways (Entry 22), maritime shipping and navigation (Entry 25), civil aviation (Entry 24) major ports (Entry 27) and Posts and Telegraphs (Entry 31) are exclusively Central subjects. In addition, the Centre has concurrent jurisdiction over ports other than major ports (Entry 31 of List III) and shipping and navigation on inland waterways subject to the provisions of Union List. Roads, Bridges, ferries and other means of communication, (not specified in the Union List), Municipal transways, ropeways, inland waterways and traffic thereon and vehicles other than mechanically propelled ones, however, belong to State List. (The States' powers even in this field are subject to entries in List III (Entry 32) and I (Entry 23 and 24)).

In view of the various constitutional provisions, one would expect a major expenditure involvement of the Centre in this sector. This is precisely the actual position. The Centre's commitments accounted for more than four-fifths of the total expenditure by the States and the Centre. In railways, civil aviation, and posts and telegraphs, the Centre's involvement was total. The Centre contributed nine-fifths of the total expenditure on ports, light houses and ships. The heads on which the Centre's expenditure was lower than that of the States were Tourism (39%), roads and bridges (29%) and roads and water transport services (13%). In road and water transport services, however, though the Centre's direct budgetary involvement was lower, it was more than ^{32/} compensated by its involvement through the Central financial institutions. As against Rs.141 crores spent by the States on road and water transport, the financial institutions lent ~~Rs.25,255 crores.~~

Conclusion:

One of the important features of a federal constitution is the division of powers and responsibilities between the Centre and the States. Under the Constitution of India, this division, to begin with itself, was heavily weighted ^{33/} in favour of the Centre. The series of constitutional amendments and various legislative measures taken 'in public interest' ^{by} the Central Government in the course of years have, as noted above tilted the balance further against the States.

The above analysis of the budgetary involvement of the Centre and the States brings out that the Centre has made massive inroads into State subjects through the financial backdoor also. As a consequence, the separation between State subjects and Central subjects can be said to have become less and less clear and therefore blurred. . A major State subject like agriculture has virtually been transformed into ^a concurrent subject. As for industry, it has become more or less ^a Union subject. This is all the more true if we take financial

and other institutions controlled by the Centre. Through these institutions, the Centre's hold in the concerned fields has become even stronger.^{34/}

At the same time, it is interesting to note that while the Centre's share in expenditure on many of the subjects in the State List is higher, with respect to several subjects in the Concurrent List (eg. education,^{35/} forests, and electricity) it is relatively less. It ought also not to escape notice that quite surprisingly, the Centre's budgetary involvement in directly productive activities in the State List is more than its involvement in social and economic overheads in the State List as e.g., social and community services, water resources development, development of road and water ways. This is in spite of the size of the funds required for investments in these sectors and their long gestation periods.

The basic point, however, is not that the Centre's inroads into State subjects are uneven or irrational but they should have taken place and on such a large scale. True, the studies given the immense financial constraints under which they operate the States would not have been able to spend more than what they actually spent on various services falling within their jurisdiction. But that is an argument not for the Centre's inroads in those services but for enhancing the States' access to additional resources in sufficient measure.

Table II

Expenditure of the Union and State Governments on major groups of services (1978-79)

(In lakhs of Rupees)

Services	Union	States	Total	Scheme-wise Central loans and Grants to States	Share of scheme- wise Central transfers in states' expendi- ture (4/2)	Adjusted Expenditure of		Share in total adju expenditure	
						Union (1+4)	States (2+4)	Union (6/3)	State (7/3)
	1	2	3	4	5	6	7	8	9
A. General									
a. Organs of State	7429	11105	18534	30	0.30	7459	11075	40.2	59.8
b. Fiscal Services	58612	44835	103447	-	-	58612	40835	56.7	43.3
c. Administrative Services	47319	112193	159512	1111	1.00	48430	111082	30.4	69.6
d. Pensions and misce- llaneous general services	17229	26173	43402	14	0.05	17243	26159	39.7	60.3
e. Defence Services	302074	-	302074	-	0	302074	-	100.0	-
Total of A	432663	194306	626969	1155	0.60	433818	193151	69.2	30.8
B. Social and Community Services	86665	457047	543712	43632	9.5	130297	413415	23.9	76.1
C. Economic Services									
a. General Economic Services	61608	63943	125551	3978	6.2				

	1	2	3	4	5	6	7	8	9
Water and Power development	43622	291245	334867	4277	1.5	47899	286968	14.3	65.6
Transport and Communications	45473	87486	132959	9628	11.0	55101	77858	41.4	58.6
Railways	252808	--	252808	-	--	252808	-	100	-
Posts and Telegraphs	78887	-	78887	-	-	78887	-	100	-
Total of Transport and Communications (e+f+g)	377168	87486	464654	9628	11.0	386796	77858	83.20	16.7
Economic Services (a-g)	850415	701857	1552272	65741	9.4	916156	636116	59.0	41.0
Grand Total	1369743	1355210	2722953	110528	8.2	1480271	1242682	54.4	45.6

1. Figures under cols. 1-3 are given as they appear in the budgets of the Central and State Governments.
2. Col-4 - These loans and grants are given under Central Plan Schemes, Centrally sponsored Plan Schemes and Non Plan, Non-Statutory schemes. It excludes block grants, loans and tax shares given to States by the Centre.
3. Col. 6 & 7 - Central loans and grants in Col.4 are added to the Union expenditure in Col.1, whereas they are deducted from States' expenditure in Col.2.
4. Col. 8 & 9 - Share of the adjusted expenditure of the Union and States in their combined expenditure given in Col.3.
5. Col.5 indicates the extent of Central financing (Col.4) of State's expenditure in each sector (unadjusted shown in Col.2).
6. See also the notes to Table I.

See also the notes to Table I.

Table III
General Economic Services
Expenditure of the Union and State Governments by major heads
(In lakhs of Rupees)

Services	Union	States	Total	Scheme-wise Central loans and Grants to States	Share of Scheme- wise Central tra- nsfers in States' expenditure (4/2)	Adjusted Expenditure of		Share in total adjusted expend	
						Union (1+4) 6	States (2-4) 7	Union (6/3) 8	Stat. (7/ 9
a. Secretariat-Economic Services	1799	1773	3572	179	10.1	1978	1594	55.4	44.6
Of which									
(i) Planning Commission/ Board's	250	174	424	-	-	250	174	59.0	41.0
(ii) Secretariat	1504	1485	2989	-	-	1504	1485	50.3	49.7
b. Foreign Trade & Export Promotion	42037	26	42063	500	-	42537	474	101.1	-
c. Co-operation	9121	40088	49209	1988	5.0	11109	38100	22.6	77.4
d. Special & Backward areas	1891	15147	17038	1057	7.0	2948	14090	17.3	82.7
e. Other General Economic Services	2243	6689	8933	254	3.8	2497	6435	27.9	72.1
f. Investments in/Loans to general financial and trading institutions	1232	220	1452	-	-	1232	220	84.8	15.2
g. Investments in/Loans to International financial Institutions	3284	-	3284	-	-	3284	-	1000	-
Total	61608	63943	125551	3978	6.2	65586		52.2	47.8

Notes and References: See Table I and II.

TABLE IV
Agriculture and Allied Services
Expenditure, by heads, of the Union and State Governments

	Union	States	Total (1+2)	Scheme-wise Central loans and Grants to States	Share of Scheme- wise Central tra- nsfers in States' expenditure(4/2)	Adjusted Expenditure of		Share in total adjusted expen- diture	
						Union (1+4)	States (2-4)	Union (6/3)	States (7/3)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Major Heads:									
Agriculture	37005	50808	87813	21528	42.4	58533	29280	66.6	33.4
Minor Irrigation						1			
Soil & Water Conser- vation	1512	56934	58446	8389	14.7	9901	48545	16.9	83.1
Area Development									
Food	58865	5834	64699	3281	5.8	62146	2553	96.1	3.9
Animal husbandry	1258	14907	16165	1398	9.4	2656	13509	16.4	83.6
Airry development	3750	17160	20910	110	0.6	3860	17050	18.5	81.5
Fisheries	2045	3621	5666	599	16.5	2644	3022	46.7	53.3
Forests	1260	25019	26279	1278	5.1	2538	23741	9.7	90.3
Community development	137	33436	35573	1908	5.4	2045	33528	5.7	94.3
Investments in agri- cultural financial institutions	1446	8500	9946	-	-	1446	8500	14.5	85.5
Total (a to k)	107278	218219	325497	38491	17.6	145769	179728	44.8	55.2
Minor Heads:									
Manures & Fertilizers	10142	6871	17013	N.A.	-	10142	6871	59.6	40.4
Agricultural Research including ICAR	5148	870	6018	-	-	5148	870	85.5	14.5

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Table IV (Continuation)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
3. Schemes for small farmers, marginal farmers & Agrl. labourers	8320	755	9075	-	-	8320	755	91.7	8.3
4. Minor irrigation	756	28681	29437	228	0.8	984	28453	3.3	96.7
5. Soil and Water Conservation	306	8287	8593	1201	14.5	1507	7086	17.5	82.5
6. Area development	449	13363	14012	7924	58.4	8373	5639	59.8	40.2
7. Food subsidies	57220	829	58049	-	-	57220	829	98.6	1.4
8. Cattle, Sheep & Wool development	252	5050	5302	1398	27.7	1650	3652	31.1	68.9
9. Dairy development	2127	2139	4266	33	1.5	2160	2106	50.6	49.4
10. Total research on agriculture and allied services	6796	1328	8124	-	-	6796	1328	83.7	16.3

Notes and References: See Table I and II.

TABLE V
Industry and Minerals
Expenditure, by heads, of the Union and State Governments

	Union	States	Total	Scheme-wise Central loans and Grants to States	Share of Scheme- wise Central tra- nsfers in States' expenditure (4/2)	adjusted Expendi- ture of		Share in total adj- usted expenditure	
						Union (1+4)	States (2-4)	Union (6/3)	States (7/3)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Major Heads:									
. Large & Medium Industries	130778	22597	153375	4763	21.1	135541	17834	88.4	11.6
. Mines & Minerals	114815	3323	118138	-	-	114815	3323	97.2	2.8
. Village & Small scale Industries	11894	13595	25490	4604	33.9	16498	8992	64.7	35.3
. Financial institutions	3252	1448	4700	-	-	3252	1448	69.2	30.8
Total (a - d)	250739	40964	301783	9367	22.9	270105	31597	89.5	10.5
Minor Heads:									
. Consumer industries of which	20802	8746	29548	-	-	20802	8746	70.4	29.6
.. Agro based Consumer industries	16531	5158	21689	-	-	16531	5158	76.2	23.8
. Fertilizers	46497	300	46797	-	-	46497	300	99.4	0.6
. Plantations	1033	433	1466	-	-	1033	433	70.5	29.5

Notes and References: See Table I & II.

Table VI

Water and Power Development

Expenditure, by Heads, of the Union and State Governments

	Union	States	Total (1+2)	Scheme-wise Central loans and Grants to States	Share of Scheme- wise Central trans- fers in States' expenditure(4/2)	Adjusted Expendi- ture of		Share in total adj- usted expenditure	
						Union (1+4)	States (2-4)	Union (6/3)	States (7/3)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Major Heads:									
a. Water & Power develop- ment services	3534	5591	9125	150	2.7	3684	5441	40.4	59.6
b. Multipurpose river projects	-	35227	35227	389	1.1	389	34838	1.1	98.9
c. Irrigation, Navigation drainage & flood con- trol	1471	126215	127686	2337	1.9	3808	123878	3.0	97.0
d. Power projects	38617	124212	162829	1401	1.1	40018	122811	23.7	76.3
Total (a - d)	43622	291245	334867	4277	1.5	47899	286968	14.3	85.6
Minor Heads:									
1. Lower projects and Development services	41029	125361	166390	1401	1.1	42430	123960	25.5	74.5
2. Hydro Electric Schemes	5065	43110	48175	-	-	5065	43110	10.5	89.5
3. Thermo Electric Schemes	10979	17229	28208	-	-	10979	17229	38.9	61.1
4. Transmission & Distribution	13940	16836	30776	-	-	13940	16836	45.3	54.7

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Table VI (Continuation)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
5. Rural Electrification	23	1376	1399	-	-	23	1376	1.6	98.4
6. Water development services	1123	4164	5287	-	-	1123	4164	21.2	78.8
7. Irrigation	167	105067	105234	-	-	167	105067	0.2	99.8
8. Navigation	845	546	1391	-	-	845	546	60.7	39.2
9. Drainage	420	3185	3605	-	-	420	3185	11.7	88.3
0. Flood Control	39	17433	17472	-	-	39	17433	0.2	99.8

Notes and References: See Table I & II.

Table VII

Transport and Communications
Expenditure, by Heads, of the Union and State Governments

	Union	States	Total (1+2)	Scheme-wise Central loans and Grants to States	Share of Scheme wise Central tra- nsfers in States' expenditure(4/2)	Adjusted Expendi- diture of		Share in total adjusted expen- diture	
						Union (1+4)	States (2-4)	Union (6/3)	States (7/3)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
a. Ports, Light Houses & Ships	21916	2270	24186	-	-	21916	2270	90.6	9.4
b. Civil Aviation	2681	98	2779	915	-	3596	817	129.4	29.4
c. Roads & Bridges	15383	69368	85051	8619	12.4	24302	60749	28.6	71.4
d. Roads & Water Transport Services	1986	14140	16126	79	0.6	2065	14061	12.8	87.2
e. Tourism	981	1563	2544	10	0.6	991	1553	39.0	61.0
f. Other Transport & Communi- cations	2226	47	2273	5	10.6	2231	42	98.2	1.8
Total (a to f)	45473	87486	132959	9628	11.0	65101	77858	41.4	58.6
g. Railways	252808	-	252808	-	-	252808	-	100	-
h. Posts & Telegraphs	78887	-	78887	-	-	78887	-	100	-
Total Transport & Communications	377168	87486	464654	9628	11.0	386796	77858	83.2	16.7

Notes and References: See Table I & II.

Table VIII

Role of the Union and State Governments and Central Financing Agencies in Selected Fields

(In lakhs of Rupees)

Head	Union	States	Central financing agencies
Housing	10810	13952	22002
Co-operatives	11109	38100	154551
Agriculture & Allied Services	145769	179728	266619
Dairy Development	2160	2106	8027
Fisheries	2644	3022	2458
Minor Irrigation	984	28453	23489
Area Development	8373	5639	2191
Forestry	2538	23741	100
Small scale Industries	16498	8992	50113
Large scale Industries & Minerals	250356	21157	158241
Electricity Generation & Transmission of which	40018	122811	133940
Rural Electrification	23	1376	17715
Road & water transport	2065	14061	25505

Notes:

1. Data for Union and States are the same as in Table II - VII
2. Only the major central financing agencies are covered and therefore the figures under col. 3 understate the role of these agencies - Part of their financing is done through state budgets and part of this through state level agencies. Balance is lent directly.
3. & includes R.B.I. loans (gross) of both short, medium and long term duration. Some figures particularly of R.B.I. credit are included under both agriculture and co-operation.

Source: (1) Report on currency and finance, Reserve Bank of India (1978-79 and 1979-80)

(2) Statistical Tables relating to Banks in India (1978 & 1979)

(3) Annual reports of L.I.C., HUDCO, ARDC, IDEI, R.C, Indian Dairy corporation etc.

Footnotes

- 1/ The Constitution, under Article 246, has demarcated fields of jurisdiction separately for both the Union and the states. Fields are created by enumeration of topics in three lists given in the Seventh Schedule. The Union List (List I) to the Constitution, contains 97 entries. State List (List II) now comprises of 61 entries. (Originally, it comprised of 66 entries, of which some were transferred to other lists subsequently). In addition, there are 47 entries in the Concurrent List (List III) in respect of which both the Union and the States are competent to legislate. Any other matter not enumerated in List II or List III comes under the residuary powers of the Union in terms of Entry 97 of List I. The three fields are arranged hierarchically, the Union field has precedence over the concurrent and State fields. The concurrent field in turn will override the State field. Under Article 252 & 253, the Union has powers to legislate in State fields under certain circumstances for certain purposes. For details see Sebastian V.D., 'Indian Federalism', Academy of Legal Publications, Trivandrum 1980.
- 2/ The major exception is the Report of the Study Team on Centre State Relationships appointed by the Administrative Reforms Commission, Vol. III (1968). The Study Team was chaired by late Shri ~~M.S. Gadgil~~ ~~the noted jurist~~. Its coverage however has not been very comprehensive. Moreover, many changes have taken place since the submission of the Report in 1967.
- 3/ The massive direct involvement is made possible by the enormous fiscal resources left with the Centre, disproportionate to its needs of expenditure in its exclusive fields. Of the total budgetary resources of the two levels of government, more than two-thirds first accrue to the Centre. Central fiscal transfers to the States account only for less than one-third of its total resources. Even after all the resource transfers, the Centre has at its disposal about half the combined budgetary resources of the States and the Centre. See George K.K. and Gulati, I.S., Centre-State Resource Transfers, 1951-84, Working Paper No. 200, Centre for Development Studies, 1985.
4. For details regarding the growing importance of the schemes, see Ibid.
5. For the relevance of including these institutions in a study of Centre-State financial relationships, see Gulati, I.S. and George, K.K., "Inter-State Redistribution through Institutional Finance", Economic and Political Weekly, Bombay, Special Number, August 1978, also George, K.K., "Centre-State Financial Flows and Inter-State Disparities in India", University of Cochin, Cochin (mimeo) 1982.
- 6/ Budgetary expenditures are on two accounts, viz., Revenue and Capital accounts. Capital disbursements in turn are of two types, i.e. one spent directly (capital outlay) and the other spent indirectly by extending loans and advances. Our analysis excludes from the figures for budgetary expenditure, the block loans, ~~grants~~ and tax sharing (the latter in the case of the Centre) which cannot be allocated among specified heads of expenditure. States' expenditure includes expenditure of the four Union Territories with legislatures.
- 7/ For break-up, see Table II.

- 8/ The major heads of expenditure included are (a) Education, (b) Art and Culture, (c) Scientific Services and Research, (d) Medical, (e) Family Welfare, (f) Public Health and Sanitation, (g) Housing (h) Urban Development (i) Information and Publicity (j) Broadcasting (k) Labour and Employment (l) Social Security and Welfare and (m) Relief for Natural Calamities.
- 9/ Of the total expenditure of the Centre, revenue expenditure accounts for 69 percent and capital expenditure for 31 percent.
- 10/ Of the total capital disbursements, 57 percent was by way of Capital Outlay and the balance by way of Loans and Advances. The latter (gross figures are used by us in this paper) forms 13 percent of the total expenditure of the Centre. In other words, part of the budgetary involvement of the Centre too was by way of loans. For the difficulties and problems in clubbing the budgetary operations of the Governments with the operations of the financial institutions, See Gulati I.S. and George K.K., op.cit.
- 11/ Government of India, Combined Finance and Revenue Accounts of the Union and State Governments in India for the year 1978-79, Delhi, 1983
- 12/ The increasing role of institutions like the N.C.D.C. has been commented upon by the ARC Study Team as follows: "the role of autonomous central organizations in State subjects created or largely financed by a ministry must not be allowed to exceed that of the ministry. The possibility of the use of such organisations for a massive encroachment on State subjects cannot be discounted. The National Co-operative Development Corporation and the Central Social Welfare Board provide ready examples. Unless restraints are placed on these, similar to those recommended for the ministries, the latter may tend to circumvent these by creating autonomous organisations and channelising funds through them." See Govt. of India, Administrative Reforms Commission, Study Group on Centre State Financial Relationships, Vol.I., Government of India, Delhi, 1968, p.163. Also Vol.III, p.41-72.
- 13/ The institutions included are (1) R.B.I. (2) L.I.C. (3) ARDC and (4) Commercial Banks.
- 14/ As can be seen from the footnote to Table VIII, two aspects of this figure have to be borne in mind. Firstly, the figures are of gross loans of short, medium, and long term nature. Secondly there is likelihood of some overlap between Co-operation and Agriculture and Allied Services.
- 15/ This head covers hill areas, North Eastern Areas, Ladakh and Dang District (Gujarat).
- 16/ Covers largely institutions like the State Trading Corporation and the Minerals and Metals Trading Corporation.
- 17/ The institutions like the State Trading Corporation and the Minerals and Metals Trading Corporation.
- 18/ Entry 33, which is quoted very frequently in the ensuing discussion in the text reads as follows: "Trade and Commerce in, and the production, supply and distribution of-

- (a) the products of any industry where the control of such industry by the Union is declared by Parliament by law to be expedient in the public interest (and imported goods of the same kind as such products).
- (b) food stuffs, including edible oil seeds and oils
- (c) Cattle fodder, including oil cakes and other concentrates
- (d) raw cotton, whether ginned or unginned, and cotton seed and
- (e) raw jute.
- 19/ According to the ARC Study Group, the Centre is giving a wider interpretation to its concurrent jurisdiction. "According to the Constitution, the Centre has overriding legislative power in regard to concurrent subjects but until it exercise this legislative power, the subject has to be treated as a State subject. This constitutional position itself gives the clue to the approach that the Centre should generally have in relation to such subjects. The Centre should try to confine itself to laying down laws, rules and lines of guidance but should entrust the substantive activity in the field itself to the States except where urgent practical considerations warrant otherwise." See ARC Report, Vol.I, p.164.
- 20/ According to Entry 33, Trade and Commerce in and the production, supply and distribution of a wide variety of domestically produced or imported products of industry and agriculture including food stuffs and raw materials are subject to concurrent jurisdiction. The articles included under agriculture viz., food stuffs, edible oil seeds & oils, cattle fodder, oil cakes and other concentrates, raw cotton and raw jute, form much of the largest part of agricultural produce. If the word 'production' occurring in this entry has to be given a wider import, agriculture for the most part must be deemed to have become a concurrent subject. In that case the amendment of this entry has introduced an element of confusion in that entry is in List II relating to Agriculture including Agricultural, education and research has not been amended. See ARC Report, Ibid.
- 21/ The institutions are Commercial Banks and ARDC.
- 22/ Credit extended by the Commercial banks and ARDC for land development are included in this figure.
- 23/ Reserve Bank of India, Statistical Tables Relating to Banks in India, (1979) Bombay
- 24/ Centralisation of research with the Union Govt. is almost total if we take the relative expenditure of the Union on the head "Scientific Services and Research" coming under the sub-group "Social and Community Services". The share of Centre on expenditure under this head comes to 99.8 percent.
- 25/ Government of India, Ministry of Agriculture and Irrigation Report of the National Commission on Agriculture", Part II, New Delhi 1976, p.104.
- 26/ One of the factors for this proliferation of Central institutions in State subjects and the increasing scale of their operations is the desire of the union ministries to retain the control on these subjects. This advantage for the Centre was noted by the National Commission on Agriculture "Central Assistance and participation in the development corporations and autonomous bodies have a number of advantages. Firstly, it makes it possible to mark resources for the programmes covered by a particular autonomous or organization, obviating the procedural hurdles which become unavoidable when funds for the Central or Centrally sponsored schemes are routed through the State Governments - Ibid p.115.

- 27/ The list now includes items like cutlery, electric iron, heaters, razor blades and hurricane lanterns. It is worth recalling that these items are brought under Central control in terms of Entry 52 of Union List as ~~their~~ inclusion in the list has been "declared" by Parliament by law to be expedient in the public interest."
- 28/ See ARC Report op.cit., Vol. III, p.1
- 29/ I.D.B.I. , I.C.I.C.I., I.F.C.I., I.R.C.I., L.I.C., U.T.I, and Commercial Banks are the institutions covered here.
- 30/ Commercial Banks and I.D.B.I.
- 31/ L.I.C., Commercial Banks, R.E.C. and the Development Banks.
- 32/ Commercial Banks and IDBI.
- 33/ This was because, the scheme of division of powers in the Constitution of India was almost the same as in the Government of India Act, 1935. For comparison of these schemes of division, see ~~Section~~, op.cit.
- 34/ It may not be possible to exclude the institutions like Commercial banks from State fields. But at least, the proliferation of specialised organisations initiated by the Union Ministers to deal largely with State subjects (e.g. N.C.D.C.) can be avoided. Also, there is scope for restructuring their functions, as noted by the ARC Study Team (see Reports Vol.I and III). Besides, in the formulation and implementation of the schemes in State subjects by these organisations, it should be possible to associate the State governments in some tangible manner.
- 35/ In the total revenue expenditure on education, the Centre's share was only less than one-tenth.

