DAILY CURRENT AFFAIRS

12th JUNE, 2024

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DASARA JUMBO ASHWATHAMA DIES; ELECTROCUTION SUSPECTED

Dasara jumbo Ashwathama dies; electrocution suspected

The Hindu Bureau
MYSURU

Dasara elephant Ashwathama died at its camp in the Nagarahole Tiger Reserve in Karnataka on Tuesday.

It is suspected that the 38-year-old elephant was electrocuted after it came into contact with a solar fence at the Bheemanakatte elephant camp in the Ane Chowkur range.

A press release from the Director of the Nagarahole Tiger Reserve said the elephant was tied to its usual place by its staff on Monday at the camp.

The next morning, when the staff went to check on the animal around 5.30 a.m., it was lying on the ground. On inspection, the staff realised the elephant was dead.

Dasara elephant Ashwathama was found dead at its camp in the Nagarahole Tiger Reserve.

They informed the higher officials who rushed to the camp.

Solar fence

The Bheemanakatte jumbo camp has been fenced with solar barriers to prevent the entry of wild elephants and for the safety of the camp staff, the note said.

A post-mortem was conducted and the report is awaited. Director Harashakumar Chikkanaragunda said the exact reason of its death would be known after the post-mortem report.

Captured in 2017

Ashwathama was captured from Sakleshpur in 2017. The jumbo was part of the Dasara squad in 2021 and 2022. It was also used to capture wild elephants and for other combing operations.

Forest Minister Eshwar Khandre has expressed condolences over the demise of Ashwathama. The Minister has ordered an inquiry into its death. He has sought a report after the investigation.

- There needs to be greater coordination between the Forest Department and different agencies, including the Power Department, as well as continuous monitoring of electrical wires passing through areas of elephant movement.
- Other measures to check electrocution of Elephants are:
  - Stop illegal electrical fencing,
  - Have proper guidelines for maintaining the height of high tension electrical wires,
  - Proper zone-wise management plan for different elephant landscapes — where to allow elephants and where to restrict their movement.

Question:

Q.1 Elephants are increasingly threatened by human activities. In the light of this statement, evaluate the rising deaths of elephants due to electrocution in India and suggest suitable measures to counter the threat. (150W/10M)

INDIA'S LOOMING FINANCIAL CRISIS

India's looming financial crisis

Rapid credit growth is akin to a siren song. It lures economies with the promise of prosperity only to lead them into crises. Each financial boom is framed as a story of financial innovation and good times. But each new story is just whipped-up frenzy, it is, in economist Robert Shiller's words, "irrational exuberance". As the economists Carmen Reinhart and Kenneth Rogoff explained in their celebrated history of financial folly, governments and market participants dismiss previous crises that followed credit booms by invoking the mantra "this time is different".

Ashoka Mody

teaches at Princeton University. He previously worked for the World Bank and the International Monetary Fund, and is the author of 'India is Broken: A People Betrayed, Independence to Today' (2023)

A lofty and dangerous narrative

India is in the midst of similar folly, driven by policymakers wedded to an unhinged hype about the country's performance and prospects. The 'this-time-is-different' theme touts India's digital infrastructure as the catalyst for financial innovation and inclusion, promising growth and equality. Ironically, this lofty narrative has enabled a poorly regulated financial sector and consumers living beyond their means to generate a lending surge.

Both international and domestic analysts are applauding this surge. In December 2023, the Board of Directors of the International Monetary Fund (IMF) praised the performance of the Indian financial sector, citing robust growth in bank lending and low levels of non-performing assets. Similarly, the March 2024 review of National Council of Applied Economic Research cheered a 20% increase in bank lending over the previous year, interpreting the particularly large increase in "personal loans" – while lending to industry struggled – as signalling bright prospects.

This celebration of credit growth deflects attention from the deep-rooted jobs' and human capital deficit; and it extends the hype into dangerous territory. The truth is that when lending expands, the financial sector looks in good health as new loans pay off old ones. But the house of cards collapses when lending slows and options for more loans to repay earlier obligations get shut. The IMF knows this history well: heavily indebted households and businesses sharply reduce spending to repay their debt, causing an economic crunch.

This distressing script is set to repeat for India especially because of the feverish expansion of households lending at between 25% and 30% a year. As financial intermediaries have pushed their loans, many lower- and middle-income households have viewed the funds as easy cash to make ends meet or to buy homes, gadgets and cars, pay for education, and indulge in 'lifestyle' spending, including vacations and elective medical procedures.

A household debt boom is a quintessentially "bad" boom. It does not add to productive capacity but, instead, bids up domestic prices, making the country less competitive. As economists Atif Mian and Amir Sufi report: the higher the household debt burden, the steeper the crash that follows. Add to the bad credit boom a stock market rising unmoored from weak corporate investment and anaemic consumer spending, an overvalued exchange rate, and a tendency for Indian authorities to talk up dodgy data, and India presents a textbook example of the key elements that signal a looming financial crisis. The financial crisis will cause not just economic pain but will also degrade the economy's long-term well-being.

> The country presents a textbook example of the key elements that signal an emerging calamity

While the two terms of the Modi government have brought us to this moment, three decades of economic and financial policy are culpable. Unable to generate job-rich manufacturing growth, successive policymakers have pushed the financial services industry to raise headline GDP growth rates: in the last decade, the financial sector has contributed over a quarter of GDP growth.

A chaotic financial services industry

Making matters worse, Indian-style liberalisation has promoted a large and chaotic financial services industry. At the top are 30-odd large providers – scheduled commercial banks and major non-banking financial institutions (NBFCs), all with a history of rogue behaviour. Alongside, thousands of smaller players, including fly-by-night NBFCs and new fintechs operate in dubious ways.

The problem is simple. There are too many financial services' providers with too few options to lend for productivity-enhancement projects. Indeed, over time, lending opportunities have narrowed as the Indian corporate sector has reduced its investment-GDP ratio and borrowing pace. Financial institutions have, therefore, been under great pressure to generate profits.

From the start of economic liberalisation in 1991, the search for easy profits spawned scams. But especially after COVID-19, financial services providers redirected lending toward households eager to borrow in lieu of stagnant incomes. The newly emergent fintechs led this charge by offering loans to desperate households at extortionary interest rates. A new set of scammers preyed on the gullible. Yet, some borrowers became addicted to such loans.

Today, a dangerously growing share (approaching a quarter) of household loans is "unsecured," backed by no collateral. The poster child for unsecured consumer borrowing is credit card debt. In January 2024, Indians owned almost 100 million credit cards, up from 20 million in 2011. While the cards bring convenience, aggressively peddling them to low-creditworthy individuals builds up stress for both borrowers and the financial system. As the Reserve Bank puts it, explosive credit card growth has attracted "below-prime" or riskier borrowers.

Twenty-five-year-old Rohan (not his real name) is an example. He used his card to buy a TV, a laptop, and a smartphone. Drawn by rewards, cashbacks, and "no-interest EMIs" (which bundle interest costs into the purchase price and upfront fees), he quickly fell behind on payments and soon was neck-deep in debt.

Eventually, he took a cheaper loan to pay off his credit card dues. Multiply the Rohans manifold and you have a macroeconomic threat point.

Indian household debt, at 40% of GDP, is low by international standards, but household debt-service-to-income ratio, at 12%, is among the highest in the world because of high interest rates and predominantly short duration loans. Indeed, the Indian household debt-service ratio is alarmingly similar to that in the United States and Spain just before their 2008 financial crises, when high household debt-service burdens precipitated major economic downturns.

The economist Rudi Dornbusch's warning applies to India: "The crisis takes a much longer time in coming than you think, and then it happens faster than you would have thought."

The source of the impending crisis lies in a paradox: despite buoyant credit growth, household consumption is increasing at an excruciatingly slow pace. Households are struggling; their savings rates have declined and they are boosting meagre consumption by borrowing money. Soon, it will no longer be possible to repay old loans with new ones and consumption could even contract. The crisis will come initially through such macroeconomic contraction; defaults on loans will follow. The initial defaults will topple more dominoes, a consequence of the interconnected nature of banks, NBFCs, and fintechs. Cascading defaults will induce more economic contraction and financial sector distress.

A solution

The 2024 general election results might diffuse the India hype, but a sudden stop in credit could trigger a crisis. Preventing the crisis requires surgically downsizing the financial services industry to better match lending capacity and productive borrowing needs, and weakening the rupee to help expand exports and cushion the downturn when it comes. History makes clear that rapid credit growth and an overvalued exchange rate are a lethal combination.

But policy change is unlikely. In opposition to Joan Robinson's dictum that finance must follow growth, Indian policymakers have committed themselves to the notion that finance will spur growth and help overcome the country's severe developmental handicaps in human capital and other public goods. Policymakers are also committed to a strong exchange rate as a metric of the nation's virility. Meanwhile, as the risks of a financial crisis grow, an acute job shortage persists, reflected most poignantly in a catastrophic regression of the workforce back to agriculture.

India's heavily credit-reliant economic strategy is akin to a car speeding toward a cliff's edge without brakes. Sadly, the nation's financial and policy elite has adopted a see-no-evil attitude. After all, the weak and vulnerable will bear the burden of the crisis, as the dire employment situation becomes worse – and stark inequalities become starker.

What is Household debt?

- Household debt is defined as all liabilities of households (including non-profit institutions serving households) that require payments of interest or principal by households to the creditors at a fixed dates in the future.
- In India, it comprises of consumer durables, house loans and personal loans for education, medical etc.,
- India's economic landscape has witnessed a concerning trend with household debt levels soaring to a historic high of 40% of GDP by December 2023, while net financial savings moved to an alarming low of around 5% of GDP.
  - The report forecasts that the trend of low net financial savings is likely to persist, with household debt fueled by personal loans, agricultural loans, and business loans continuing its ascent.
  - This financial strain, coupled with declining Gross Domestic Savings, paints a grim picture of India's economic stability and underscores the urgent need for comprehensive policy measures to address this mounting crisis.

How to assess the debt sustainability?

- Debt service ratio (DSR)- It measures the proportion of the household disposable income required to meet debt obligations.
- This ratio provides insights into the ability of the household sector to service current and future debt obligations given their level of disposable income.
- A lower DSR indicates better sustainability and a more manageable level of household debt.
- Factors affecting DSR- Debt-to-income ratio, residual maturity/tenure, and effective interest rate.

Debt to Income Ratio

- It compares a borrowers' total montly debt payments to their total montly income. It is used to assess a borrower's creditworthiness.
- Debt to Income Ratio= $\frac{Total\ Monthly\ Debt}{Gross\ Montly\ Income}$

Residential maturity

- It is the tenure on which the installment loan must be paid by the borrower in full.

Effective Interest Rate

- It is the rate on which the actual return on investment and rate of interest on loan is calcualated, considering compounding over a period. It offers the exact estimate of the amount the borrowers are laible to pay as interest.
- Effective Interest Rate= $(1 + i/n)^n - 1$. Here i is the annual interest rate and n is the number of compounding periods per year.

How does India's household debt affect Indian economy?

- At the current pace of growth in debt and income, Indian households would reach the threshold level over the next 5 to 6 years.
  - Lack of data- The Bank of International Settlements (BIS) publishes quarterly data on household DSR for 17 advanced economies, but not on any developing country including India.

- International scenario- Indian household DSR is similar to that of heavily indebted Nordic countries and it is more than China, France, UK, USA, all which have household leverage of more than 100%.
- Short term impact- An increase in household debt can boost economic growth and employment, as households borrow more to spend on consumption and investment.
- This can stimulate aggregate demand and output in the economy.
- Long term impact- It can have negative effects on the economy as households may face difficulties in repaying their debts, especially if interest rates rise or income falls.
- This can reduce their consumption and savings, and increase their financial stress and default risk.
- External shocks- High level of household debt make the economy vulnerable to external shocks, such as changes in global financial conditions, exchange rates, or commodity prices.
- Increase inequality- If a household debt is concentrated among low-income or informal sector workers, who have less access to formal credit and social protection, they may bear a disproportionate burden of debt repayment and financial distress.

How to reduce the debt burden of household?

- Increase residual maturity profile- Increasing the residual maturity profile of borrowers by 6 months can push the threshold of household leverage by more than 4% points of income.
- Reduce effective interest rate- A reduction in the effective interest rate raises the sustainable level of household debt.

What lies ahead?

- Providing adequate relief and support to households affected by the pandemic, such as moratoriums, restructuring, waivers, subsidies, etc.
- Enhancing financial literacy and awareness among households about the benefits and risks of borrowing and saving.
- Promoting financial inclusion and access to formal credit for low-income and informal sector households.
- Encouraging responsible lending and borrowing practices among lenders and borrowers, such as prudential norms, credit ratings, transparency, etc.
- Maintaining macroeconomic stability and growth by pursuing sound fiscal and monetary policies.

THE SOCIAL SCIENCES, A SHELTER FOR THE 'EXCLUDED' STUDENT

The social sciences, a shelter for the 'excluded' student

The general election is just over and a sizable share of India's youth is scrambling for college admissions; their contributions are crucial in realising the dream of Viksit Bharat@2047.

The month of May was important for the youth of India as the results of many examinations were released, generating ecstasy, agony, and heartbreaks. The publication of results triggers a rush for seats in higher education institutions, and, in turn, another series of examinations to qualify for these. This transition to higher education is important as it determines the quantity and quality of human capital, which is vital for economic growth. In developing economies, including India, this transition is plagued by a mismatch between demand and supply. The extent of excess seats in some courses and institutions, and shortages in some others, determines the magnitude of exclusion in the system. Persistence of exclusion leads to a scenario of courses in some disciplines emerging as the last resort for higher education for a large section of students, culminating in the creation of a reservoir of the excluded. Recent trends in India reveal that the social sciences are turning out to be one such large reservoir.

The reasons

Demand-supply mismatches in higher education arise due to the incongruence between aspirations of students and parents, and the availability of courses and seats, which is determined by market forces in private institutions and government policies in public institutions. Perpetual discrepancies in the system lead to three types of exclusions: exclusion due to excessive competition; exclusion due to financial factors, and exclusion based on subjects and courses of study. The first is evident in the case of premier institutions, which have multiple rounds of filtering mechanisms. The fact

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However, in an era of disruptive change, reaping India's demographic dividend depends on how the vast pool of social science students is tapped

that these are few and command high social prestige and pole position in the labour market intensifies competition to enter, resulting in focused elimination. The second is common in the case of private institutions as fee fixation is not bound by statutory regulations and is often akin to dynamic pricing in other services. Reduction in government financial grants to public institutions has pushed these institutions to resort to self-financing through higher fees. The third kind of exclusion is due to systemic issues as the availability of courses and institutions gets concentrated in some specific regions, with other regions having generic courses (with outdated topics and syllabus). The prevalence of these three types of exclusions undermines the quality of human capital in the long run.

According to the 2021-22 All India Survey on Higher Education (AISHE), the growth of enrolment during the period 2017-18 to 2021-22 for the undergraduate (UG) level is 4.1% and the post graduate level, 5.9%. The Bachelor of Arts (BA) programme, which has the highest enrolment at the UG level, registered an increase of around 15% from 2017-18. There is an increase of 26.5% in the Master of Arts (MA) programmes from 2017-18 to 2021-22. The share of enrolment in the BA programme in total enrolment of BA, BSc and BCom is 51% in regular mode and 75% in distance mode, while the corresponding share for MA is 12% (regular) and 42% (distance). The larger share and a lower transition indicates that BA programmes are turning out to be a generic pool, accommodating a large number of students who are excluded for a variety of reasons.

The surge of empirical orientation

There are stark differences in preferences for courses within the social sciences. Three things have contributed to this. First, there is a rise in popularity for courses with more empirical orientation as employability for such graduates is perceived to be higher. Courses in economics are preferred more on this ground when compared to courses in anthropology or sociology. Second, there is an overemphasis on acquiring policy intervention skills. The expectation that social science students need to develop problem-solving skills akin to engineering students has grown overtime, resulting in narrower specialisation within the social sciences. Third, there is the emergence of private universities that promise to provide global education in India, which has generated demand from a narrow section of the affluent population. Ironically, courses which are demanded the least in public institutions, such as anthropology, sociology and political science, are in high demand in these private universities, which have emerged as enclaves of higher quality for the affluent.

Improving quality

Higher education in the social sciences – the lens for observing and understanding changes in society, economy and polity – needs an overhaul at all levels. Quantity expansion to accommodate excluded aspirants of other disciplines needs to be followed up with a concerted effort for quality improvement. Teaching quality enhancement and course contents needs to be accorded top priority in such a mission. An obsession with policy and empirical skills has pushed some disciplines and programmes to the periphery. Financial exclusion has resulted in the widening of inequalities and the creation of elite enclaves of education in the social sciences. The aspiration of reaping demographic dividend rests on tapping a vast pool of youth studying the social sciences, which assumes significance in an era of social changes and rapid technological advancements such as generative artificial intelligence.

The views expressed are personal

Understanding the Demographic Dividend:

- It refers to the economic growth potential that results from shifts in a population's age structure, mainly when the share of the working-age population (15 to 64 years old) is larger than the non-working-age population (14 or younger and 65 or older).
- The change in age structure is typically brought on by a decline in fertility and mortality rates.

Key areas where a country can find demographic dividends:

- Savings — During the demographic period, personal savings grow and can be used to stimulate the economy.
- Labour Supply — More workers are added to the labour force, including more women.
- Human Capital — With fewer births, parents are able to allocate more resources per child, leading to better educational and health outcomes.
- Economic Growth — GDP per capita is increased due to a decrease in the dependency ratio.

Demographic Dividend of India:

- India, with its large and young population, is currently experiencing a demographic dividend.
- It is expected to last until 2055, providing India with a unique opportunity to boost its economic growth.
- India is expected to add another 183 million people to the working-age group between 2020 and 2050.
- This change in the age structure of the population can lead to a ‘demographic dividend’ of economic growth if it is accompanied by sustained investments in education and health, and policies that promote labour force participation.

Potential of India’s Demographic Dividend

- According to the IMF, the demographic dividend could add about 2 percentage points per annum to India’s per capita GDP growth over the next two decades.
- A report by the Confederation of Indian Industry (CII) suggests that India’s demographic dividend could boost India’s GDP growth from the current $3 trillion to $9 trillion by 2030 and $40 trillion by 2047.

ARREST, AGENCIES, AND CRIMINAL COURTS

9

Arrest, agencies, and criminal courts

The Supreme Court did not mince words in May 2024, while delivering two significant judgments that impact the liberty of people accused of criminal offences. The first judgment says that the custody of an accused is not necessary prior to the filing of the charge sheet in certain criminal cases. If the lower courts strictly comply with the directives in this judgment, it would bring relief to investigating agencies.

The second judgment relates to informing an accused of the grounds of arrest in writing. This is a fundamental right under Article 22 of the Constitution. While this judgment was delivered in the context of special statutes – namely, the Prevention of Money Laundering Act (PMLA), 2002, and the Unlawful Activities (Prevention) Act (UAPA), 1967 – it will be relevant to see whether these directives can equally be extended to provisions of the Criminal Procedure Code (CrPC) as far as communication of grounds of arrest is concerned.

Filing of charge sheet

In *Siddharth v. State of Uttar Pradesh and Another* (2021), the Supreme Court held that it is unnecessary for the investigating officer (IO) to present the accused in custody at the time of filing the charge sheet if the accused has been cooperating in the investigation and if the investigation can be completed without arresting the accused. The Court held that Section 170 of the CrPC does not impose an obligation on the officer-in-charge of a police station to arrest each and every accused at the time of filing the charge sheet. Therefore, it is not justified under law for criminal courts to refuse to accept the charge sheet without the accused person being produced before them. The Court further said that if the charge sheet is not accepted for any such reason, then attention of the Sessions Judge should be drawn to these facts and a suitable order given.

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The Supreme Court recently delivered two significant judgments that impact the liberty of people accused of criminal offences

This implies that in bailable cases and in those non-bailable cases in which the IO thinks that the accused will neither abscond nor disobey summons, the IO is not obliged to produce such an accused in custody while filing the charge sheet in court.

However, the reality is that the IOs sometimes struggle to file charge sheets in criminal courts. In cases of riots, when there are a large number of accused people and every accused person released on bail by the police is not present at the time of filing the charge sheet, the charge sheet is not accepted by the court. Sometimes, courts don't accept the charge sheet of cases beyond an arbitrarily fixed number in one day, or after a particular time in a day. The IOs are reluctant to complain about these issues to a Sessions Judge because this might prove counter-productive for other miscellaneous works at the ground level. Though the *Siddharth v. State of Uttar Pradesh* judgment was delivered more than two years ago, the situation does not seem to have changed much.

Grounds of arrest

In *Pankaj Bansal v. Union of India and Others* (2023), the Supreme Court held that the grounds of arrest must be informed in writing to the accused as a matter of course and without exception, to give true meaning and purpose to the constitutional and statutory mandate of Section 19(1) of the PMLA. Similarly, recently in *Prabir Purkayastha v. State (NCT of Delhi)*, the Court reiterated the ratio of Bansal (supra) case and held that the provision of arrest, as far as informing grounds of arrest is concerned, is *pari passu* (equal footing) under the UAPA. The Court held that the 'reasons of arrest' are purely formal parameters which commonly apply to any person arrested on charge of a crime whereas the 'grounds of arrest' would be invariably personal and required to contain details which necessitated the arrest of the accused. Therefore, unless grounds of arrest are informed in writing, arrest and subsequent remand would become invalid in the eyes of law.

Importantly, Section 50(1) of the CrPC also provides that "every police officer or other person arresting any person without warrant shall forthwith communicate to him full particulars of the offence for which he is arrested or other grounds of arrest". Therefore, even for offences registered under the Indian Penal Code (IPC), an accused is required to be informed about the grounds of arrest, along with important facts of the case. The burden lies on the prosecution to prove that the statutory provisions have been complied with.

The arrest memo prepared by the IO contains a note which says "the arrested person, after being informed of the grounds of arrest and his legal right, was duly taken into custody". The arrest memo which is written separately for each accused contains inter alia all sections of offence(s) applied, date of offence, place, and time and date of arrest, and is signed by the IO. It is also counter signed by the arrestee. However, there is no provision in law to provide a copy of this memo to the accused person at the time of his arrest. This becomes more relevant for those who are not named in the First Information Report.

The Court has said that the grounds of arrest must be provided in writing so that the accused person can seek legal counsel and seek bail on the basis of unambiguously stated facts of the case by the investigating agency. If that be so, the ratio of the Bansal case (supra) must equally apply to Section 50(1) of the CrPC, particularly when such a right is held to flow from Article 22 of the Constitution. It will be apposite to amend the law and provide a copy of the arrest memo with some modification to fulfil the constitutional mandate towards an accused person.

BIHAR'S CALL FOR SPECIAL CATEGORY STATUS

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Bihar's call for special category status

How does special category status benefit States like Bihar? What specific criteria qualify a State for special category status? Why has Bihar's demand been a long-standing issue? What are the political implications of granting special status to Bihar?

EXPLAINER

Prashanth Perumal

The story so far:

Bihar Chief Minister Nitish Kumar has reiterated the State's long-standing demand to be granted the special category status by the Centre, a move that would increase the amount of tax revenues that the State gets from the Centre. The demand for special category status right now is significant because Prime Minister Narendra Modi's Bharatiya Janata Party (BJP) depends on support from Mr. Kumar's Janata Dal (United), which has 12 seats in the new Lok Sabha, to hold on to power at the Centre. Notably, the Bihar Cabinet had passed a resolution late last year demanding special category status to the State.

What is the special category status?

The special category status was introduced in 1969 based on the recommendations of the Fifth Finance Commission. The intent was to help States that are disadvantaged in terms of their geographic, social or economic status to improve their position on par with other, more developed Indian States.

Criteria such as having a hilly terrain and a sizable tribal population can entitle a State to be granted the special category status. A State that is granted the special category status would be able to claim more funds from the Centre than otherwise and can also enjoy various tax-related concessions.

90:10

For example, a State with special category status would receive 90% of funds from the Centre when it comes to schemes sponsored by the Union government, as against other States which receive only around 60% to 80% of funds from the Centre.

Initially, Jammu & Kashmir, Assam and Nagaland were granted the special category status to aid their economic development. Subsequently, eight other States including Himachal Pradesh and Uttarakhand were granted the special status. Thus, 11 out of 28 States, or more than a third of Indian States, already enjoy the special category status.

Why is Bihar demanding the special category status?

Bihar's politicians, including its current Chief Minister, have for a long time demanded special category status for the State pointing to its economic backwardness. Bihar's per capita income of around ₹60,000 is among the lowest in the country and the State lags behind the national average in several human development indicators as well.

Bihar has also noted that the State's fiscal situation has been adversely affected by the bifurcation of the State that caused industries to move to Jharkhand, lack of sufficient water resources for irrigation, and frequent natural disasters.

The most recent Bihar caste based survey of 2022 indicates that nearly a third of the State's people live under the poverty line.

Union governments headed by both the BJP and the Congress, however, have been unwilling to grant any special status to Bihar and several other States due to the increased burden it would put on the Centre's finances.

Particularly, it has been noted that there is now greater devolution of taxes to the States from 32% of the total divisible pool to 42% based on the recommendation of the Fourteenth Finance Commission. Hence, the demand for special category status from Bihar is simply seen as a ploy by State governments to demand even more funds from the Centre.

The Centre may also fear that granting the special category status to certain States will encourage others to demand the same from the Centre. It should also be noted that political considerations play a large role in the granting of special status to States. States with better political bargaining power with the Centre may manage to receive more funds either through a special status or by other means.

Further, there is the risk that political parties vying for power at the Centre may compete to either gain or stay in power by promising to grant special status to certain States.

The Congress party, for instance, in its 2024 election manifesto promised to grant the special category status to Bihar if it comes to power. Such competitive populism can lead to a worsening of the Centre's finances.

Does Bihar need the special category status?

Politicians at the State level generally have an incentive to compete for funds from the Centre as this would allow them to spend more. So it is not surprising that not just Bihar but many other States too, including Andhra Pradesh which is now ruled by the BJP's ally Telugu Desam Party and Odisha which is prone to floods and has a significant tribal population, have demanded the special category status that would entitle them to more funds from the Centre's treasury.

In fact, TDP leader N. Chandrababu Naidu pulled his party out of the National Democratic Alliance government before the 2019 general election over the issue of granting special category status to the State.

Mr. Naidu wanted special status to compensate for the decrease in tax revenues as a result of his State's loss of Hyderabad to Telangana.

favour

Bihar's economic backwardness has been cited as the primary reason for the need for the granting of the special category status to the State.

Many analysts say this demand based on economic backwardness is very well justified as they believe that the State government will have to spend on welfare projects to uplift the poor and to invest in boosting the State's infrastructure. The Bihar government last year estimated that the granting of the special category status will help the State receive an additional 2.5 lakh crore rupees over five years to spend on the welfare of 94 lakh crore poor families.

Against –

Others, however, do not believe that Bihar's economic backwardness justifies greater allocation of Central funds to the State. They see the increased allocation of funds to poorer States as incentivising their bad policies and penalising more developed States which have adopted better policies.

Historically, States like Bihar and Uttar Pradesh suffered slow growth and high poverty levels due to poor rule of law that discouraged investments considered crucial to boosting growth.

But now, as one of the fastest growing States in the country, albeit from a lower base, Bihar has managed to increase its per capita income level and also the size of its overall economy at a brisk pace in recent years.

In 2022-23, for instance, Bihar's gross domestic product grew at 10.6% as against the national average of 7.2% while its per capita income level in real terms grew by 9.4% in the previous year. So, these analysts believe, Bihar does not need more fiscal help from the Centre but a stronger rule of law to further improve its economy.

In other words, while more funds from the Centre might offer Bihar some short-term relief, its long-term economic prospects will depend on the State's ability to further strengthen rule of law.

Seeking aid: The Bihar government last year estimated that the granting of the special category status will help the State receive an additional 2.5 lakh crore rupees over five years to spend on the welfare of 94 lakh crore poor families. AP

THE GIST

- Bihar's Chief Minister, Nitish Kumar, reiterates the State's demand for special category status, aiming to increase tax revenues from the Centre.
- Special category status, introduced in 1969, assists States with geographic, social, or economic disadvantages to improve their development.
- Initially, Jammu & Kashmir, Assam, and Nagaland were granted special category status, with eight additional States, including Himachal Pradesh and Uttarakhand, later receiving it.
- Bihar's demand for special status stems from its economic backwardness, low per capita income, and lagging human development indicators.
- Political considerations and fiscal implications have hindered previous governments from granting Bihar special category status.

Question:

Q.2 States frequently demand Special Category Status(SCS), seeking unique fiscal and developmental considerations from the central government. In light of the recent demand by Bihar Cabinet, mention the reasons for such demands and highlight the concerns related to special category status (10M/150W)

Model Answer

Approach

- Introduction: Briefly mention about the recent demand by Bihar Cabinet and explain meaning of SCS Body
- Heading 1: Reasons for Demand of Special Category Status(SCS)
- Heading 2: Concerns related to Special Category Status
- Conclusion: Conclude with way forward on how to address the concerns related to SCS

Answer

- In light of the "Bihar Caste-based Survey, 2022," which unveiled that almost one-third of Bihar's population remains in poverty, the Bihar Cabinet has recently approved a resolution urging the conferment of Special Category Status (SCS) upon the state.
- Special Category Status (SCS) is a designation provided by the Central government to support the development of states confronting geographical and socio-economic challenges. Such states receive preferential treatment in the allocation of central assistance and grants from the federal government. This assistance to SCS States has been subsumed in an increased devolution of the divisible pool funds for all States (increased to 41% in the 15th FC from 32%).

Reasons for Demand of Special Category Status:

- Economic Disparities: Many states seeking Special Category Status often grapple with significant economic disparities. For instance, Bihar in India has highlighted its economic challenges. These disparities prompt states to seek additional support for targeted development initiatives.
- Geographical Challenges: States with difficult geographical terrains, such as hilly or remote areas, often face infrastructural challenges. Himachal Pradesh in India have, in the past, advocated for Special Category Status due to their challenging topography, requiring special attention for infrastructure development.
- Resource Constraints: Some states lack sufficient resources for comprehensive development. The northeastern states of India, like Arunachal Pradesh and Manipur, have emphasized their resource constraints as a basis for seeking Special Category Status.
- Social Indicators: States struggling with poor social indicators may demand Special Category Status to address specific social issues. Odisha in India, for example, has cited low human development indices and a high incidence of poverty as reasons for seeking special status to uplift its population.

Concerns related to Special Category Status:

- Financial Implications: Granting Special Category Status often comes with financial implications for the central government. The additional funds and concessions provided to these states may strain the national budget, leading to concerns about fiscal sustainability and equity among states.

- Inequitable Distribution: Allocation of Special Category Status can lead to an inequitable distribution of resources. States not classified as special may feel neglected, leading to regional imbalances and potential unrest.
- Dependency and Accountability: Some states, once granted Special Category Status, might become overly dependent on central assistance. This dependency can hinder the development of a self-sustaining economy and reduce the state government's accountability for effective governance.
- Political Manipulation: The demand and grant of Special Category Status can sometimes be influenced by political considerations rather than genuine developmental needs. This raises concerns about the politicization of the process.

Thus, it's important to establish a transparent and standardized framework for evaluating states' eligibility for Special Category Status, incorporating clear and objective criteria that reflect the evolving socio-economic landscape. This framework should prioritize addressing current developmental challenges while allowing for periodic reassessment. Additionally, fostering inter-state cooperation and equitable resource distribution can help mitigate concerns related to regional disparities.

Ultimately, a balanced and adaptive approach, driven by a commitment to inclusive growth and cooperative federalism, will be essential to navigate the complexities associated with Special Category Status and promote holistic and sustainable development across all regions

Q.3 The Constitution does not include any provision for categorisation of any State in India as a Special Category Status (SCS) State. Discuss about the future of the special category status.

Solution

Approach:

1. Explain the concept of the special category states.
2. Mention about the benefits of getting the status.
3. Discuss about the present status of the SCS.
4. Discuss the future of the categorisation.
5. Make an appropriate conclusion.

Q.4 What is 'special category status'? How is it different from 'special status'? What benefits do states with special category status enjoy? Discuss.