CHAPTER – V

MANIPUR IN THE FULL FLEDGED STATEHOOD
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In the latter part of the political history of India, Scholars are subscribing their views that unless there is overcoming of Inclusive authority model, there will not be meaningful federalism. On contrary to others, a small state like Manipur gets more space of zone of interference of centre also. It hurts democratic principles as federal form of government in relevance with Centre - State relationship. Even the popular regional party's government was suspended if that was not ruled by the National party, which ruled in the centre. So a good numbers of emergency and animated suspension were being done by the Union Government. That is why, basically, the question is raised about the political status of Manipur.¹ That means it is imperative to study the Centre - State relationship. Even the emergency in particular is also related with such meaningless federal structure in India.

The constitution of India is federal in form but is more unitary in character. Strengthening the federal system is necessary for satisfying the demands and aspiration of the people who are governed through State Governments and for transforming conflict situation of various states of India having political violence.\textsuperscript{2} Therefore, Centre-State relation is the arrangements between the Union Government and the states in regard to their powers, functions and responsibilities have always been a crucial issue. The basic structure remain to be one where legislative, administrative and financial powers are disproportionately concentrated in the Union Government with the states having a large number of responsibilities without sufficient autonomy. Alongwith significant socio-economic and political changes occurring in the post independence period, centre-state relations have also undergone some changes. The period since 1991, which witnessed a paradigm shift in the economic strategy from planned development to a market-oriented one, has also thrown up new issues and challenges for the federal setup. These have an important bearing on the functioning of our democracy as well as the well being of our people.\textsuperscript{3}


The need for a thorough restructuring of Centre-State relations, in order to correct existing imbalances and strengthen the federal system by empowering the states with genuine autonomous, is therefore being felt strongly. But it is still a controversial matter whether federal form of government would be more suitable for India, though a federal government has been established in India. So as small states having small number of MPs, always make argument that their representatives could not be Prime Minister and President, even cabinet minister in the union government from cradle to grave of political history of them because number of representation is based on population in this existing political system of India. It means that the small states like Manipur, Nagaland and Mizoram can’t get such prestigious head of state and real executive of India.

The people of North East has always held that while the state structure in India is federal in name, most powers and resources are concentrated in the hands of the Central government. It is also one of the important factors for the causes of political violence in the North East.  

**THE MAIN ISSUES IN THE ADMINISTRATIVE AND LEGISLATIVE SPHERES COLOURABLE LEGISLATION BY MISUSING OF ARTICLES 355 AND 356:**

The misuse of Article 356 is the vivid example of colourable legislation in the Centre-State relationship. With the help of this Article,
the Central Government dismiss State Governments and dissolve State Assembly. It has been subverting the federal principles and the rights of the states. The demand to restrict the use of Article 356 only to cases where there is a serious threat to national unity or the secular fabric of the country has been raised from various quarters in successive meetings of the Inter-State Council. In view of the Supreme Court judgement in the S.R. Bommai case, there is an urgent need to build in strong safeguards in Articles 356 and 365 through appropriate amendments to the constitution. However, no decision has been taken by the Union Government in this regard. There is also a new and alarming proposal for Central deployment of paramilitary forces in the states unilaterally in a situation which the centre would consider as an ‘internal disturbance’. The provisions of Article 355 needs to be clarified. As has been repeatedly stressed by several constituents of the Inter-State Council, the term ‘internal disturbance’ in Article 355 is related to ‘Public Order’, which is the first entry in the State List. The proposal for Central deployment of paramilitary forces in a state in a situation which the centre would consider as “internal disturbance” without the states concurrence is unacceptable. Article 355 should be amended on the lines suggested above for Article 356. Apart from external aggression, only a serious threat to national unity or an assault on the secular principle can be taken cognizance of such misusing of Article 355 and 356.\(^5\) Manipur was under the president

\(^5\) Approach Paper on Restructuring of Centre - State Relations - Adopted by the Central Committee of the CPI(M) at it’s meeting held at Kolkata from October 12 - 14, 2008. p.5
rule more than ten times before Anti Defection Act was implemented. Most of them were against the formation of government by regional parties or National parties, which were not ruled in the centre. Moreover deployment of paramilitary forces in a state by the centre in a situation in which the centre would consider as “internal disturbance” without the state’s concurrence created all forms of human right violation like killing, torture, raping, disappearances, Fake encounter, massacre, detention in custody more than 24 hours etc.

**APPOINTMENT AND ROLE OF GOVERNORS:**

The provision for centrally appointed Governors for the States has remained as an anachronism, which is not in keeping with a federal democratic polity. By the post of Governor has to be retained, then the Governor should be appointed by the President from a list of three eminent persons suggested by the Chief Minister, satisfying the criteria mentioned by the Sarkaria Commission. This has also been repeatedly discussed in the Inter-State Council. Non of the major countries of the world with a federal constitution have any provision for the post of the Governor in a state to be appointed by the centre. There should also be a time limit with regard to Governor’s assent to bills passed by the state Assemblies. Moreover, the requirement of an explicit norm debarring Governors from publicly expressing disagreements or differences with the State Government also need to be debated. There is also a need to review
whether Governors should continue to be ex-officio Chancellors of State Universities. In Manipur maximum numbers of Governors are army officers. Inspite of having competence person in the state, not a single person of Manipuri had been appointed as governor since 1951.

CENTRAL INTRUSION INTO THE STATE LIST:

The state subjects have already been transferred such as education to the concurrent list. It had been left unreserved. But further intrusions have also been made into the state list in terms of proliferation of the so-called centrally sponsored schemes. These central schemes on the state subjects, which contain rigid guidelines imposed by the centre, besides having implications in the financial sphere, also impair the autonomy of the states and affect their development priorities. There is an urgent need to review the impact of the transfer of legislative items from the state to the union/concurrent list. The Union Government has so far ignored the demand of the states to place at least the residuary powers of legislation in the state list. The residuary power of taxation in the sphere of services is being pre-emptorily used by the Union Government to the total exclusion of the states. Despite discussions in the Inter-State Council, the proposal for a constitutional amendment to set definite times limits for receiving the assent of Governors or the president in the case of bills passed by

6. Ibid. p.6.
the State Assemblies has so far been ignored. Moreover, there is no formal institutional structure that requires mandatory consultation between the centre and the states in areas of legislation under the concurrent list.7

TREATY MAKING POWERS:

The present constitutional scheme with regard to treaty making power being exclusively in the domain of the Union Executive needs to be urgently reviewed. The constitution should be amended to make legislative sanction mandatory for any international treaty. Besides, several international treaties like the WTO agreement have serious implications for the states, especially with respect to state subjects like agriculture. In all such cases, consultation with the states and concurrence of the Inter-State Council must also be made mandatory.

ALL INDIA SERVICES:

The All India Services are under the exclusive domain of the centre. Some of the powers can be spheres with the states. The State Governments should especially have a greater role in the administration of the Rules and Regulations of All India Services.

FINANCIAL SPHERE UNRESOLVED ISSUES:

7. Ibid. p.7
Fiscal federalism in India has always been deeply problematic, with vertical and horizontal imbalances not only persisting till date but also getting aggravated in many cases. Resources have always remain as centralised in the hands of the Union Government with the states suffering from gross inadequacy of resources in relation to their development needs. The already limited financial and economic decision making powers of the states have got further constrain in the post-liberalization period.  

**VERTICAL IMBALANCE:**

The basic imbalance in the Indian Constitution with regard to Centre-State relations arises out of the fact that, while the major responsibilities in the sphere of development expenditure (irrigation, roads, power, education, health etc.) and administrative expenditure (law and order, general administration etc.) have been given to the states, the more important powers of revenue-raising have been given to the centre. In the year 2004-05 for instance, annual development expenditure borned by the states taken together was Rs. 3.62 lakh crore, which was more than one and a half times of what was borned by the Centre Rs. 2.33 lakh crore. This also implies that the states undertook around 60.8% of the total development expenditure incurred in 2004-05. It also needs to be noted here that this expenditure was incurred by the states under serious

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8. Ibid. p. 8
financial constraints, and the actual expenditure that is required to fulfill their responsibilities adequately would be at least twice the amount RBI Handbook of statics on Indian Economy, 2005-06 that was spent. In contrast, the share of the states in total Revenue receipts was merely 38%, with around 62% going to the Central Government. This vertical imbalance remains the basic problem in Centre State financial relations.

INADEQUATE CENTRAL TRANSFER:

This mismatch between the greater responsibilities for undertaking development expenditure lying with the states on the one hand, with greater powers of revenue mobilisation lying with the centre on the other, has not been met through commensurate resource transfers from the centre to the states. The devolution of central taxes and grants as was envisaged in chapter-1 of part XII and Article 275 of the constitution have remained grossly inadequate. In fact, the share of net central transfer in terms of devolution of central taxes and grants (net of interest payment by the states or centrally imposed loans) as a proportion of total revenue receipts of the centre has fallen from 32.7% in 1990-91 to 29.5% in 2004-05.

DEVOLUTION OF 50% OF CENTRAL TAXES TO STATES:

It is essential to work out a fair principle for sharing of central taxes with the states. The Central taxes net of transfer to the states and the state taxes including states’ share in Central taxes should be in
proportion to the development expenditures incurred by the centre and the states respectively. On the basis of this principle and the available data on the trend of existing as well as the required development expenditure of the states, it had been worked out that the State's share of central tax revenue should be at least 50%. The states, over a long period, have therefore been demanding that 50% of the total pool of collection of central taxes be developed to the states. However, this demand has been ignored so far and the states' share of central taxes currently stands at 30.5% only. This needs to be increased to 50% on an urgent basis.

**RESIDUAL POWERS OF TAXATION**

The states had justifiably demanded the transfer of at least the residual powers of taxation, particularly the power to tax services, to the states. Ignoring this demand, the centre acquired for itself the entire power of taxing services through a constitutional amendment. Fairness demands that the states are allowed to tax certain services including some services, which are currently being taxed by the centre, central surcharges and cesses do not form a part of the divisible pool, thus denying the states their due share in total revenue receipts. These surcharges and cesses should also be made a part of the divisible pools. There is also a need to
evolve a suitable model for the proposed goods and services Tax so that the states have a fair share in the revenues especially keeping in mind the interests of the special category states.⁹

**RESTRICTIONS ON BORROWING BY STATES:**

The share of total market borrowing to which the state may be entitled is also dictated by the centre. While in the 1950s, the shares of market borrowing of the states and the centre in the total market borrowing by the Government were approximately equal in proportion, the share of market borrowing of the states has now fallen sharply to around 15%, with more than 85% of the market borrowing being cornered by the Centre. Consistent with the development responsibilities of the states, the share of market borrowing of the states should be increased from the absurdly low proportion of about 15% per cent currently to 50%. Moreover, Article 293 of the constitution should be amended to provide more flexibility and autonomy to the states in regard to market borrowing.

The Reserve Bank of India restrains the State Governments’ flexibility in market borrowing in a number of ways. It denies access to the market for resources beyond limits, ranging from 5% to 35% of gross borrowings, depending on the fiscal indicators of the state. The most restrictive condition imposed by the RBI is that market borrowing cannot be used to finance revenue deficits. This ignores the fact that

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state finances are in doldrums largely on account of high interest-debt from the Central Government. Another perverse condition makes the amount that can be borrowed inversely proportional to the need, i.e. the size of the deficit. Furthermore, the RBI has undermined State Government guarantees by stating that these should not be a key consideration in loans to the public sector. These constraints, which adversely affect the public borrowing of the states, need to be removed.

NEW ISSUES IN CENTRE STATE FINANCIAL RELATIONS
(Post-liberalisation Scenario):

DECLINING TAX REVENUE:

The post-liberalization period witnessed a fall in revenue mobilisation of the Centre, mainly on account of reductions in direct and indirect taxes and the overall weakening of the resource mobilisation effort. Revenue mobilisation by the Centre Government declined from 12.17% of GDP in 1990-91 to 10.74% of GDP in 1998-99. States' own revenues, however, remained fairly stable at around 7% during this period. Central transfers to the states also declined from 4.73% of GDP in 1990-91 to 3.79% of GDP in 1999-00. During the reference period of the Eleventh Finance Commission (2000-05), the actual collection of central taxes fell significantly short of the projected amount. As a result, the actual amount
received by the states has also been substantially less, by nearly 19%, from what was recommended by the commission.\textsuperscript{10}

**TAX CONCESSIONS :**

While there has been some improvement in revenue collection by the centre in the recent period, the resource mobilisation effort continues to be severely constrained by tax myriad tax concessions. The latest budget documents show that revenue worth Rs. 2.78 lakh crore were foregone on account of the various extant direct and indirect tax exemptions in 2007-08, which amounted to 48% of total central tax collection in that year (Table 4 in Appendix).

These tax concessions, especially the ones on corporate taxes, not only course enormous revenue losses, but also distort the patterns of investment and growth and aggravate regional imbalances. Tax experience of mushrooming special Economic Zone following the passage of the SEZ Act, which grants a ten-year income tax holiday for the developers and units in the SEZs, in a glaring case in point. This also has major implications for the revenue mobilisation capacity of the states. The competition to attract investment of the leads to the states offering exemptions from states taxes and duties and other concessions in a

\textsuperscript{10} State Finances, Reserve Bank of India, Nov., 2006; Handbook of Statistics on Indian Economy and report of the 11\textsuperscript{th} Finance Commission, June 2000.
competitive manner, causing revenue losses. There is an urgent need to review the central tax exemptions and devising mechanism to compensate the states for the losses and distortions arising out of such tax exemptions. There is also need for the centre as well as the states to set some collective limits to tax concessions in order to safeguard against a race to the bottom.

**FISCAL CRISIS OF THE STATES:**

The Eleventh Finance Commission had failed to recommend only increase in the states’ share of Central taxes beyond 29.5% or provide debt relief to the states. Rather, the commission recommended that the revenue deficit grants for the states be linked up with the condition that 15% of the states entitlement of revenue deficit grant would be withheld unless the states has complied with a progressive reduction of the revenue deficit over the period 2000-2005. There were strong protests from the states, and a dissent note was also submitted by a member of the Eleventh Finance Commission (Dr. Amaresh Bagchi) who wrote that the centre had no business “to withhold even a single paisa of the grants arising out of the needs assessed by the commission”. However, this conditionality was imposed by the Union Government, thereby forcing the states to impose a virtual ban on recruitment that created genuine problems in the delivery of welfare services and development activities of the states.
Moreover, this mechanically applied conditionality also started showing signs of design failure. The prescription of a uniform 5% compression of revenue deficit to revenue receipt every year was oblivious to the widely different causes and magnitudes of the revenue deficit to revenue receipts ratio among the states, and it created an anomalous situation in centre state relations.

The Twelfth Finance Commission had also imposed several conditionalities on states, one of them being enacting Fiscal Responsibility and Budget Management (FRBM) Act in order to avail of debt relief and restricting from the Centre. The implied annual reduction targets of revenue and fiscal deficit with the total elimination of revenue deficit by 2008-09. This restrictive conditionality for revenue deficit reduction, which had been imposed without any inadequate understanding of the components of revenue expenditure. Grants to the local bodies (Panchayats, Municipalities etc.), aided Schools and Colleges, expenditure on account of salaries of doctors, medicines etc., come under revenue expenditure. Efforts to achieve the deficit reduction targets of the FRBM Act would therefore severally constrain the fiscal space for the states and adversely affect development expenditure. Moreover, the restriction of fiscal deficit to 3% of the GSDP will also impinge upon the capital expenditure of the states. The obsession with curbing the size of the fiscal deficit and cutting down upon Government expenditure in order to
impose fiscal discipline irrespective of the economic situation is not based upon any sound economic theory.\textsuperscript{11}

In keeping with a World Bank recommendation, the Twelfth Finance Commission also suggested the abdication of the Central Government's responsibility in borrowings by the State Governments. Accordingly, the loan component of the Central Assistance to state plans has been done away with, resulting in a huge disadvantage for backward states. The states are therefore being pushed into negotiating high interest and or conditionality linked loans from external agencies like the ADB and the World Bank. Moreover, the Twelfth Finance Commission had also echoed the conditionalities suggested by the RBI, of creating a Guarantee Redemption Fund and a Sinking Fund for amortization of loans outside the consolidated fund of the states and centre, to avail debt relief. These are meant to subject the states to greater market discipline; which will only imply conditionality linked and high interest cost loans for the states and abandonment of projects whose risks are assessed to be too high by the market.

These conditionalities being imposed by the Finance Commission

\textsuperscript{11} Op.cit. Reserve Bank of India.
are violative of the principles of fiscal federalism and severely impinge upon the financial autonomy of the states- debt relief for the states on account of the central loans must not be tied to any conditionality solutions should be worked out in a state specific manner, with a component of the relief in terms of writing off a part of loan and another part in terms of consolidation of past loans with a provision of interest relief. The debt of the special category states should be settled in a one-time manner.

A new problem has recently arisen due to the rate of interest as bank deposits becoming much higher than the rate of interest on Small Saving Schemes resulting in erosion of Small Savings Collection. The interest rates on Small Saving Schemes also need to be realigned in order to maintain its attractiveness relative to bank interest rates.

NATIONAL SMALL SAVING FUND LOAN:

The Central loans connected with Small Savings Collection (National Savings Scheme Fund) involved a special burden since the rate of interest charged by the Union Government from the states is significantly higher (often by more than 2%) than the rate of interest paid to the depositors. The states had urged upon the Twelfth Finance Commission to suggest remedial measures. However, none of the major problems of the state were satisfactorily addressed. The debt-relief package recommended by the Commission in respect of Central loans to the states
specifically excluded from its purview the NSSF loan extended by the centre to the states from 1999-2000 onwards, which constitutes the predominant component of the central loans for several states. Debt relief via-a-vis the loans from the NSSF should be worked out in a state specific manner.

Problems with centrally sponsored schemes. The proliferation of centrally sponsored schemes, whose design and implementation are totally determined by the centre without adequate consultation with the State Governments, is another serious problem. These excessively or centralised and rigid formats of these schemes often make them ill suited for the specific needs of the states. Since the States Governments have to bear a part of the expenditure behind such schemes in most cases, the state find it difficult to make proper allocation of their own resources keeping their own priorities in view. Moreover, conditionalities are often imposed through these schemes, which impinge upon the autonomy of the states.

For instance, the centrally sponsored JNNURM requires the state Governments to bring down the stamp duty rate within five years to a level not exceeding 5% and also impose user charges for various utilities and necessary services. This is a direct intrusion into the power of the states. Since with respect to take in the state list like the stamp duty, the Legislative Assembly has full powers to prescribe rates. Recently, the
Union Government has accepted in recommendations of the Vaidyanathan committee on revival of the co-operative credit structure. In the case too, the power of the states in regard to the co-operation has been curtailed and the flow of funds linked up we the acceptance of the attached conditionalities. In some of the schemes, the share of the states financial burden has also been unilaterally increased. For instance, despite repeated objections by all the Chief Ministers, the share of the states in the Sarva Shiksha Abhiyan will be increased from 25% to reach 50% by the end of the Eleventh plan period. The inflexibility of the design as the manner of provision of funds for the SSA also leads to significant under utilisation of funds. Similarly the rigidity in the Schedule of work under the NREGA also precludes its effective implementation in several states.

At the conference of the Chief Ministers convened by the then Prime Minister on May 4, 1996, it was resolved that all centrally sponsored schemes pertaining to the states subject, would be transferred to the states with funds. Since then, although several exercises have been carried out in this regard from time to time, there has been no effective resolution of the issue. Rather, more and more centrally sponsored schemes, with attached conditionalities, have been introduced by the Central Government. While central transfers to the states as a proportion of the centre’s revenue receipt have fallen over the years, the proportion of transfer of funds with conditionalities in the form of Grants-in-Aid has increased from 40.9% in 1980-81 to 49.3% in 2005-06.\textsuperscript{12}
All centrally sponsored schemes under the state subject, as well as those under panchayats and municipalities, should be transferred to the states with funds.

Broad guidelines can be worked out on the basis of discussions between the centre and the states and also a appropriately periodic joint Centre-State review. However the formation and implementation of the schemes should be left to the states along with transfer of funds. Besides ensuring decentralisation, transfer of the central scheme to the states would also reduce the cost of programme implementation and save central resources.

**Decentralisation, Devolution and local self-Governments:**

The proliferation of centrally sponsored schemes has also meant an entrusion by the centre into the functional domain of the panchayats and the municipalities. Direct fiscal provision are made in some cases to the local bodies from the centre by-pass the state Governments. This, in addition to the capacity building of members of local bodies by the centres amounts to an extremely centralised motion of decentralisation. In such cases the real dicisions are made at the centre rather than being delegated.

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to the states and the local bodies and there in an effort to decide the pattern of decision making at the local body level from the centre. This perversions of decentralisation should not be promoted and the states should be given the freedom to create an overall contact within which local bodies can function. Moreover, a target minimum level of local self Government expenditure to GDP or combined Government expenditure (Centre and states) needs to be set by the Finance commission. Funds developed to the local bodies should mandatorily be routed through the state Governments.

There is also a trend towards involving entitles like private corporate groups or NGOs, in governance at the local level. These entities, which have no descratic accountability, should have, absolutely no role to play in governance. Rather ways and means of improving accountability and transparency in governance through greater participation of common people in policy planning and their implementation should be explored.

**Special Category States:**

In view of their relative backwardess, the problems faced by the special category states, especially the North Eastern States and Jammu and Kashmir should be accorded priority. The differential benefits given to these states in terms of the non-plan gap Grant and Normal central Assistance should continue and adequate resources allocated to these
states to meet their development needs. The debt of these state Governments should be settled in a one time manner without any conditionality. The release of funds to the special category states under the central sponsored schemes should be done in a timely manner without stringent conditions on fund utilization.

Other Issues:

There are several other national and inter-states issues, which are important for centre-State relations these include major irrigation projects, erosion of major rivers, central investment in CPSUs, railways, national highways, ports, airports etc. In each of these issues, the interests of the centre and States are involved and it is necessary to ensure inter-state balance in taking decisions. There are also issues like strengthening the PDS, BPL identification and administration of the Essential Commodities Act, which have become very relevant in the backdrop of inflation. The present scheme of the National Calamity Relief Fund needs to be changed in order to the increase the corpus of funds for the states. In view of the inter-state competition over mineral resources, there is a meet to set some common norms regarding extraction of minerals. The royalty rates on coal and other minerals should be revised more frequently. It is also important to involve the state Governments in the policies of Credit disbursement by banks and financial institutions, particularly to ensure proper allocation priority sector lending and an inter-state balance in the
sphere of the loan disbursement. Effective resolution of these and other issues requires robust institutional arrangement within which centre-state and inter-state consulations can take place on a regular basis and decisions reached.

**Issue Related to present Institutional Arrangements:**

The Institution bodies through which the issues related to centre-state relations are supposed to be discussion and resolved are the Inter-State Council, National Integration Council, National Development Council, planning commission, Finance Commission and the Boards of the Reserve Bank of India and other financial institutions. However, a past record shows that neither have these bodies worked with effective representation of the states. In fact, these have functioned ceremonially and almost as an extension of the union Government with an implied bias in favour of concentrating power at the centre. These need in favour of concentrating power at the centre these need to be changed and these instutional arrangements developed into vibrant bodies with appropriate statutory backing.

**Inter-State Council:**

The functioning of the Inter-State, which had gathered some momentum in the earlier years, has once again lost steam. Despite the council arriving at several decisions regarding implementation of the
Sarkaria Commission's recommendation they have not been implemented by the Union Government. The decisions of the Inter-State Council therefore have to be made binding on the union Government through appropriate constitutional amendment. All major issues involving centre state relations, including legislations under the concurrent List, have to be discussed and decided by the Inter-State council. The schedule of meetings of the council as well as the standing committee of the council has to be made mandatory. The Inter-State council should mandatorily meet twice a year. The secretariat or the Inter-State Council should have better representation from the states.

NDC and Planning Commission:

The National Development Council has to be developed as an effective instrument for Centre-State co-ordination and should be given, through an appropriate amendment, a constitutional status as was suggested in the Srinagar conclave. The meetings of the NDC should be more frequent (at least one in every quarter), and its functioning should not be one of hastily imposing a pre-conceived view of the centre as a consensus on the states, as is non often practised. Instead each issue should be discussed seriously with written notes from the centre and the states, and decisions should be taken democratically and implemented expeditiously. The planning commission should act as an executive wing of the NDC. Unlike the present composition of the planning Board where
members and experts are all nominated by the centre. There should be adequate representation of the states - both for members as well as experts with at least one from region with periodic rotation among the states in a region. The restricted planning commission must not act primarily as a representative of the centre as it is now but should also represent fairly the interests of states.

Finance Commission:

A basic problem with the Finance commission is the view expressed by the state are sever taken into account seriously, while determining the terms of reference of the commission. All the members of the Finance commission are nominated by the Centre and representatives of the states are never included. These practices need to be changed. In determining the terms of reference the views of the states should be taken into account seriously and if there is any difference of views on the terms of reference, the same should be settled in the Inter-State Council In the choice of members of the commission unlike the present practice, there should be adequate representation of the state Governments.

RBI and Public Institutions:

The States should be involved in the functioning of the Reserve Bank of India as well as national level public financial institutions such as
NABARD, IDBI etc. states should have a say in the policies of credit disbursement. Particularly to ensure proper collection of priority sector lending and inter-state balance in loan bursement. Representatives from the states should be included in the boards, one from each region on a periodically rational basic. Representation of state in the commodity boards like Tea Board, Coffee Board etc. should also be ensured.

**Shrinking Fiscal Space**

Despite the well laid down contours of fiscal federalism in India, the space available to the states has been shrinking in recent times. The governing centralisation of financial powers might well be an unintended consequences of the changing dynamics in public finance. For instance, a major reform of the indirect taxes, through the Value Added Tax (VAT), required a careful reworking of the centre State financial relations including the question of compensating the states for possible revenue loss. Adjustments of an even greater magnitude would obviously be required if the Goods and Services Tax (GST) is introduced, as announced in the budget, on April 1, 2010. The switch over to the GST is a bold move to increase the share of the states tax revenue by bringing into their net the fast growing services segment. However, a great deal of preparatory work needs to be carried out, and this includes amending the constitution, before the change could take effect. For the states, consumption taxes are the major sources of revenue. The fact that they will be subsumed
under the new tax demands that the rate structure of the dual GST should be worked out in a way that the states do not lose in the long run. On no account should the existing vertical fiscal imbalances be accentuated further.13

Another significant development impinging on the fiscal autonomy of the states relates to the changing composition and nature of central government expenditure. In recent years, the Union budgets have tended to step up outlays on centrally sponsored social sector schemes. For instance, this year’s budget has considerably enhanced outlays on schemes such as the National Rural Employment Guarantee Scheme, the Sarva Shiksha Abhiyan and the National Rural Health Mission. They are set to get Rs. 40,791 crore more than the Rs. 54,476 crore budgeted for in 2008-09. Since in some cases the states will have to make matching grants, their funds are tied to the central schemes. More invidiously, the pattern of central expenditure goes against the grain of decentralisation and federalism. In a recession year, tax revenues of both the centre and states are expected drop sharply. The state will therefore have to reckon with a shortfall in revenue arising out of lower central tax devolution as well as a fall in their own revenues. In the circumstances, the recent enhancement of the borrowing limits of the state governments to four

percent of GDP might not be sufficient to finance the additional expenditures they may have to bear.\textsuperscript{14}

The above points clear that each of the state of India could not get the real test of federalism. In case of the small state and periphery from the centre like Manipur, it is more and more marginalized and not develop at all. That is the result that maximum number of small and periphery state of India are in flame and having endless armed conflict. Manipur is the best example of it. As cause structure of this political violence, political hegemony of centre is also one of the important factors of it.

\textsuperscript{14} Ibid