The study of the Union-State relations in their various aspects leads us to the conclusion that the Indian Constitution has been centralized into a form which is no longer strictly federal. The models on which it had been shaped, however, envisaged a federation. The constituent units were to have been coordinate and independent in their spheres. But post-partition developments have deprived them of their legitimate powers promised in the Congress manifestoe, on the basis of which candidates were elected to the Constituent Assembly to frame the Constitution. The Congress pledge in 1946 was that the sovereignty of the units would be respected.

There are countervailing theories about India's unity and diversity. A discussion of these controversial factors reveals that India is perhaps more multinational than is generally assumed. Therefore, according to the traditional ingredients of Constitution-making, the Indian variant presupposes a loose-knit federal structure.

Historically, the advent of the British created a curious politico-legal organisation. Montague's statement in the House of Commons emphasized the imperialistic compulsions which forged an artificial unity. Earlier salient features of Indian constitutional history indicate similar trends.
The transfer of power left Government machinery in the hands of Indian statesmen who "were quite logically a product of a way of life which was imposed for British rule to prosper". Certain events leading to partition and the transfer of power also led to a form of Government not originally contemplated. These developments have been best summed up in an important volume written by one of the participants in the transfer of power "drama" and has been used extensively as an authentic commentary on the idiosyncracies which contributed to the Constitution inherited by post-independent India.

The latest attempt at raising the issue again was West Bengal's memorandum on Centre-State relations urging a re-structuring of the Constitution. The controversies on federalism, residuary powers, the role of the Governor, the Emergency provisions, financial relations, inter-State Trade, the All-India Services, the composition of the legislatures, the language question and the amendment procedure, among others, reopen issues which though repeatedly side-tracked, seem to confirm that historically, economically, politically and administratively greater de-centralisation is called for. In the financial sphere, inter-Governmental transactions were marked from the very outset by a growing gap between the requirements of the States and what they were able to raise on their own. The contributions, based on the recommendations of the Finance Commissions, have not been sufficient to reduce this gap.
The need for a substantial degree of uniformity in tax structures and burdens in the interests of optimum allocation of resources, effective tax administration and tax compliance have been in direct conflict with the need for fiscal autonomy of the State Governments. Yet, such rigid uniformity was not always indispensable for the survival of the federal structure. It would have greatly helped the smooth functioning of our Constitution if its provisions were to ensure greater decentralization.

For instance, it has been established that with the advent of centralized planning, national per capita income has not risen appreciably. The official reasons for poor growth, such as natural calamities and hostilities with external Powers, are not as convincing as the contention that low savings and less than optimal capital formation have led to inequalities in income — both between individuals and regions. The reason for such economic stagnation is not only the infringement of sound economic principles, but also the divorce of economic processes from vital developments in the polity, i.e., of the growing needs of the States.

The Planning Commission, which virtually replaced the Finance Commission in most spheres of economic and social policy-making, has developed into a highly political body. It is also
believed to have acted as the agency for dispensing favours to States the Centre might find politically pliable. To help this process, the Centre has retained a monetary stranglehold through control over the Reserve Bank. With the exception of taxes on agricultural income and property, the major sources of income belong to the Centre. The States are beset by their own "peculiar" problems and it has become gradually difficult to imagine that a uniform planning policy can accommodate conflicting priorities.

What is significant about West Bengal's effort to reorganize the constitutional provisions regarding Centre-State relations is that it presents an exercise in working out more reasonable formulae. These might relieve the States of near impossible conditions under which they are required to survive as members of the Union without being converted into satellites.

The inadequacy of the financial resources of the States is obvious from the fact that while they meet roughly 50% of their total expenditure from the revenues they raise they meet the rest by their shares of centrally-imposed taxes like income-tax, and central excise duties, grants-in-aid and loans from the Centre. The shared taxes, the grants-in-aid and the loans have generally been in the ratio of 22:25:53. This clearly points to the States' financial dependence upon the Centre. As 53% of the States' expenditure consist of loans, a very unhealthy creditor and debtor relation has grown up between the Centre and the States. This has
bred a sense of irresponsibility among the borrowing States. Besides, the whole system is eating into the vitals of the political autonomy of the States.

The recommendations of the State of West Bengal to the Seventh Finance Commission, therefore, are of special significance. In a nutshell, the State has claimed a much larger share of the Centre's elastic revenues to cover developmental expenditure. It thinks that three-quarters of national revenue should be assured for the States by constitutional amendment, and that grants-in-aid are to be treated as a residuary support to fill the gap left uncovered after the distribution of Central taxes and duties. The practice of distributing every divisible pool between the Centre and the States on the basis of a percentage of the total proceeds should also be reviewed. The State wants the entire proceeds of income-tax, together with surcharge, and at least 50% of corporation tax, to be included in the income-tax pool. The size of the divisible pool of Central excises should, in its opinion, be stepped up from 20% to 60% of the net proceeds. This pool should be enlarged to include special and regulatory excise duties and cesses.

The States should have the right to levy sales taxes on goods subjected to additional excise duties. Grants in lieu of railway passenger tax should be determined as a proportion of
the total passenger earnings every year. The non-Plan capital gap should not be left to the discretion of the commission but be recommended on the basis of reasonable formulae. The viability of the proposals should be tested in an open national debate whereby the scheme can either be accepted or rejected. But the inclination to dismiss it solely as politically motivated will not provide a solution. It is believed that the States have the legitimate right to ask for supervision of forecasts of expenditure and receipts by the Centre, just as much as the Centre has the right to scrutinise State records.

These proposals have come in the wake of problems faced since 1951. It was pointed out that the purpose of uniform income-tax in a federation was not to deprive any State of revenue it would have derived by levying the tax separately but the augmentation of revenues of both the Centre and the States by elimination of conflicts between them and reduction of costs of collection. However, taxes have been used as an instrument of diverting revenue from one State to another. This cuts at the root of the federal principle. Also, while the Finance Commission has been merely returning the sum to the States from where it had been raised, after deducting the Central share, it is being treated as a grant though the money does not belong to the Centre.

West Bengal is industrially advanced, but has a decadent
agricultural sector. Even regarding the former, West Bengal has been rendered vulnerable because of the pattern of transferring federal resources to the States. Wealth generated by West Bengal has resulted in increased yield in corporation tax and excise duties collected in West Bengal are transferred to other States on the basis of per capita equity. As far back as 1961 it was noted that while the State's resources were limited, the functions it was called upon to perform were ever-expanding. The Centre was allotted Defence, External Affairs, Railways, Shipping and Posts and Telegraphs. In contrast, the functions allotted to the States included nation-building activities such as Education, Health and Agriculture. All these call for heavy expenditure but produce low receipts. The single expanding source of revenue, sales tax, was held in check because of the inclination of the Centre to replace the tax by additional duties of excise. There was thus all along an imbalance between resources and functions in both the Central and State spheres — with apoplexy at the Centre and anaemia at the periphery. Added to this were the "peculiar" problems of West Bengal e.g. the refugee problem. The then State Chief Minister had pleaded before the Fourth Finance Commission that the problems had arisen largely as a consequence of partition. But the Centre has not given it the attention it did to the refugees from West Punjab. The State has also diverted, in the interest of the country as a whole,
1.1 million acres of paddy land for jute cultivation. It can also be recalled here that regarding the grant in lieu of jute export duty and jute goods export, West Bengal had submitted in 1951 that in determining the quantum of the grant the Centre had committed an error. The correct principle should have been the division of the proceeds from the duty on raw jute among the States according to production.

The State's special problems, repeatedly emphasized before the Finance Commissions have therefore to be seriously considered by the Centre. Among such problems only a few may be mentioned: the border security problem, the large number of educated unemployed and their acute political sensitivity, the danger from political extremism, the unrest of industrial labour and the greater need for law and order due to relatively high density of population, the problem of the Scheduled Castes, who constitute about 25% of the population, the lamentable condition of primary education, the special problems of Calcutta relating to transport, water supply, electricity and slum clearance, the poverty and backwardness of all the districts of West Bengal except Calcutta, Howrah and 24-Parganas, the huge debts of the State to the Centre and its inability to balance its budget while meeting the legitimate requirements of its people. The new proposals call for greater involvement in such problems and more incentives to overcome them.
Backward (or stagnant) regions have known to require more than simply their share of financial allocations. Justice can be done to them only by allocating an overwhelming measure of the proceeds of taxation to the States within which they are located. It has been contended that these would not be possible because of scarce resources.

It can be recalled here that the necessity of generating a higher rate of growth is one of the reasons for suggesting a higher rate of growth is one of the reasons for suggesting changes, in the present system of distribution of resources. As a natural corollary, political and aministrative power will have to be diffused. Here too the States have their own "special" cases.

Historically, it has been shown that the compulsions for a centralized authority were essentially imperialistic and have been carried down as a political-economic legacy to the post-independence period. The political mandate recently placed on parties emphasizing outstanding regional issues have helped to indicate that, on a "democratic" reckoning, greater decentralization is called for.

* The Union Finance Minister, Mr. H.M. Patel, recently pointed out that where there was a constraint on resources it was not possible to work out a system of redistribution which would make everyone equally better off. Stating that the scale of resources transfer from the Centre to the States was not altogether insignificant, Mr. Patel said that in 1977-78, of Rs. 8,900 crores of tax revenue, the Centre had passed on more than Rs. 3,600 crores to the States as their share of taxes and grants-in-aid for both Plan as well as non-Plan purposes. Besides, the Centre advanced nearly Rs.2,000 crores as loans to the States —The Statesman, July 2, 1978.