**Bihar’s call for special category status**

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.

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.

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.

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.