



Conditional Concessions and Cessation of Secession: What Role for Fiscal Federalism?—Insights from India

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INTRODUCTION

Federal governments—striving to promote unity in diversity—often struggle to balance the principles of autonomy and equalization while preserving ethnic-cultural diversity and mitigating economic disparities. Although policies and legislation explicitly targeting social inclusion, equal opportunities, and anti-discrimination are instrumental in addressing the imperative of diversity accommodation, fiscal policy can also facilitate accommodation by judiciously allocating resources to initiatives that support economically disadvantaged regions and bolster underrepresented groups. Consequently, fiscal constitutions, typically concerned with fostering budgetary stability and economic growth, can be strategically employed in multi-level systems to cultivate perceptions of economic justice among ethnic minorities and territorial communities.

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Fiscal constitutions can shape perceptions through two policy instruments: fiscal autonomy and fiscal equalization. Both of these policy measures are perceived as instrumental in conflict resolution. However, there is no consensus among the academic community regarding these policies' exact function and impact in the context of secessionist conflict. For instance, fiscal equalization, which can potentially resolve regional imbalances (Ter-Minassian, 1997) and pacify subnational grievances through financial compensation (Sorens, 2016), has been found to be promoting political instability by making prosperous regions subsidize their less well-off counterparts (Lecours & Béland, 2010). In addition, fiscal equalization may also encourage inefficiency by softening budget constraints (Rodden et al., 2003). Likewise, fiscal autonomy, known to reduce the net payoff from secession in some cases (Bibbee, 2007; Garcia-Milà & McGuire, 2007), has been shown to be actually increasing incentives to secede in some studies (Rode et al., 2018), besides widening regional inequalities (Boadway & Shah, 2009).

The existing literature on territorial accommodation of subnational identities remains inconclusive as scholars approach the subject from diverse perspectives. Some scholars connect secessionist conflicts to economic inequality between distinct identity groups (Bookman, 1993; Hechter, 1971; Madiès et al., 2018; Muller & Seligson, 1987), while others emphasize the significance of political exclusion from state power (Boyle & Englebert, 2006; Cederman et al., 2010). Interestingly, some researchers have identified a lack of correlation between conflict and inequality, be it in the context of political exclusion (Fearon & Laitin, 2003) or economic deprivation of ethnic groups (Collier & Hoeffler, 2004). The inconclusive results from the large-N literature (Bakke & Wibbels, 2006; Sorens, 2016) highlight the need for comparative case study work that systematically examines the interplay between economic disparities, fiscal constitutions, party politics, socio-cultural divisions, and policy regimes across varying contexts.

This study advances the understanding of the role of fiscal federalism in secessionist movements by conducting a comparative analysis of three distinct secessionist movements in Indian states, delving into their unique origins, the federal fiscal approaches employed to manage them, and the resulting consequences. In order to shed light on the complex dynamics of these movements, it delves into the diverse blend of fiscal and financial measures, policy instruments, and military tactics employed by governments to deal with secessionist crises.

In this chapter, I emphasize the importance of the intersection between regional economic development and the nationalities question, which is relevant for comprehending secessionist and autonomy movements in India. Accordingly, I present a generalizable finding called *Ethno-Economic Overlap Thesis* or simply the *Overlap Thesis*—postulating a necessary relationship between nationality issues and economic justice. This thesis posits that in order to resolve the complexities of secessionist and autonomy movements, it is essential to recognize and address the intersection between economic justice and ethnic minority rights. It emphasizes that addressing economic disparities between ethnic groups is crucial in promoting stability and cooperation in societies facing secessionist and autonomy movements.

The overlapping relationship between ethnic separatism and equitable economic treatment is complex. In some cases, wealthy regions dominated by national minorities may argue that a centralist state requires them to make excessive fiscal transfers to poorer regions. Consequently, they may advocate for autonomy because that would grant them greater control over their own resources (Bird et al., 2003). Conversely, wealthy regions inhabited by majority nationalists may perceive benefits from a centralist state due to their political and financially dominant positions and ability to influence the political center (Bardhan & Mookherjee, 2000). Similarly, poor regions may have mixed opinions on financial decentralization depending on their nationality status, with national majority regions preferring more equalization rather than having to rely on their own fiscal capacity and minority regions believing that greater autonomy would empower them to address their underdevelopment more effectively (Rodden, 2002; Rodríguez-Pose & Ezcurra, 2010).

Applying the Overlap Thesis as an analytical tool in the Indian context, I find that although regional disparities may be an extension of the broader issues—a combination of socioeconomic, historical, geographical, and political factors—states with comparable income levels may perceive their relative wealth or deprivation differently, depending upon their nationality status within the country. For example, the economic grievances of states with high or low-income levels may be similar, but secessionist conflicts emerge only when these concerns coincide with the nationalities question.

The evidence presented in this study suggests that policies of the Indian Government do not seem to promote fiscal autonomy for

regions dominated by minority populations, particularly those with secessionist movements such as Assam, Punjab, and Kashmir. These policies seem to maintain these regions' relative financial dependence on the central government, irrespective of their income levels, thereby inhibiting their journey toward financial self-reliance. Analogous patterns can be discerned internationally, such as in regions like Catalonia in Spain and Scotland in the United Kingdom (Keating, 2004).

This analysis, within the context of India, is substantiated by a paired comparative analysis of the economic trajectories of two affluent states, one non-secessionist (Haryana) and one secessionist (Punjab), alongside two impoverished states, one secessionist (Assam) and one non-secessionist (Bihar). Additionally, I juxtapose Jammu and Kashmir with Himachal Pradesh, two neighboring northern states situated in the Himalayas, both characterized by similar geographical attributes, with the former dealing with secessionist tensions in the Kashmir region and the latter remaining non-secessionist.

A closer look at the sequence of events from the origin of grievances to the outbreak of the secessionist crisis in Punjab, Assam, and Kashmir, reveals that in all three cases, a *perception of cultural domination* prevailed—a sense of apprehension arising from the actions of the national majority, which dominated national institutions and the policies of the central government. Nonetheless, the *perception of economic injustice* frequently serves as the “first catalyst” that politicizes and galvanizes suspicious or insecure ethnic minorities, impelling them to seek institutional avenues for articulating their dissent and grievances. However, it is only when state institutions and political processes fail to provide institutional channels for expressing discontent that ethnic or religious minorities mobilize to pursue their interests through violent means. This insight is unequivocally evident in cases where conflict has been averted (Tamils), managed, and even transformed (Assam and Mizoram) and where secessionist conflict has remained entirely intractable (such as the conflict in Kashmir). Consequently, *institutional decay* constitutes the “second catalyst” in the overarching dynamics of secessionist conflict.

Thus, the second generalizable finding pertains to two sequential triggers in conflict escalation—initially, the manifestation of grievance (an apprehensive minority cognizant of economic inequity) and, subsequently, the absence or ineffectiveness of institutional channels to redress grievances. For succinctness, I designate this finding as the *Twin Catalyst*

Thesis. This thesis, which serves as a framework for understanding secessionist movements, posits that secessionist conflicts arise from two main factors: (a) an ethnically and economically marginalized minority group and (b) the inability of state institutions to address grievances effectively. When these factors coexist, they prompt ethnic or religious minorities, who already experience fear of cultural domination, to resort to violence in pursuit of secession from the country.

A synthesis of these two theses shows the path towards resolving secessionist conflicts. While the Overlap Thesis underscores the role of economic justice and financial equalization in diversity accommodation, the Twin Catalyst Thesis emphasizes that economic development or any financial accommodation of symbolic significance (for example, resource allocation to uphold minorities' cultural identities) will work only to the extent there are robust institutional channels for expressing grievances and alleviating perceptions of cultural subjugation.

Finally, this study explores the role of counterinsurgency: When militant separatist insurgencies receive limited external support and only moderate internal backing, counterinsurgency often succeeds. In such a scenario, two potential outcomes exist. First, if the militants surrender, renounce their demand for independence, and accept concessions, these concessions are granted, as evidenced by the situation in Assam. Conversely, if militants insist on independence—an action deemed illegal and unconstitutional in India—their movement is ruthlessly suppressed, and no concessions are extended. This latter scenario was witnessed in Punjab. However, military action often becomes protracted when militant separatist insurgencies receive substantial internal or external support. In such instances, due to its inability to quell the rebellion through a combination of military action and financial concessions, the central government employs more stringent policy measures to dampen the potential of the restive minority resisting the central government. An example of this would be the removal of Jammu and Kashmir's statehood, its conversion into a Union Territory, and the abrogation of Article 370.

FORGING FRAMEWORKS FOR NATIONAL INTEGRATION: FROM ACCOMMODATING DIVERSITY TO COMBATING SECESSIONISM THROUGH CONCESSIONARY AND NON-CONCESSIONARY APPROACHES

Before examining India's approach to secessionist crises or fiscal accommodation of conflict, it is essential to acknowledge that India's dominant strategy to deal with secessionism is by using a mix of military suppression and conditional concessions. The Constitution does not include provisions for secession for any region or community. However, the constitutional framework ensures the accommodation of diverse communities within the scope of India's core values of unity and integrity (Adeney, 2002; Swenden, 2017).

India's method of diversity accommodation can be subsumed under the concept of "Concessionary Federalism".¹ In terms of fiscal federalism, this approach strategically designs financial concession packages—balancing equalization and autonomy—in such a way that it addresses the economic grievances of territorial minorities, yet, the degree of autonomy within the equalization-autonomy mix is not so pronounced as to fuel aspirations for independent statehood in secession-prone regions. The idea is to foster financial dependence in these vulnerable areas rather than fiscal autonomy.

If the approach premised on concessionary federalism fails and separatist militancy escalates, the government typically responds with military suppression. When separatists surrender—as witnessed in instances such as the Naga uprising and the insurgency by Assamese against India—India welcomes them back into the fold, and the "conditional" concessionary approach is revived. The central government then grants a range of political and financial concessions, conditional upon separatist leaders taking the notion of succession off the negotiating table.

In scenarios where the separatist leaders continue to demand independence, the counterinsurgency continues. This could go one of two

¹ Concessionary federalism embodies a paradigm of reciprocal concessions aiming to reach a joint agreement between the Centre and the states. It is an illustrative framework of federalism where the concessions offered by the central government reciprocate the concessions received from subnational governments in such a way that any loss of utility suffered by the latter in one dimension is at least partially offset by a gain in some other dimension (For complete mechanism, see: C. K. Sharma, 2021, pp. 36–37).

ways: If counterinsurgency fully neutralizes the separatist movement, often due to diminished local support and foreign patronage, the government withholds concessions, as exemplified in the Punjab crisis. If the counterinsurgency campaign fails to quell the violent movement, the government plays its final hand and pulls back whatever autonomy was granted earlier. The idea is to shake the foundation of local support and foreign patronage. The situation in Jammu and Kashmir is a prime example of this tactic.

The Constitutional and Legal Framework

In India, secessionist advocacy is deemed unconstitutional and illegal. The Indian Government has consistently demonstrated resolute opposition to secessionist movements, as exemplified by legislative measures such as the *Sixteenth Constitutional Amendment Act 1963*—informally referred to as the Anti-Secession Bill—which amended Article 19(2) of the Constitution, incorporating the phrase “the sovereignty and integrity of India.” This amendment curtailed the efforts of legislators and parliamentarians who sought to employ constitutional means to achieve separatist objectives, obligating them to take an oath of office pledging to “uphold the sovereignty and integrity of India.” Moreover, to underscore its unwavering commitment to preserving national unity, the *42nd Amendment Act 1976* incorporated the term “integrity” into the preamble to affirm India’s resistance to any challenges to its territorial integrity. Sedition charges, as stipulated in Section 124A of the Indian Penal Code, apply to individuals who “attempt to excite disaffection towards the Government.” Additionally, organizations advocating for secessionism can be proscribed under the *Unlawful Activities (Prevention) Act* (UAPA) of 1967, classifying secessionism as an unlawful activity.

Concessionary Federalism in Action: Persuading Princely States to Choose Accession Over Independence—An Archetype for Integration and Accommodation

The fundamental tenets of concessionary federalism (C. K. Sharma, 2021), provide a vital theoretical lens to understand how India first integrated princely states after independence and then “held them together.” Post the Indian Independence Act of 1947, a political landscape emerged where 565 princely states found themselves at a crossroads—accession

to either India or Pakistan, or a pursuit of sovereignty. Faced with this quandary, India astutely drafted the “Instruments of Accession,” a document infused with substantial concessions, effectively enticing princely states to exchange their autonomy for these inducements (Guha, 2008). While the Indian Government could have, and in a handful of instances indeed did, resort to coercive measures to achieve the accession of the Princely States—the cases of Hyderabad and Junagadh being prime examples—it was primarily the carrot of the concessionary approach that swayed the majority of the princely states towards acceding to the Indian Union. The asymmetric provisions extended to the North-Eastern states and Jammu and Kashmir (until the revocation of Articles 370 & 35(A) in 2019) further illustrate the workings of concessionary federalism.

*Neutralizing Naga's Separatism: The Dual Strategy of Military
Suppression and Conditional Concessions—An Archetype
for Secessionist Crises*

The country's stance on violent separatist movements can be traced back to its early reactions to the Naga struggle for independence, which began in 1929 and has been referred to as the “mother of all insurgencies” in India (Bhaumik, 2009). During India's transition to independence, the princely states of Hyderabad and Travancore sought to secede, while other groups, such as Assamese, Mizos, and Tamils, entertained separatist ideas (Griffiths, 2016). Following India's partition, the Constituent Assembly (established to draft the Constitution of India) faced concerns regarding the issue of separatism. The majority of Constituent Assembly members favoured a federal structure with a strong central government to preserve India's unity while accomodating regional diversity.

Nevertheless, the Naga community proclaimed independence on August 14, 1947, the day before India's declaration. Subsequently, the Nagaland Baptist Church held a plebiscite in May 1951, with the overwhelming majority voting for independence. While Gandhi supported the Naga people's right to self-determination, Nehru opposed it, fearing it would establish a precedent capable of dismantling the newly formed Indian state (Chophy, 2019). Thus, when an armed Naga rebellion against India emerged in 1956, the Indian Government employed its military, air force, paramilitary, and local police to suppress the uprising decisively. *The Armed Forces (Special Powers) Act* was enacted in 1958,

granting extraordinary authority to the Indian Armed Forces in “disturbed areas.” Eventually, a ceasefire was negotiated, resulting in the creation of a new state in India. Thus, with significant fiscal, legislative, and judicial autonomy, Nagaland was established on December 1, 1963 (Hausing, 2022).

This approach to the Naga insurgency set the stage for India’s strategy to deal with secessionist movements. The chosen method combined a forceful military response to secessionist violence with offers of concessions if movement leaders refrained from demanding complete separation during the negotiations.

INDIA’S FISCAL FEDERAL BALANCING ACT: EMPOWERING THE LAGGARDS AND REWARDING THE FISCALLY PRUDENT

This section provides a brief overview of India’s Fiscal Constitution, which is vital for understanding its role in diversity accommodation. According to the Constitutional Assignments of revenue-raising powers and spending responsibilities, the central government in India has access to the most broad-based, productive, buoyant, and elastic sources of revenue. These sources include income tax, corporate tax, and customs duties. However, subnational governments provide most financial and social services, leading to a “vertical fiscal asymmetry” (C. K. Sharma, 2012). Furthermore, the states have wide economic disparities, with per capita income ranging from INR 43,605 in Bihar to INR 431,351 in Goa (Government of India, 2023, p. 33). To address vertical and horizontal fiscal asymmetries, the Constitution of India provides for a comprehensive system of intergovernmental transfers (Fig. 1). Therefore, states in general and low-income states, in particular, rely on the central government for a significant share of their revenue in order to fulfill their expenditure obligations. Figures 2 and 3 explain the extent of fiscal autonomy and fiscal dependency of Indian states. The states with lower income levels and reduced fiscal autonomy tend to rely substantially on the central government’s devolution and transfers.

The Finance Commission, established under Article 280 of the Constitution, is appointed every five years to address the “Vertical Fiscal

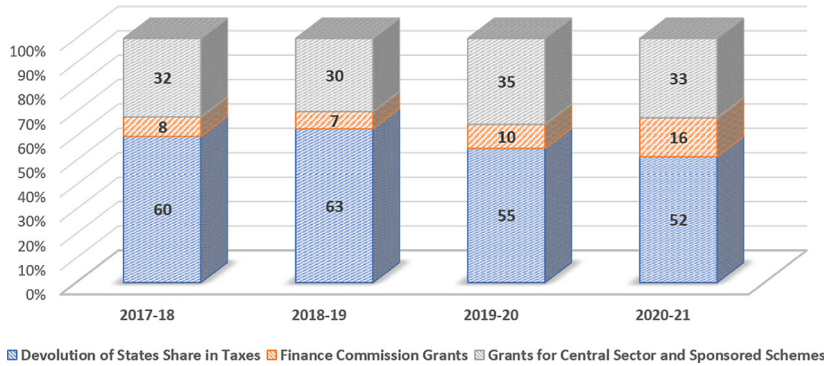


Fig. 1 Devolution and transfer of resources from centre to states (2017–2021) (*Source* Reserve Bank of India, various years)

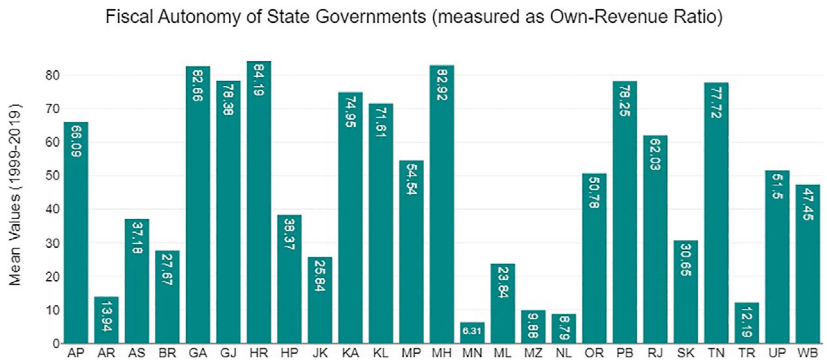


Fig. 2 Fiscal autonomy of state governments (measured as Own-Revenue Ratio) (*Note* Fiscal autonomy has been calculated as Own-Revenue Ratio $ORR = [(SOTR + SONTR)/TSR] \times 100$, where $TSR = CTS + CT + SOTR + SONTR$. CTS: Tax Share (based on the Finance Commission recommendations); CT: Central Transfers (through Planning Commission & Central Ministries); SOTR: State's Own Tax Revenue; SONTR: State's Own Non-Tax Revenue. *Source* Reserve Bank of India, various years. State Finances: A Study of Budgets)

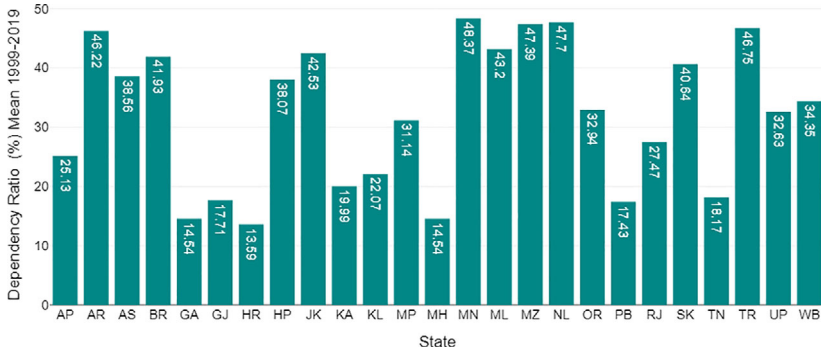


Fig. 3 Dependency of state governments on central government transfers (1999–2019) (*Note* The Financial Dependency Ratio (FDR) has been calculated using the following formula: $FDR (\%) = (CTS + CT) / TSR * 100$ where $TSR = CTS + CT + SOTR + SONTR$, CTS: Tax Share (based on the Finance Commission recommendations); CT: Central Transfers (through Planning Commission & Central Ministries), SOTR: State’s Own Tax Revenue; SONTR: State’s Own Non-Tax Revenue. *Source* Reserve Bank of India, various years. State Finances: A Study of Budgets.)

Gap” (VFG)—that arises from uneven revenue and expenditure assignments (known as Vertical Fiscal Asymmetry, or VFA).² The Commission achieves this through a well-designed transfer system that involves a combination of recommendations for devolving a share of Union tax revenue to states and grants-in-aid to cover any deficits they may have post-devolution. The 15th Finance Commission, for example, recommended the devolution of 41% of the divisible pool of taxes to states for the period 2020–2021 to 2025–2026 (15th Finance Commission, 2020). The aim of revenue sharing, or unconditional transfers recommended by the Finance Commission, is to enable all the states to provide comparable levels of public services at comparable tax rates (Table 1).

Previously, the Planning Commission provided formula-based assistance to states (Table 2) for implementing development plans until

² The Vertical Fiscal Gap (VFG) is the desirable portion of vertical fiscal asymmetry (VFA) in a federal system, requiring closure through federal transfers to achieve fiscal equilibrium. Vertical Fiscal Imbalance (VFI) is the undesirable portion, necessitating a reallocation of revenue-raising authority and/or expenditure responsibilities (See C. K. Sharma, 2012, pp. 113–114).

Table 1 Equalization formulae used by finance commissions for resource distribution

<i>Criteria</i>	<i>FC-XI</i> (2000–2005)	<i>F-XII</i> (2005–2010)	<i>FC-XIII</i> (2010–2015)	<i>FC-XIV</i> (2015–2020)	<i>FC-XV</i> (2020–2026)
Population (1971)	10.0	25.0	25.0	17.5	–
Population (2011)	–	–	–	10.0	15.0
Income Distance	62.5	50.0	–	50.0	45.0
Fiscal Capacity Distance	–	–	47.5	–	–
Fiscal Discipline	7.5	7.5	17.5	–	–
Tax Effort	5.0	7.5	–	–	2.5
Infrastructure Index	7.5	–	–	–	–
Area	7.5	10.0	10.0	15.0	15.0
Forest Cover	–	–	–	7.5	–
Forest and Ecology	–	–	–	–	10.0
Demographic Performance	–	–	–	–	12.5
Total	100	100	100	100	100

Note The 15th Finance Commission was tasked with submitting two reports—the first for the financial year 2020–2021 and the second covering the 2021–2026 period

Source Various Reports of the Finance Commissions of India (XI to XV)

its abolition in 2015. Since then, the Finance Commissions have been required to recommend transfers to cover the state's entire expenditure requirements. In addition, central ministries provide financial assistance for central welfare schemes at the state level, some of which are fully funded and called central sector schemes. In contrast, others are jointly funded by the Centre and the states, called centrally sponsored schemes. These seek to ensure equalization of the expenditure levels of the states in respect of specified services. Finally, the Centre also provides various forms of ad-hoc assistance to the states through grants and loans (C. K. Sharma, 2017).

Aside from these explicit sources of transfers, there are implicit sources of transfers, such as food, fuel, and fertilizer subsidies, subsidization of

Table 2 Equalization formulae used by the planning commission (until the Twelfth Five-Year Plan)

<i>Criteria</i>	<i>1969</i>	<i>1980</i>	<i>1992</i>
Population (as on October 1, 1966)	60	60	60
<i>Per capita income (Deviation method)</i>	10	20	20
<i>Per capita income (Distance method)</i>	0	0	5
Tax effort	10	10	7.5
Irrigation and power projects	10	0	0
Special problems of individual states	10	10	7.5
Total	100	100	100

Note The formula used by the Planning Commission was to be applied after determining the proportion of the total central assistance allocated for meeting certain states' requirements. In 1969, this included Assam, Jammu and Kashmir, and Nagaland. By 1980, the list was expanded to include eight "Special Category States," namely Assam, Himachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Nagaland, Tripura, and Sikkim

Source Government of India, Planning Commission (Five-Year Plan documents), New Delhi

public sector enterprises in the states, and highly subsidized borrowings of the state governments from the banking sector, the financial institutions, and the central government itself (Rao & Singh, 2006).

Regional disparities in India can be partially attributed to varying fiscal capacities across states, as evidenced by the differing own-tax revenue as a percentage of GSDP across states (Fig. 4). Consequently, India's fiscal federal system aims at fiscal equalization. This design results in the central government collecting excess revenue, thus creating Vertical Fiscal Asymmetry (VFA). A portion of this VFA is desirable as it allows the central government to address Horizontal Fiscal Imbalances (HFI), offer need based grants to specific regions, and finance programmes of national significance (C. K. Sharma, 2012).

However, beyond a limit, this horizontal equalization process can generate discontent among high-income states, especially those with secessionist tendencies. As illustrated by Punjab, a high-income state, grievances arose during the industrial licensing regime (dismantled post-1991 under the New Economic Policies of the Manmohan Singh India National Congress government). Punjab, already resentful of fiscal equalization policy, criticized the policy of diverting public sector units toward low-income states while depriving Punjab of industrial development (P. Singh, 2008).

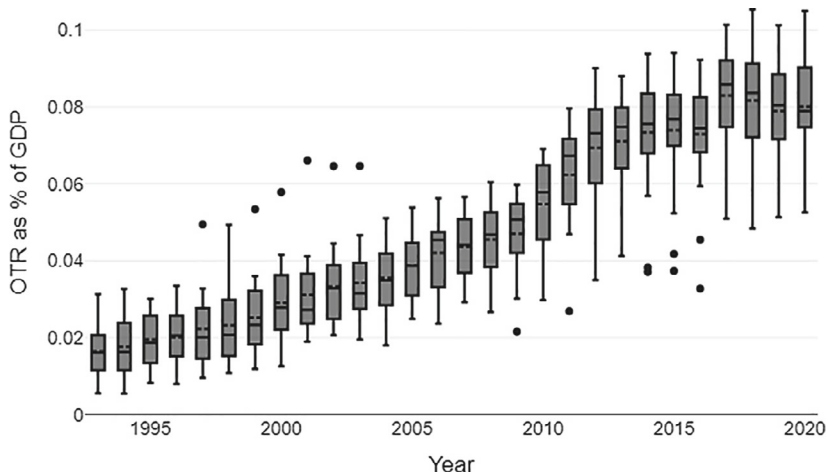


Fig. 4 Variation in Indian states' fiscal capacity (Own tax revenue as % of GSDP) (*Source* Reserve Bank of India, various years)

Thus, Indian policymakers consistently face the challenge of striking a balance to address the needs of high-income and low-income states. India's fiscal federal system strives to find an equilibrium between extreme fiscal equalization for low-income states and excessive compensation for high-income states' contributions to the national GDP. Therefore, the horizontal distribution formulae incorporate criteria desired by both wealthy and low-income states. Although combining various and often conflicting objectives in the equalization formula can dilute its redistributive impact, this is the only plausible approach in the Indian context (Tables 1 and 2).

The Finance Commissions' formulae for horizontal distribution of central tax proceeds and the Planning Commission's transfer formulae for state plans (discontinued after the 12th Five-Year Plan, 2012–2017) reveal the central government's consistent efforts to reconcile fiscal compensation for wealthy states with fiscal concessions for low-income states. The evaluation indicates that tax-revenue sharing does not excessively burden high per capita NSDP states, as they receive amounts commensurate with their contributions. At the same time, the horizontal distribution formulae give the highest weightage to income distance or deviation, appeasing low-income states (Tables 1 and 2). A standard critique

posed by Indian economists is that the Finance Commissions employ a “gap-filling” methodology, focusing on revenue equalization instead of addressing fiscal capacity disparities (Rao & Singh, 2006). Nevertheless, Fig. 3 shows that the fiscal capacity (OTR as % of GSDP) of all states is increasing, and the differences between states’ fiscal capacities have decreased in recent years.

Thus, the overall transfer system is balanced, with low-income states receiving more per capita grants than they contribute and high-income states receiving reasonable amounts not significantly lower than their national revenue contributions. Although Fig. 5 reveals a growing trend in regional disparities, with box plot analysis indicating an expanding data distribution accompanied by increasing median and interquartile range values, the overall per capita NSDP of all states is also increasing, suggesting that poor states are also growing their economies, albeit at a slower rate than rich states. As the economy expands, rich states are better positioned to capitalize on opportunities, while poor states may struggle to attract businesses and investments. Numerous factors can influence regional disparities, and the relationship between fiscal equalization and disparities may not be straightforward.

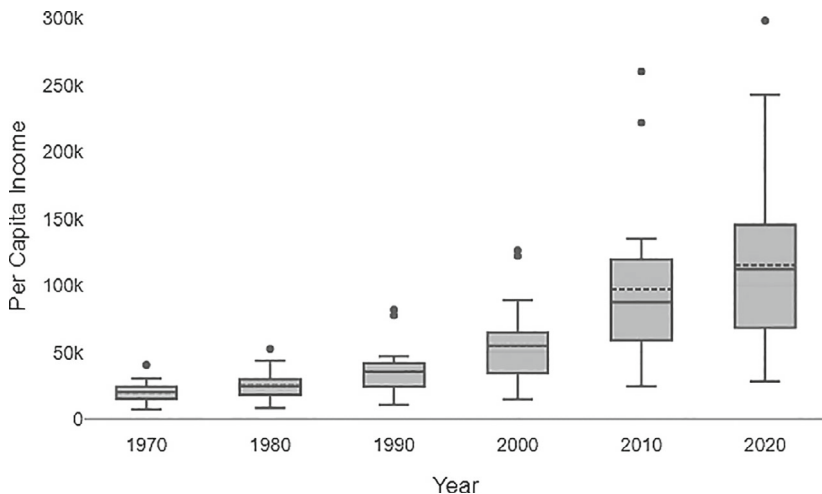


Fig. 5 Regional economic disparities in India (*Source* Reserve Bank of India, various years)

THE THREE CASES

Assam: The Ethno-Economic Divide, Conflict, Counterinsurgency, and Concessions

An intricate mosaic of diverse communities marks Assam’s ethnocultural landscape. The Assamese Hindus and Muslims differentiate themselves from the Bengali-speaking “New Assamese” Hindus and Muslims and regard themselves as the region’s original denizens. Identifying as Assamese speakers, both Assamese Hindus and Muslims distinguish themselves not only from the Bengali-speaking Assamese but also from tribes of the region who speak Bodo, Mising, Karbi, Garo, and Rabha (J. Sharma, 2011). Assam being primarily Hindu (Table 3) and sharing a religious identity with India’s nationalist majority has implications for the approaches adopted by successive governments in handling secessionist movements within the region (Bhattacharya, 2023).

Assam, situated at the heart of Northeast India, has abundant natural resources, including fertile land, water resources, hydropower potential, and oil and natural gas reserves. It accounts for 40% of India’s hydropower potential and 15% of India’s crude output, which is 50% of its entire onshore production of oil and natural gas (Government of Assam, Mines and Minerals <https://ahecl.in/portlets/assam-oil>; also see Table 4).

Expansive fertile valleys support the cultivation of essential food grains and horticultural crops, while fertile hills are home to some of the world’s

Table 3 Religious demographics—Distribution of population by religion in Assam

<i>Assam</i>	<i>2001</i>	<i>2011</i>	<i>2001</i>	<i>2011</i>
Hindu	17,296,455	19,180,759	64.89	61.47
Muslim	8,240,611	10,679,345	30.92	34.22
Christian	986,589	1,165,867	3.70	3.74
Sikh	22,519	20,672	0.08	0.07
Buddhist	51,029	54,993	0.19	0.18
Jain	23,957	25,949	0.09	0.08
Other*	22,999	27,118	0.09	0.09
Religion not stated	11,369	50,873	0.04	0.16
Population	26,655,528	31,205,576	100.00	100.00

Source Office of the Registrar General and Census Commissioner, India

Table 4 Selected state wise cumulative oil and gas production (2015–2021)

<i>States</i>	<i>Oil (in million metric ton)</i>	<i>Gas (in billion cubic meter)</i>
Arunachal Pradesh	0.32	0.23
Assam	25.02	18.8
Assam-Arunachal Pradesh	0	0
Assam-Mizoram	0	0
Assam-Nagaland	0	0
Manipur	0	0
Mizoram	0	0
Nagaland	0	0
Tripura	0.017	8.85
India	25.36	27.88

Source Lok Sabha Unstarred Question No. 2746, 17.03.2022

most prized teas. In general, the entire northeast region is resource-rich, with a vast untapped human capital, positioning it to become one of the most prosperous regions in the country. Paradoxically, the region remains economically, agriculturally, and industrially underdeveloped, characterized by low per capita income relative to the national average, inadequate infrastructure, and underutilization of its natural resources.

Abundant Resources and Economic Underdevelopment

The discrepancy between the region's development potential and the realization of that potential for the local population has been a source of discontent among the Assamese against the Indian state. The grievance is that the Indian state's approach is similar to that of the British, who exploited oil fields, coal mines, timber mills, and tea gardens in Assam for revenue generation without investing in the regional economy or local community welfare (D'Souza, 2012; Kikon, 2019). For instance, under the *Oil Fields (Regulation and Development) Act 1948*, Assam's royalty was fixed at a meager 10% of the crude oil price. When the government-owned Assam Oil Company discovered crude oil in upper Assam in 1956, the central government opted to build a massive oil refinery in Bihar using hundreds of kilometers of pipelines rather than constructing one in Assam, which would have saved millions of rupees and calmed local sentiment.

Under the Petroleum and Natural Gas Rules of 1959, the authority to determine crude oil prices was delegated to the central government

and oil companies, marking the first instance of Assam's economy being adversely affected. The central government established a fixed oil royalty of INR 72 per metric ton (MT) of crude oil. In 1962, Assam experienced a second economic setback when the central government, in collaboration with Burma Oil, Assam Oil, and Oil India, opted to determine the price of crude oil produced in Assam by factoring in the transportation costs from Kolkata to oil refineries. Consequently, the price of each MT of crude oil decreased from INR 72 to INR 48. The Assam government was left with a meager royalty of INR 4.80 per MT of crude oil, resulting in a revenue loss of INR 1.50 crore. Instead of raising the royalty rate to compensate for the revenue deficit, the central government resolved to increase crude oil production from 250,000 MT to 400,000 MT under the Third Five-Year Plan. The Assam government protested this decision, urging the central government to grant a 16% royalty as Oil India had reported a 50% profit in joint explorations with foreign companies. Furthermore, the Assam government highlighted that it had requested a 4% lower royalty rate than other crude oil-producing countries, which received a 20% royalty. Protests eventually led the central government to agree to establish a smaller refinery on the outskirts of Guwahati.

Figure 6 shows that Assam, similar to the other two secessionist cases examined in this study, experiences slower growth than other Indian states despite its abundant natural resources. However, the question of the state's underdevelopment, despite its wealth of resources and the central government's discriminatory policies undermining its economic and financial independence, did not become the root cause of the secessionist crisis in the state until the late 1970s when it converged with the issue that threatened their cultural identity—inclusion of illegal Bangladeshi migrants in the electoral rolls. The issue, as discussed in the following section, revolves around the inclusion of foreigners (illegal migrants from Bangladesh) in the voter list of Assam.

Ethno-Economic Intersectionality: Illegal Immigration, Cultural Domination, and Diminished Economic Opportunities

The large-scale influx of illegal immigrants from Bangladesh (formerly East Pakistan) in the 1970s threatened to overwhelm the indigenous population, undermine their identity, strain access to government services, erode local economic opportunities, and dominate markets, resources, and politics (Hazarika, 2000). It is important to note that after annexing the Ahom kingdom (Assam) in 1826, the British increasingly imported

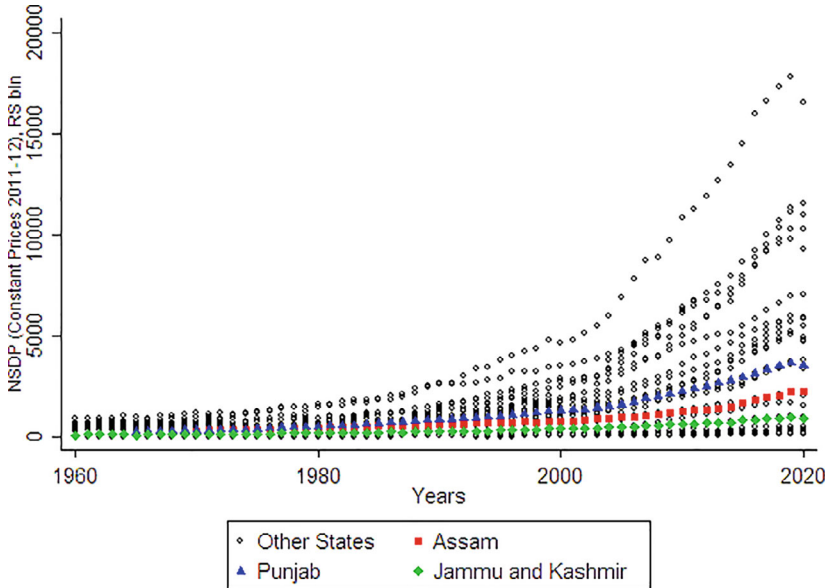


Fig. 6 Comparative economic growth of Indian states (1960–2020): Secessionist states in perspective (*Source* Reserve Bank of India, various years)

English-speaking and administratively competent Bengali officers to work in Assam. Bengalis quickly came to dominate state administration and modern professions in Assam, displacing the Assamese from positions of power and wealth (Baruah, 1999)—the Bengalis’ treatment of the Assamese as culturally inferior fueled resentment towards Bengali domination in Assam. The Assamese attitude towards migrants grew increasingly hostile as migration from eastern Bengal continued even after its incorporation into Pakistan following the partition in 1947. At that time, although the Congress Chief Minister of Assam recognized the problem and opposed Bengali settlement, Prime Minister Nehru did not support the Chief Minister’s stance. Instead of developing a mechanism to check borders, Nehru threatened to withhold development funds if the Bengali migrants were not settled (Nehru, 1989). As a result, the influx of Bengalis in Assam continued, peaking between 1970 and 1972 in the wake of the Bangladesh Liberation War in East Pakistan, ultimately leading to Bangladesh’s independence in 1971.

The data analysis reveals that migration's influence on linguistic demographics in Assam has led to a notable decrease in the proportion of Assamese speakers (Table 5). Previously constituting a majority (exceeding 50%) of the population, they now represent a minority. This shift can be attributed to internal migration from different regions within India and unauthorized immigration from Bangladesh. However, the percentage distribution has stabilized since 2001.

Nevertheless, the issue of illegal immigration did not escalate into conflict because Prime Minister Indira Gandhi, on several occasions, acknowledged the problem of foreigners in Assam as a national concern and firmly promised to identify and deport them. However, when the Congress government fell in 1977 and a Janata coalition took power at the Centre, the dynamics between the Centre and state shifted. This

Table 5 Languages spoken in Assam

<i>Language</i>	<i>1971</i>	<i>1991</i>	<i>2001</i>	<i>2011</i>
Assamese	60.888	57.812	48.810	48.375
Bengali	19.706	21.667	27.549	28.919
Bodo	3.649	5.285	4.863	4.538
Dogri	0.000	0.000	0.008	0.005
Gujarati	0.004	0.024	0.026	0.025
Hindi	5.419	4.620	5.889	6.734
Kannada	0.001	0.003	0.008	0.008
Kashmiri	0.000	0.000	0.001	0.001
Konkani	0.001	0.003	0.001	0.001
Maithili	0.000	0.000	0.016	0.019
Malayalam	0.028	0.016	0.031	0.018
Manipuri	0.596	0.567	0.578	0.539
Marathi	0.009	0.007	0.024	0.037
Nepali	0.000	1.930	2.119	1.911
Odia	1.027	0.628	0.868	0.700
Punjabi	0.087	0.064	0.115	0.075
Sanskrit	0.000	0.000	0.000	0.000
Santali	0.589	0.606	0.911	0.683
Sindhi	0.002	0.004	0.003	0.063
Tamil	0.017	0.008	0.021	0.017
Telugu	0.137	0.102	0.103	0.085
Urdu	0.043	0.018	0.018	0.027
Other languages	7.783	6.629	8.031	8.443

Source Office of the Registrar General and Census Commissioner, India

change was primarily due to Jan Sangh,³ a significant coalition partner, only wanting to deport Muslim migrants and not Hindus among them. This development angered the Assamese but did not yet lead to an uprising.

Sequential Triggers in Conflict Escalation: Economic Injustice and Institutional Failure

Inability to Prevent Illegal Migrants from Entering Voter Lists

The tipping point came in April 1979 when a court inquiry revealed that forty-five thousand illegal migrants were included in the voter list for the Mangaldai parliamentary constituency. The news immediately ignited anti-foreigner agitation in Mangaldai, rapidly spreading throughout the state. The All Assam Students' Union (AASU), which had been actively championing the Assamese cause since its establishment on August 8, 1967, initiated a state-wide strike to eliminate illegal migrants in June 1979. The All Assam Gana Sangram Parishad (AAGSP) was established in this year to demand the use of the 1951 National Register of Citizens as the baseline for identifying legal inhabitants and illegal migrants in Assam. AASU joined AAGSP in launching the Anti-Foreigners Agitation, a movement characterized by protests, civil disobedience, and violent clashes against Bengali immigrants (Kimura, 2013).

Failure of the Assam Accord

In 1985, following the rise of Rajiv Gandhi to power, the central government sought to negotiate with AASU and AAGSP to end the ongoing agitation. Consequently, the Assam Accord was signed on August 15, 1985, effectively bringing the Assam movement to a close (Pisharoty, 2019). According to the accord, January 1, 1966, was established as the base year for determining residents' citizenship status. Individuals who entered the state between January 1, 1966, and March 25, 1971, would be excluded from electoral rolls for a decade, while those who arrived after March 25, 1971 (the day when the Bangladesh liberation war

³ In light of the resurgence of the Hindu Nationalist ideology since 2014, with the Bharatiya Janata Party (BJP) in power—formerly known as Jan Sangh and ideologically affiliated with the Rashtriya Swayamsevak Sangh (RSS)—the party intends to confer citizenship upon Bengali Hindu immigrants from Bangladesh post-March 25, 1971, while deporting only Muslims among them (See the *Citizenship (Amendment) Act 2019*, which nullifies the Assam Accord).

started) would face deportation. Subsequently, AASU President Prafulla Mahanta transitioned to mainstream politics by establishing the Assom Gana Parishad (AGP) political party, thereby transforming from a former rebel into a stakeholder (Mitra & Singh, 2018). The AGP secured a victory in the state elections in December 1985, with Mahanta assuming the position of Chief Minister of Assam. However, the AGP was unsuccessful in implementing the accord and deporting illegal immigrants. The party also struggled to control violence in the state and inadvertently created new insecurities among the Bodo minorities by emphasizing Assamese identity exclusively.

Bodo Resistance to Assamese Dominance and Assamese Struggle Against Perceived Indian Imperialism

The AGP's strong focus on Assamese identity created unease among minority ethnic groups in the state, such as the Bodos, who started advocating for a separate Bodoland State. The AGP showed a lack of sensitivity towards tribal identity movements that emerged in the 1980s in Assam, as well as toward other communities who had migrated from different Indian states. This turmoil led to internal strife, the emergence of autonomy movements like Bodoland, and general chaos during the AGP's rule (Baruah, 1999). Consequently, the AGP government was perceived as unsuccessful in maintaining the unity and integrity of Assam. This perception eroded the AGP's credibility, allowing the United Liberation Front of Asom (ULFA) to fill the void and tackle the state's complex issues.⁴ Established by a group of AASU-affiliated students on April 7, 1979, the ULFA largely remained dormant until the mid 1980s. The ULFA's agenda focused on liberating Assam from what it perceived as Indian imperialism rather than the deportation of migrants. The militant outfit exhibited no concern for illegal immigrants in Assam and did not perceive Bangladeshi immigrants as adversaries. Instead, this insurgent group vilified Marwari and Bengali traders, Biharis, and other Indian settlers in Assam as exploitative colonizers.

⁴ ULFA (United Liberation Front of Assam) is a separatist group born out of the Assam Movement, aiming for an independent Assam through armed struggle. Their methods and goals were more extreme than those of the AASU and AGP. AASU (All Assam Students' Union) is a student body that led the Assam Movement (1979–1985) against illegal immigrants. AGP (Assom Gana Parishad) is a political party formed by AASU leaders post the Assam Movement.

ULFA's proposed solution entailed abandoning Assamese chauvinism in favor of treating all Assam residents as equal and confronting the Indian state that had entrenched the British policy of extracting Assam's rich natural resources without adequate compensation to the region and without conferring benefits on the Assamese people (Gogoi, 2016). The AGP, tasked by the central government with managing ULFA (Butt, 2021), faced a complex challenge: on one hand, they were to deal with the secessionist tendencies of ULFA while on the other hand, they struggled to reconcile the AASU call for the expulsion of unauthorized immigrants with ULFA's vision of a "broader" Assamese nationalism.

The AASU leaders criticized the AGP government⁵ for deporting only a small percentage of illegal Bangladeshi migrants and demanded a more efficacious and concrete implementation of the 1985 Assam Accord. At the same time, they expressed a desire to develop new refinery projects capitalizing on the state's petroleum resources, thereby reducing the unemployment rate among the Assamese youth.

Although the AASU initiated the Assam movement in 1979 with a focus on oil, encapsulated by the slogan "Tej dim, tel nidi" (we will give blood, not oil), over time, the ULFA emerged as a prominent advocate for the people of Assam in asserting control over their land and resources (Baruah, 1999). Consequently, the group's leadership galvanized regionalist sentiments against the Indian state's extractive endeavors. By December 1989, ULFA had instituted parallel governance structures in numerous rural regions of Assam, further asserting its influence on natural resource control.

Military Suppression and Economic Concessions

In Assam, the central economic issue was the population's limited control over land and natural resources, leading to secessionist violence in the 1980s to establish an independent sovereign state. The perception of India's extractive interventions as a form of colonial rule, which failed to return a fair share of benefits from extracted resources, fueled the unrest (Baruah, 1999; Butt, 2021; Pisharoty, 2019).

⁵ The AASU is an organization that was instrumental in the Assam Movement and in the creation of the AGP. When the AASU leaders criticized the AGP government for not effectively implementing the Assam Accord (1985), it represented the organization's dissatisfaction with the state government's actions.

In the late 1970s, the AASU, which claimed to represent a substantial proportion of the state's 1.3 million school and college students, demanded a thorough examination of the electoral rolls prepared by the Election Commission to expunge the illegal migrants before the 1979 parliamentary elections. As a consensus regarding the criteria for determining citizenship remained elusive, the AASU opposed the parliamentary elections held in late 1979 and engaged in acts of civil disobedience. Consequently, the Election Commission annulled the elections in 12 of Assam's 14 parliamentary constituencies (U. K. Singh & Roy, 2019).

The discord intensified in 1980 when the Assamese endeavored to impede Oil India Ltd., a public sector enterprise in Assam, from exporting oil beyond the state's borders. The ensuing civil disobedience severely hampered the economy and state governance, incited the torching of residences, and compelled numerous Bengalis to seek refuge elsewhere. This anti-foreigner movement subsequently permeated the neighboring states of Tripura and Manipur. In the initial months of 1983, the animosity towards Bengali immigrants culminated in the massacre of approximately 4000 individuals, the displacement of a quarter-million residents, and the mass exodus of countless others (Kimura, 2013).

In an effort to assuage mounting dissatisfaction, the central government, in conjunction with OIL and ONGC, resolved on November 27, 1983, to augment Assam's royalty rate from INR 4.80 to INR 61 per metric ton of crude oil (Kikon, 2019). To address the contentious issue of migrants, a formula was devised, which subsequently formed the basis of the Assam Accord (Pisharoty, 2019). However, the AGP administration failed to execute the accord, providing the militant organization ULFA with an opportunity to capitalize on the prevailing discontent and redirect the conflict from matters of identity to economic concerns, thus portraying India as an imperialist state with exploitative aspirations (Walter, 2022).

As ULFA's armed struggle for an independent sovereign nation-state escalated, the Government of India implemented a dual approach. Firstly, it declared Assam a Special Category State in 1991, making it eligible for development funds in the form of grants instead of loans. Secondly, it employed military force to suppress the armed conflict against India decisively, demonstrating a classic carrot-and-stick response.

The Government of India banned ULFA under the *Unlawful Activities (Prevention) Act* and launched military operations against it. During the

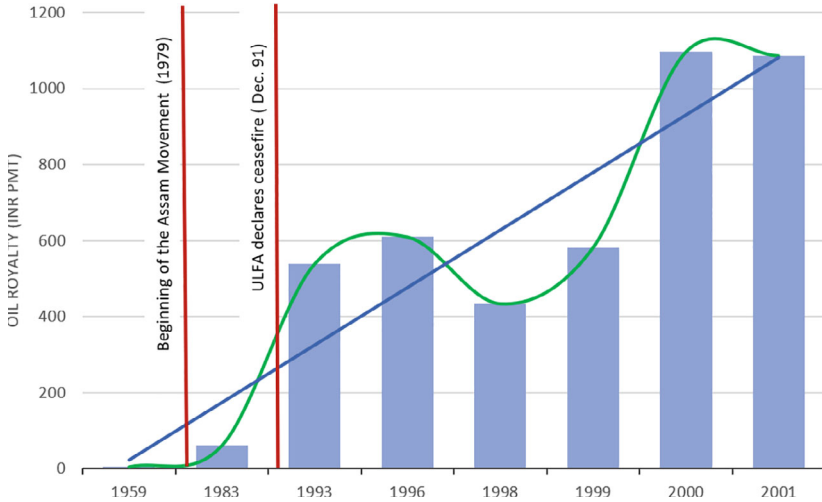


Fig. 7 Oil royalty rate (INR per metric ton) (*Source* Author's calculation based on Lok Sabha Starred Question No. 59, dated 3.3.2005)

Congress administration led by Chief Minister Hiteswar Saikia (1991–1996), counterinsurgency operations reached their zenith. “Operation Bajrang” in 1990 and “Operation Rhino” in 1991 crushed the movement and by January 1992, most of its members had surrendered and entered into negotiations with the Indian Government under the ULFA-S banner (R. Singh, 2010). In exchange, the Government pledged to modernize education in Assam, strengthen the state’s economy, and allocate a larger share of royalties from oil, plywood, and tea to the state. The following concessions were offered to deter secessionist demands.

Increased State’s Share in Royalties

The oil royalty rate was revised in 1993, escalating from INR 61 to INR 539.20. On April 1, 1996, the royalty per metric ton of crude oil was further augmented to INR 609.95, and it was determined that Assam would receive a 20% royalty on crude oil prices (Fig. 7).

Increased Grants for the Economic Development of Assam

Assam’s share in financial transfers experienced a rapid increase following the conclusion of the conflict in 1991, which suggests that there was

an escalation in financial incentives to address the economic demands of secessionist forces. From the fiscal year 1991–1992 onward, Assam was granted special category status, leading to a significant shift in the grant-to-loan composition of its plan assistance from the previous 30:70 ratio to 90:10. Consequently, the proportion of grants allocated for state plans rose from 41.86% of total grants in 1990–1991 to 65.22% in 1991–1992. In other words, the designation of Assam as a special category state enabled it to secure a larger share of plan grants as well as schematic grants from the Planning Commission in subsequent years (Fig. 8).

Fiscal Autonomy or Dependency?

As hypothesized, the central government has attempted to promote the financial dependence of Assam (as a secessionist state) rather than encouraging its fiscal and financial autonomy. This is reflected in Assam's traditionally low tax-to-GDP ratio. A shift was seen post-mid-1980s, as local leaders from the Assam Movement assumed power, and further

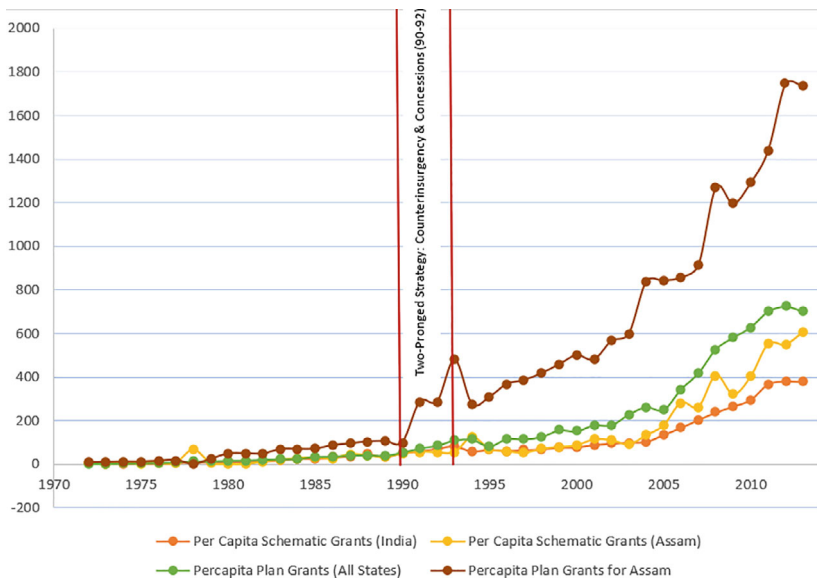


Fig. 8 Per capita state plan and central plan grants (Centre's welfare schemes)
(Source Author's calculation based on RBI data)

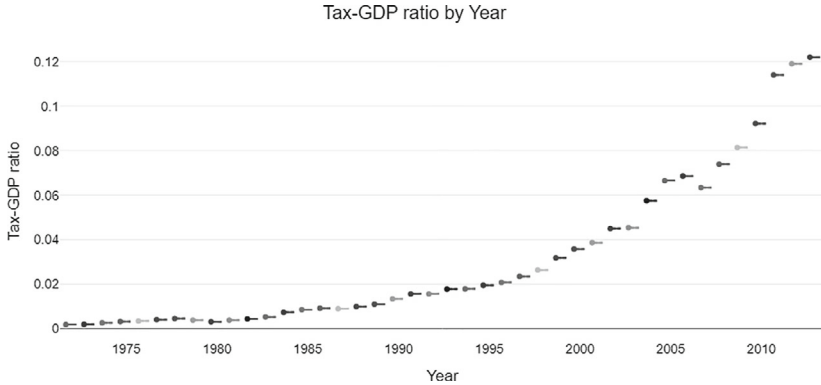


Fig. 9 Evolution of Assam's Tax-to-GDP ratio (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

when peace was restored following ULFA's surrender in 1991. This shift, illustrated in Fig. 9, signaled a move towards greater fiscal autonomy. However, Assam's autonomy ratio of 37% remains modest when compared to Haryana's 84%, the highest among all states (Fig. 2). Overall, Assam remains financially dependent on the central government, as indicated by its high dependency ratio of 38%. This ratio is just below the highest dependency ratio of 48% held by Manipur (Fig. 3). Although central transfers have decreased from over 70% during the conflict years to between 60 and 65% currently, Assam continues to depend significantly on these transfers for its revenue (Fig. 10).

Economic Discontent and Secession: A Non-Linear Correlation

In alignment with the Overlap Thesis proposed in this study, it is noteworthy that economic hardship alone does not provoke all low-income states to rebel against the Indian Government. Rather, the intersection of ethnic insecurities and economic deprivation sparks movements seeking recognition, identity, and political empowerment. This interplay becomes evident when comparing the states of Assam and Bihar. Both are economically disadvantaged, yet their responses differ significantly.

Despite Bihar having a lower per capita income than Assam, along with less fiscal autonomy (as illustrated in Fig. 2) and a higher degree of dependency (Fig. 3), the state exhibits no indications of secessionist sentiment. This case highlights that in isolation, economic deprivation

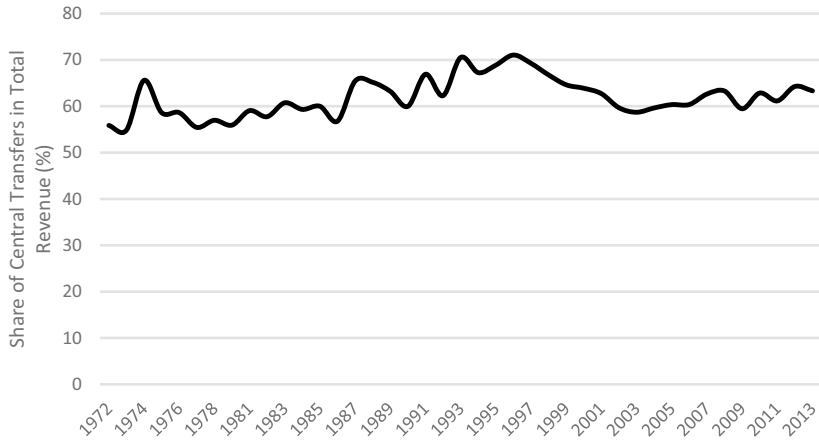


Fig. 10 Proportion of central transfers in Assam government's total revenue, illustrating fiscal dependency (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

and regional economic backwardness are not potent enough to incite secessionist movements. While Bihar, like any economically disadvantaged state, does harbor discontent, its demographic composition prevents the emergence of regional groups advocating secessionist movements. Biharis, belonging to the national majority community, have not felt the need to champion secession.

PUNJAB: RELIGIOUS AND ECONOMIC GRIEVANCES, COMMUNAL UNREST, MILITARY SUPPRESSION, AND THE ABSENCE OF CONCESSIONS

The *Punjab Reorganization Act 1966* dissolved the erstwhile state of East Punjab, establishing the current state of Punjab and the new state of Haryana. Additionally, some territory was allocated to Himachal Pradesh, then a Union territory. Chandigarh was designated a temporary Union territory, functioning as the provisional capital for both Punjab and Haryana. This division resulted from the Punjabi Suba movement (1947–1966), spearheaded by the Akali Dal, which advocated for a Punjabi-speaking state (present-day Punjab). Concurrently, a

predominantly Hindi-speaking state, Haryana, emerged as India's 17th state.

Despite vigorous campaigns by Arya Samaj and other Hindu organizations urging individuals to register Hindi as their mother tongue instead of Punjabi before the 1951 and 1961 censuses, communal clashes or riots did not ensue. This is primarily attributed to the Sikh religion's secular foundations and Jan Sangh's support for the Punjabi language, although they opposed establishing a separate state based on linguistic or communal grounds. Post-1966 reorganization, disputes over the use of the Punjabi language persisted (Brass, 1994). However, electoral politics necessitated that the Akali Dal ally with the Jan Sangh, a Hindu organization that did not recognize Sikhs as distinct from Hindus, much to the former's chagrin. This was primarily due to the Akali Dal perceiving the Indian National Congress (INC) as a more significant adversary, having opposed their demands for over two decades after independence. Consequently, the Akali Dal formed coalitions with the Jan Sangh or BJP, despite the latter's Hindu majoritarian and supremacist inclinations (Bakke, 2015; Deol, 2003; Kaur et al., 2012; Kumar, 2019).

The INC's organizational presence across the state, combined with the absence of communal voting patterns among Sikhs, hindered the Akali Dal from achieving a majority on its own. The INC's strategy of fielding Sikh candidates and maintaining an electoral base among both Hindus and Sikhs further compounded this difficulty. As a result, political instability prevailed, with no assembly completing a full five-year term until 1992 when the militancy that originated in the 1980s came to an end (Table 6).

Table 6 Religious demographics—distribution of population by religion in Punjab

	1981	1991	2001	2011
Sikh	60.75	62.95	59.91	57.69
Hindu	36.93	34.46	36.94	38.49
Muslim	1	1.18	1.57	1.93
Christians	1.1	1.11	1.2	1.26
Others	0.22	0.3	0.38	0.63

Source Office of the Registrar General and Census Commissioner, India

*Punjab in the 1980s: A Descent from Harmony and Affluence
to Unrest, Insurgency, and Turmoil*

In 1979, prior to the onset of violent terrorist activities in Punjab, India Today published a cover story titled “Island of Prosperity” (March 15, 1979), highlighting that during 1978–1979, Punjab contributed 6 million tons of food grains to the country’s total production of 11 million tons, thus earning the epithet of the nation’s breadbasket (Fig. 11). Figure 12 illustrates that Punjab ranks first among all states in per capita availability of food grain. In 1982, the same magazine published a special report titled “Harvest of Hatred” (May 31, 1982), stating that Punjab, previously a beacon of peace and prosperity, had been scarred by the bloodshed ensuing from communal violence.

To comprehend the Sikh resentment of the 1980s, it is crucial to recognize whom they credit for their prosperity. Various accounts and surveys reveal that Punjabis attribute their success to their own efforts and accuse the central government of hindering their progress (Bakke, 2015; Butt, 2021; P. Singh, 2008). While the land reforms of the Punjab government and the Indian Government’s Green Revolution policies played a part, Punjabis credited their prosperity to their hard work, courage, skill, resilience, competitiveness, and a value system that regards farming as a noble profession.

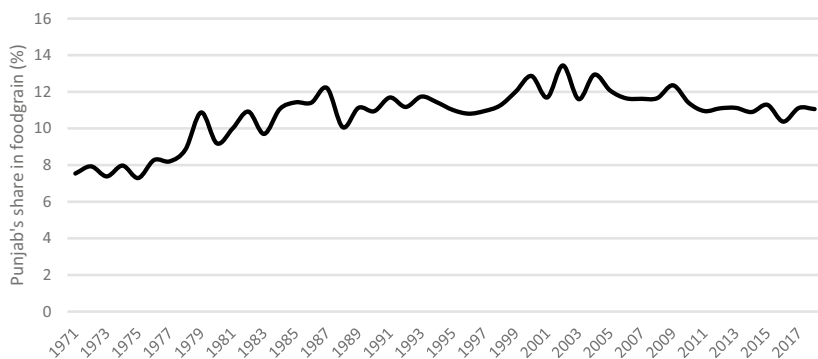


Fig. 11 Punjab’s share in total foodgrain production in India (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

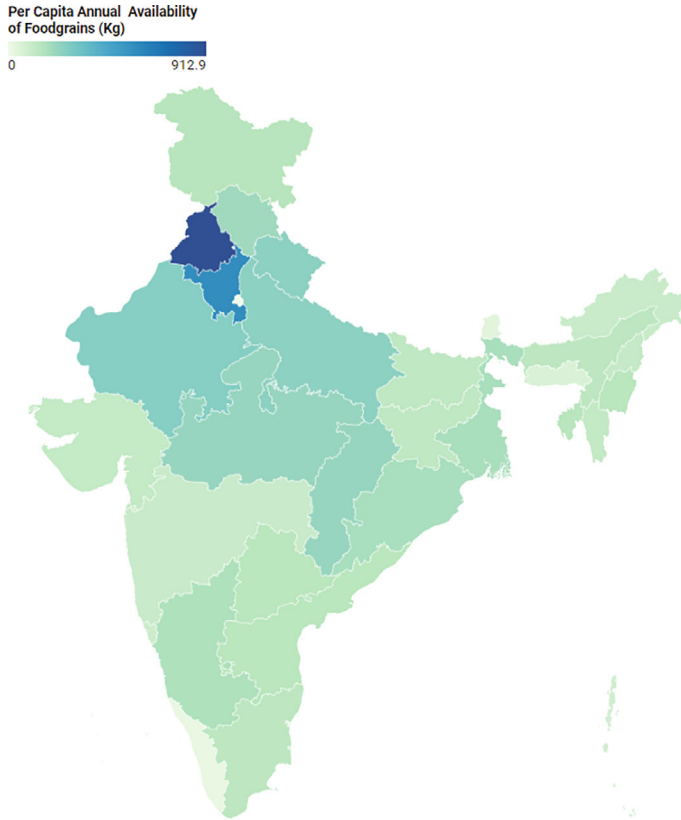


Fig. 12 State-wise per capita availability of foodgrain (*Source* Annual Report (1999–2000), Ministry of Consumer Affairs and Public Distribution, Government of India. Map created by Author using Datawrapper)

The Complex Convergence of Ethnic and Economic Grievances

Ethnically, the primary source of Sikh disquiet in independent India stemmed from the resurgence of organizations promoting the “Hindi, Hindu, Hindustan” slogan (Pandey, 2012). This movement posed a threat to the Sikhs’ distinct religious identity. During the 1980s, the zealous campaigns by certain organizations advocating for Hindi and Sanskrit in Punjab were perceived by Sikhs as an affront to their linguistic and religious identity. As Sikh prosperity peaked in the 1980s, the

endeavors to deny independent Sikh identity and language tended to alienate the Sikhs, who were the primary beneficiaries of the Green Revolution.

From a socioeconomic perspective, the Green Revolution engendered polarization among Punjabis, as the policy disproportionately advantaged wealthier Jat farmers at the expense of lower castes and landless laborers (Frankel, 2015). The economically disadvantaged Sikhs harbored grievances not only against the Akali Dal, which was perceived as championing the cause of the affluent landowners rather than the rural poor but also against the central government, whom they viewed as indifferent and ignorant to the plight of Punjab's impoverished (Jeffrey, 2016).

The central government's approach to promoting "regional balance" resulted in the suspension of industrial projects in Punjab because of its high-income status (P. Singh, 2008). It was argued that allocating many industries to Punjab, which had benefited from the Green Revolution, would exacerbate regional disparities. This policy approach contributed to a scenario in which Punjab's industrial sector's share in its GDP remained low compared to Haryana and many other major Indian states (Fig. 13).

This sparked dissatisfaction in Punjab, particularly among economically vulnerable populations, such as small farmers and rural laborers, who had

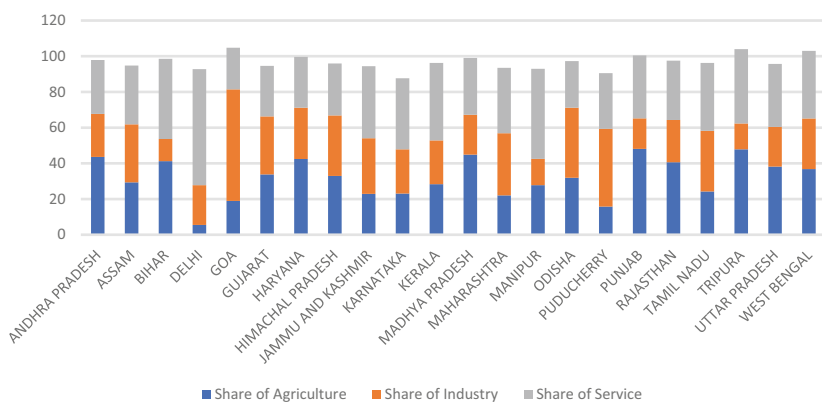


Fig. 13 Average percentage share of three sectors in states' net domestic product from 1970 to 2020 (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

not reaped the benefits of the Green Revolution. The dearth of industrialization stymied their prospects, potential, and productivity, rendering them increasingly susceptible to and ill-equipped for change. While inadequate subsidies for agricultural inputs depleted their income, the limited scope of Punjab's industrial sector precluded the possibility of alternative income sources.

Overall, the economic grievances of the Sikhs in Punjab in the 1980s can be outlined as follows:

- The central government controlled development policies and Industrial Policies.
- Local tax collection was transferred to the central government.
- The central government managed river water resources.
- The central government regulated agricultural prices, resulting in high input costs, insufficient subsidies, and low procurement prices set by the government.

From an economic standpoint, the primary cause of Punjab's grievance can be attributed to the perception of the central government penalizing the state for its high-income status and fiscal autonomy by denying it a share in central taxes proportional to its contribution and by hindering its industrial growth through the industrial licensing regime, which restricted public sector expansion. To verify the validity of the claims, I compare several economic indicators of Punjab and Haryana, both of which became new states after the *Punjab Reorganization Act 1966*. The empirical evidence suggests that although Haryana and Punjab initially showcased parity in income and industry, Haryana experienced a more rapid growth after 1980. During the 1980s, Haryana's industrial production expanded at a swifter pace than Punjab's, as depicted in Fig. 14. Furthermore, Haryana surpassed Punjab in terms of per capita income post-1990s, as illustrated by Fig. 15.

The comparative industrialization of Punjab and Haryana, assessed through the annual increase in the Gross Fixed Capital Ratio—which represents the total value of newly produced and acquired capital assets (Fig. 16)—and the gross output value, signifying overall production (Fig. 17), further substantiates and supports the claims concerning Punjab's lagging industrialization. Interestingly, despite Haryana outperforming Punjab in terms of revenue capacity (Fig. 18), Punjab has

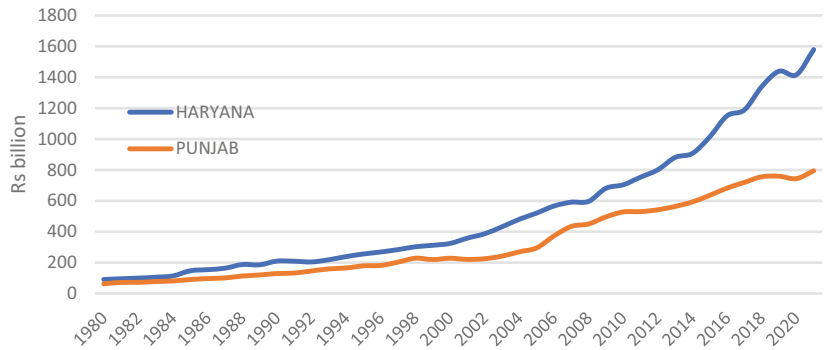


Fig. 14 Share of industry in GDP: Haryana and Punjab (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

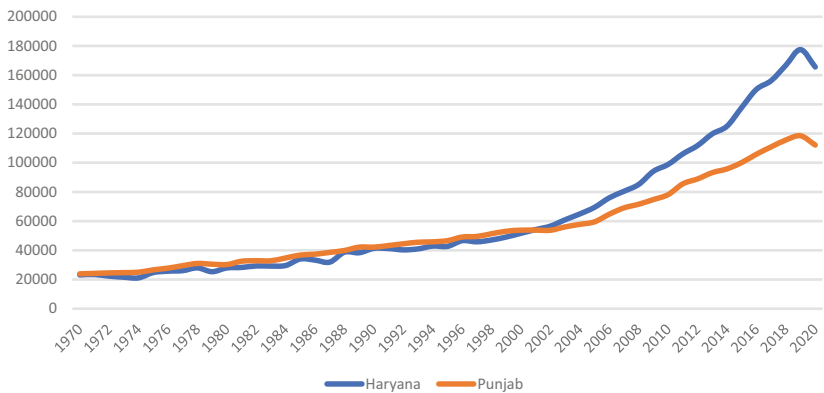


Fig. 15 Per capita income: Haryana and Punjab (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

consistently received a smaller share of central taxes and grants than Haryana (Fig. 19).

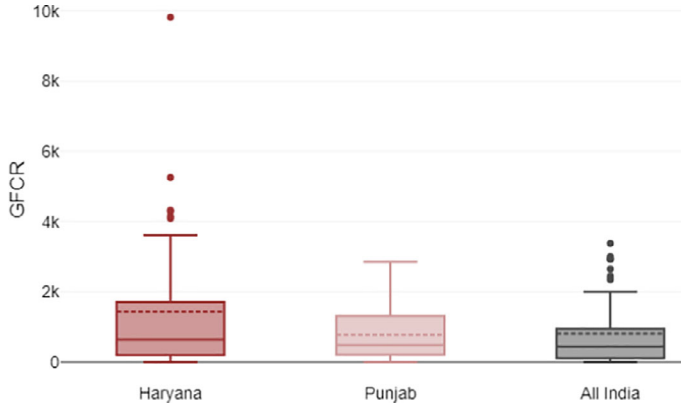


Fig. 16 Per capita gross fixed capital ratio (GFCR): Haryana, Punjab, all India (1970–2014) (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

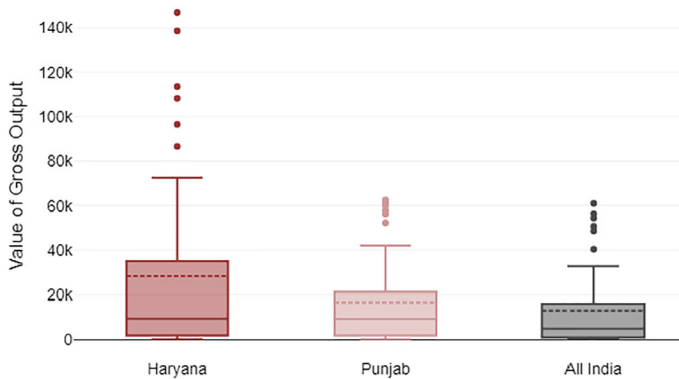


Fig. 17 Per capita value of gross output: Haryana, Punjab, all India (1970–2014) (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

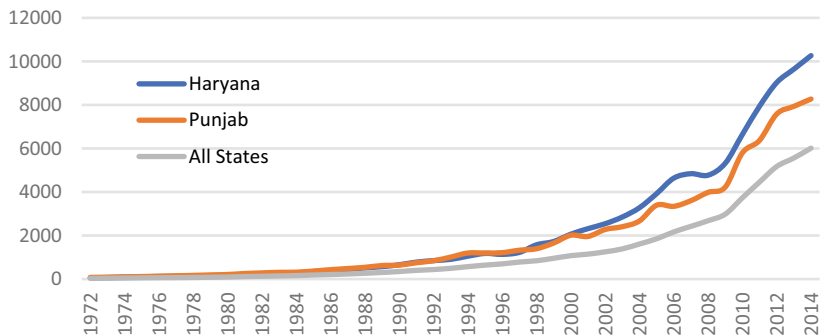


Fig. 18 Per capita own-source revenue: Haryana and Punjab (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

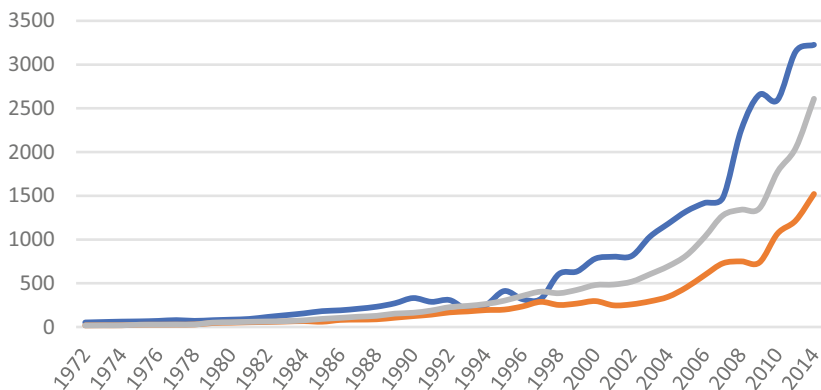


Fig. 19 Per capita share in central transfers: Haryana and Punjab (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

Cascading Conflicts: From Agitational Politics to Communal Unrest in the Turbulent 1980s

In September 1981, the Akali Dal presented a list of grievances comprising twenty-one economic, fourteen religious, eight political, and two social issues. However, negotiations with the central government fell

through as Prime Minister Indira Gandhi dismissed all demands. Consequently, the Akali Dal, which had previously favored negotiations over confrontation, shifted to agitational politics (Narang, 1983).

On April 24, 1982, the Akali Dal initiated a “Nehar Roko Morcha” (the struggle to halt the canal), aiming to impede the construction of the Sutlej-Yamuna Link canal, which would divert river water from Punjab to neighboring states. On July 26, 1982, the Akali Dal organized the All-World Sikh Convention and resolved to launch the “Dharam Yudh Morcha” (religious war front)—a civil disobedience movement under the guidance of Harchand Singh Longowal.

During this period, a fundamentalist and militant preacher named Bhindranwale criticized the politics of the Akali Dal, portraying it as a party of affluent Sikh landlords who neglected the rural, underprivileged Sikh communities (Jeffrey, 2016; K. Nayar & Singh, 1984). As this narrative aligned with the short-term interests of the Congress party in power at the Centre, they encouraged Bhindranwale to concentrate on discrediting their political rival in the state, the Akali Dal (B. R. Nayar, 2015). Nevertheless, Bhindranwale soon identified Hindus as the primary adversaries of Sikhs and began promoting violence and animosity towards both Hindus and the central government controlled by them. His leadership plunged Punjab into secessionist violence, characterized by the daily killings of Hindus throughout the 1980s.

Military Suppression of Militancy, Ineffective Concessions, and the Onset of the Second Wave

As terrorist violence escalated in Punjab, Prime Minister Indira Gandhi, in June 1984, ordered the army to storm the Golden Temple, the holiest Sikh shrine, to eliminate the Sikh militants who had taken refuge there. This action led to the brutal massacre of hundreds and thousands of Sikhs, including both secessionists and innocent civilians (R. I. Singh, 2022).

Following Operation Bluestar, the army launched Operation Woodrose, which continued to apprehend secessionists scattered across the Punjab countryside for three months. In retaliation, Prime Minister Indira Gandhi was assassinated by her Sikh bodyguards in October 1984. In the 1984–1985 national elections held after Gandhi’s death, the Congress party emerged victorious, and Indira’s son Rajiv Gandhi became the Prime Minister of India. He decided to grant significant concessions to Sikhs in all major areas of concern.

The Punjab Accord between Rajiv Gandhi and Harchand Singh Longowal, an Akali Sikh priest, also known as the Rajiv-Longowal Accord, was signed on July 24, 1985. This agreement garnered substantial goodwill within and outside Punjab. However, the extremist faction of the Sikh movement rejected the deal, as they sought an independent Khalistan (Chima, 2010). Consequently, religious militants assassinated Longowal, the Sikh signatory, within a month of the accord and labeled Akali Dal leaders as puppets of the central government. Thereafter, militancy in Punjab entered a second, deadlier phase. During this stage, Sikh extremists established a parallel government in specific areas of Punjab. However, their actions over time, which included punishing and even killing individuals for failing to comply with strict Sikh religious principles, ultimately served to alienate the very people they represented (Gill, 1997). In this situation, support for militants among Sikhs declined, although their resentment towards the central government remained strong.

Effective Suppression of Secessionism in Punjab Without Concessions

The Indian Government enacted and stringently applied the strict anti-terrorist laws, the *Terrorist and Disruptive Activities (Prevention) Act* (TADA) in 1985, and the *National Security Act (NSA) 1987*. The Indian army carried out numerous summary executions involving both civilians and suspected militants. Between 1986 and 1987, Punjab's Director-General of Police, Julio Ribeiro, led the police force in a vigorous crackdown on Sikh militants, adopting a "bullet for bullet" policy.

After 1987, K.P.S. Gill, Punjab's new Director-General of Police, implemented an even more stringent strategy—a relentless and efficacious police campaign marked by comprehensive search and cordon operations (Gill, 1997). These operations encompassed Black Thunder in May 1988 (aimed at the Golden Temple) and Operation Rakshak in November 1991, which followed a "catch and kill" policy for purported militants. Gill avoided engaging religious militants in theological discussions. Instead, he directly addressed their inherent survival instincts and presented a clear choice: they could either perish for their idea of God or live for themselves, with no third option. Consequently, human rights violations increased, but the secessionist movement was effectively subdued and dismantled.

No Financial Concessions: Redistribution or Retribution?

The central government's decisive victory over Sikh militants in Punjab diminished its incentive to honor the concessions sought in the Rajiv-Longowal accord, resulting in none of them being granted. Furthermore, instead of prioritizing Punjab's economic growth and development, the central government consciously refrained from providing financial support to the state after its economic downturn began in the mid-1980s and accelerated in the early 1990s, forcing Punjab to borrow to finance its committed expenditures. Figure 20 illustrates that Punjab's per capita tax shares and grants have consistently been lower than the average for all states, and even lower than Haryana, which boasts higher income and own-source revenue than Punjab. Figure 21 shows the extent to which the Punjab government relies on borrowed funds to cover its mandatory spending commitments.

The central government's approach to Punjab's financial situation during and after the conflict is contentious. Rather than offering grants to the state to combat the militancy, the central government supplied loans—a strategy that burdened the state with debt (Fig. 21). The central government did not consider writing off these loans, despite their purpose being to address a national issue of great significance.

This financial burden has left Punjab trapped in a vicious cycle of debt over the years, impacting its economic well-being. Although the 9th Finance Commission recommended a two-year moratorium on repayment of principal and interest for special loans granted to Punjab between 1984 and 1989, it proved insufficient. Despite the 12th Finance Commission classifying Punjab as a debt-stressed state and recommending a financial package, the state never received adequate support. The 13th Finance Commission devised a roadmap to tackle the issue, but the Punjab government deemed the relief measures insufficient. The 14th Finance Commission removed Punjab from the debt-stressed category, claiming that the agrarian state was becoming revenue-surplus and that granting debt relief to such states would penalize those with prudent fiscal management.

Punjab has persistently advocated for a relief package, either in the form of a complete debt waiver or rescheduling, as this debt was incurred during the period of militancy when the state was under direct central rule. However, such proposals have been consistently dismissed. In 2011, the finance ministry rejected requests for debt relief, arguing it would encourage fiscal mismanagement and set a poor precedent. In 2015,

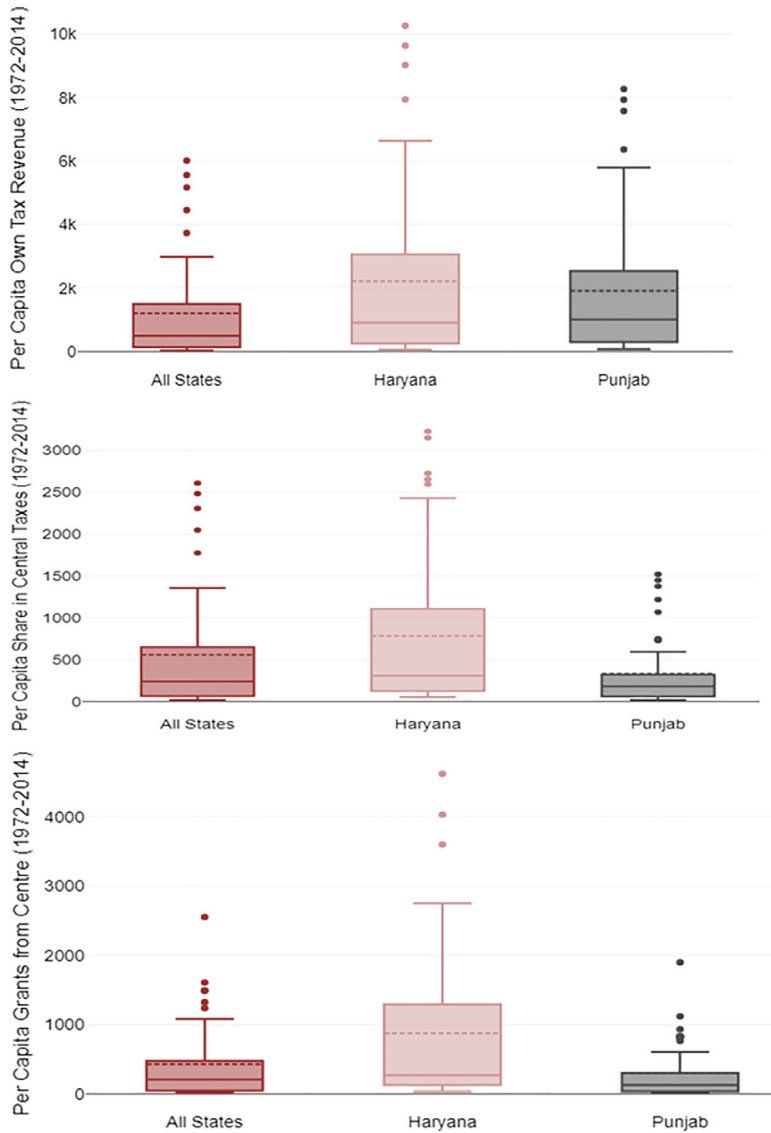


Fig. 20 Contrasting effects of high-income on central tax and grant allocations to Haryana and Punjab: Redistribution for national benefit or disadvantage for Punjab? (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

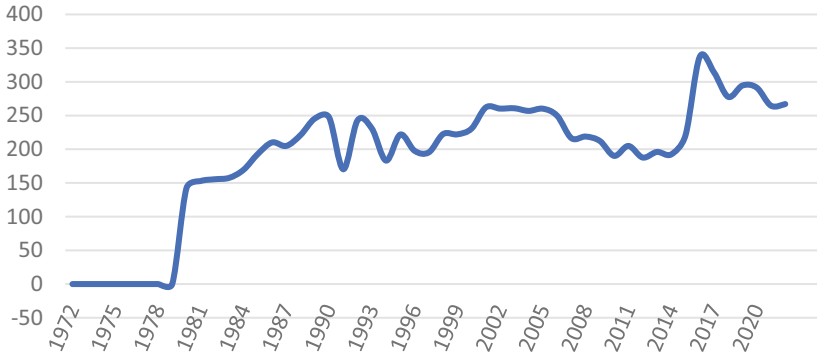


Fig. 21 Punjab's borrowings as % of committed expenditure (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

the central government cited the state's provision of significant power subsidies to the farm sector as a reason for withholding assistance.

As Punjab's struggle with debt continues to hinder its growth and development, it is important to note that some of this issue can be attributed to the alleged corruption within the state's prominent political party, the Akali Dal. Mirroring the situation in Kashmir, the Akali Dal's governments have engaged in corruption and selectively provided business contracts and policy benefits to their own, rather than fostering market competition. The crucial difference, however, is that unlike in Kashmir, Punjab's ruling parties were not perceived as puppets of the central government.

The Puzzle of Peace Without Significant Concessions Since 1992: The Emergence of Coalition Politics, Fair Electoral Processes, and the Alternative Scheme of Devolution

Although there was no formal institutional accommodation of Sikh demands, and even the Rajiv-Longowal Accord, considered crucial for resolving the Punjab dispute, was never revived, the movement seemingly ended permanently. Concessions related to increased autonomy, river water sharing, and the transfer of Chandigarh to Punjab were not granted, making this a seemingly implausible outcome. However, the key

to a peaceful Punjab lies in the de facto shift in Centre-state relations during the 1990s.

The political and economic decentralization that occurred in the 1990s played a significant role in reshaping the perceptions. This period marked the transition from one-party dominance at the Centre to a multi-party coalition system and the termination of the industrial licensing regime. Elections in Punjab also became more competitive, with free and fair processes allowing Sikhs to contest and win elections, subsequently forming governments. Unlike in the case of Kashmir in 1988, there have been no allegations of election rigging by the central government or state parties.

Furthermore, the Tenth Finance Commission, which submitted its report on November 26, 1994, for the five years from 1995–1996 to 1999–2000 recommended that the fiscal framework be reformed and adjusted to accommodate state demands for increased shares in central taxes and the broadening of shareable tax categories. The Commission proposed an “Alternative Scheme of Devolution,” which expanded the range of shareable taxes from only two central taxes to all central taxes. This removed the Centre’s ability to deliberately distort the tax pattern by concentrating on collecting non-shareable taxes (e.g., corporation tax under clause IV of Article 270) at the expense of shareable taxes (e.g., income tax under Article 270, Union excise duties under Article 272, and tax sources under Article 269, such as estate duty on property, taxes on railway fares, transactions in stock exchanges, sale-purchase of newspapers, and interstate trade or commerce) to the detriment of the states. The Alternative Scheme of Devolution contributed to addressing certain financial grievances by including corporation tax in the divisible pool and ensuring that states could share the aggregate buoyancy in all central taxes during the period of fiscal consolidation. This allowed states like Punjab to have more access to central funds. Although Punjab’s relative share from the divisible pool transfers remained low, the overall growth in the pie partially compensated the state for its low share in taxes, providing some degree of financial relief.

KASHMIR: ELITE CORRUPTION, COMMUNAL TENSIONS, POLITICAL DECAY, MILITARIZATION, AND ENDURING SEPARATISM AMID FISCAL EQUALIZATION POLICIES

The former state of Jammu and Kashmir, which was dismantled in 2019, comprised three regions: Jammu, the Kashmir Valley, and Ladakh. Separatism originated in the Muslim-majority region of Kashmir (Behera, 2000). The Hindu-dominated Jammu region consistently contested the idea of autonomy for Jammu and Kashmir under Article 370 (repealed in 2019). From the very outset, the Jammu region sought greater autonomy within the state of J&K and called for the abrogation of Articles 370 and 35A (Puri, 1981, 1999).

The Ethnic-Economic Overlap Thesis is particularly applicable to the Kashmir scenario. Under the state's Muslim leadership, wealth has predominantly accumulated among those connected to the state ruling parties, fostering a widening gap between rich and poor. Therefore, the less privileged Muslim population, particularly in rural areas, felt marginalized, leading to increasing discontent (Hingorani, 2016). This mirrors the situation in Punjab, where the economically disadvantaged Jat Sikhs spearheaded rebellion, not the affluent Sikhs. Note that impressive economic growth and per capita income in J&K masks significant societal disparities (Drèze & Sen, 2013). In fact, the data, collected at the state level, inclusive of Jammu and Ladakh divisions, obfuscate the precise economic situation of Kashmir but still allow for some general conclusions. However, before delving into the economic data, it is crucial to understand the politics, context, origin, and evolution of the secessionist conflict in Kashmir.

The Beginnings of Conflict: Convergence of Communalism and Land Reforms

On October 26, 1947, Maharaja Hari Singh of Jammu and Kashmir signed the "Instrument of Accession" which provided the state with a special status within the Indian Union, where central authority was constrained to merely three domains: defense, external affairs, and communications. This distinctive provision was codified as Article 370 in Part XXI of the Indian Constitution, which took effect on November 17, 1952. Further augmenting this status, Article 35A endowed the region's

permanent residents with exclusive rights, ranging from property ownership to the entitlement of state-sponsored scholarships, while limiting the corporate sector's capacity to employ non-residents. In 1969, the National Development Council, while adopting the recommendations of the Fifth Finance Commission, awarded Jammu and Kashmir a Special Category Status (SCS). This status provided the state with central funding on preferential terms, tax reliefs, and the establishment of dedicated development boards. The objective was to bolster economic development in the state by catalyzing industrial growth and encouraging investment.

The first major reform under the leadership of Sheikh Mohammed Abdullah, the first Prime Minister of Jammu and Kashmir, was the radical redistribution of land which abolished landlordism and laid the groundwork for rural prosperity. On July 13, 1950, the state legislature passed *Big Landed Estates Abolition Act* transferring land to tillers without compensating former landlords. This act affected 9000 landowners and emancipated thousands of peasants from virtual slavery (Para, 2018). However, the Hindu community and Kashmiri Pandits perceived the land reform as anti-Hindu and pro-Muslim, believing it was designed to transfer Hindu land to Muslims (Tremblay & Bhatia, 2020). As the land reform controversy gained a communal aspect, Hindu right-wing groups in Jammu, organized under the Jammu Praja Parishad, launched an agitation in 1952–1953 demanding the abrogation of Article 370 and full integration of Kashmir with India.

Amid escalating mistrust between the central government and Sheikh Abdullah due to his suspected intentions, Abdullah was dismissed and imprisoned on charges of subversion on August 8, 1953. This led to violent protests in Kashmir, resulting in the deaths of hundreds. This event derailed land reform policies and scarred the psyche of Kashmiri Muslims, who began to perceive the central government as a threat to their physical security. From that point on, rallying the population around the demand for independence became more accessible (Habibullah, 2004; Santos, 2007). However, the extensive concessions and preferential treatment afforded to the state prevented this “communal consciousness” from escalating into a full-scale secessionist crisis. The precarious balance sustained over three decades until the ineffectiveness of institutions in addressing local grievances became strikingly evident. In the 1950s, 60s, and 70s, a series of corrupt state administrations gradually escalated the situation to a tipping point, which was conclusively reached with the rigged elections of 1987.

*Elite Capture of Local Resources and Corruption by the Local Elite:
1953–1975*

From 1953 to 1975, the states' Chief Ministers were viewed as power-hungry representatives of the central government (Bose, 2009; Ganguly, 1999; Wani, 2018). Throughout this period, pervasive corruption resulted in widespread alienation among Kashmiris. Although stability was attained under Bakshi Ghulam Mohammed (1953–1964), it came at the expense of establishing an unhealthy economic precedent. Contracts and licenses for various sectors were granted in exchange for money, exacerbating economic inequality in the region and fostering a sense of alienation and resentment among the poorer Kashmiri. Ghulam Mohammed Sadiq (1964–1971) and Syed Mir Qasim (1971–1975) continued these practices.

In 1975, Sheikh Abdullah returned to power after the Indira-Sheikh accord, promising self-rule through democratic elections. However, in April 1975, he changed his stance and began advocating for the merger of Jammu and Kashmir with Azad Kashmir, a region administered by Pakistan. This shift was driven by Sheikh Abdullah's long-held desire for a united, autonomous Kashmir. This change in position was not well received by the Indian Government and eventually led to the imposition of Governor's Rule in the state from March to July 1977.

The Decade of Misrule and Corruption (1977–1987)

Sheikh Abdullah won the state's first free and fair election in July 1977. However, his rule was marked by vindictiveness, dictatorship, rampant lawlessness, increased political corruption, and institutional decay in Kashmir. The administration, police, and civil liberties were undermined, with restrictions imposed on newspapers and other publications. Following Sheikh Abdullah's death in 1982, his son Farooq Abdullah succeeded him, exacerbating corruption and nepotism. The state bureaucracy proliferated, consuming a significant portion of non-plan expenditure population (Ganguly, 1999; Habibullah, 2004). In 1984, violence erupted in Kashmir, and his brother-in-law, Ghulam Mohammad Shah, ousted Farooq Abdullah.

G.M. Shah's rule from 1984 to 1986 was also marred by corruption, with allegations of financial assistance to his son's industries being the

most prominent. To regain support from local Muslims, he exploited religious sentiments, pushing Kashmir to the brink of disaster. Following communal riots in South Kashmir, G. M. Shah's government was dismissed in March 1986. In the wake of the Rajiv-Farooq accord, a new coalition government formed by the National Conference and Congress was subsequently sworn in.

1987: Rigging of Elections and the Rise of a Rebellion

The discontent among the rural Muslim populace did not immediately spark a rebellion. Instead, the disenchanted Kashmiri Muslims sought institutional mechanisms for change, such as participating in the 1987 elections (Behera, 2016; Bose, 2009; Ganguly, 1999; Hingorani, 2016; Widmalm, 2014). However, these elections were marred by allegations of fraud. The elections, allegedly rigged by then Chief Minister Farooq Abdullah, led to an unexpected reversal of electoral outcomes.

In the 1987 elections, the Kashmiri people predominantly supported the newly formed Muslim United Front (MUF) party instead of Farooq Abdullah's National Conference (NC), which had formed a pre-electoral alliance with Rajiv Gandhi's Congress (I) party. However, Kashmiris were shocked to see the rigged election results and the false accusations and imprisonment of MUF leaders. A tidal wave of protest engulfed the valley, leading to the radicalization of many young men who had guarded ballot boxes for the MUF. Two Islamist militant groups emerged: Hizbul Mujahideen, seeking to separate Kashmir from India and merge it with Pakistan, and the Jammu Kashmir Liberation Front, advocating for a secular, independent Kashmir. Pakistan capitalized on the situation, providing moral, financial, and military support to the terrorists (Schofield, 1996; Wirsing, 1998).

The rigged 1987 election was the catalyst, but the root of alienation lay in a combination of factors, including insecurity created by right-wing leaders in Jammu, the perceived physical threat from the central state, and years of misgovernance by regional parties seen as the central government's puppets. Successive governments failed to modernize agriculture, establish industries, or create jobs for local youth. Both the central and state governments were responsible for this unholy partnership.

This validates the Twin Catalyst Thesis, where the first catalyst is the economic deprivation of a religious minority that views the majority

community with skepticism. The second catalyst is the failure of political avenues and constitutional mechanisms to address their grievances.

Fiscal Federalism's Failure to Fracture the Foundations of Separatism in Kashmir

Jammu and Kashmir has seen substantial central funding, particularly following the escalation of conflict, as a measure to curb separatist sentiments (Figs. 22 and 23). However, due to a high degree of elite capture of state institutions, the policy benefits failed to permeate the rural, impoverished sections of the Kashmir valley. Amidst this economic discontent, Muslim radicalization continued to grow throughout the 1980s. By the late 80s, militancy in Kashmir had become self-sustaining, bolstered by both local and Pakistani support. Although in Assam and Punjab, military suppression proved effective when internal and external support for militancy waned, in Kashmir, the conflict has perpetuated primarily due to external support from Pakistan.

In fiscal terms, the Indian Government's strategy seems to sustain the region's dependence, denying fiscal autonomy and inhibiting financial self-sustainability. This is evident from the fact that the state transitioned from a high-income state to a low-middle-income state in the 1990s and its per capita own-source revenues, which had previously aligned with the all-India average until the late 1980s, have consistently fallen below the

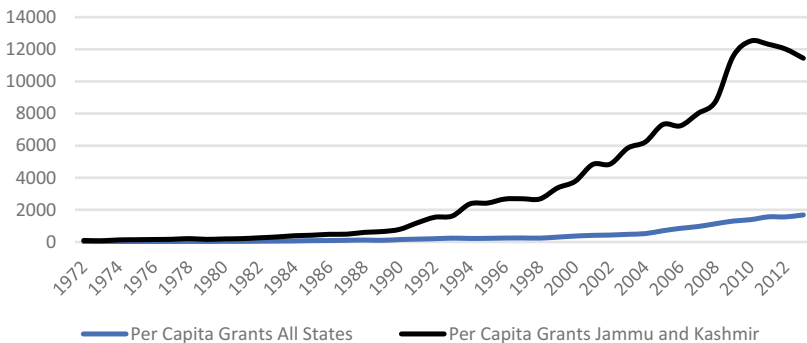


Fig. 22 Per capita grants: Jammu Kashmir versus all states (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

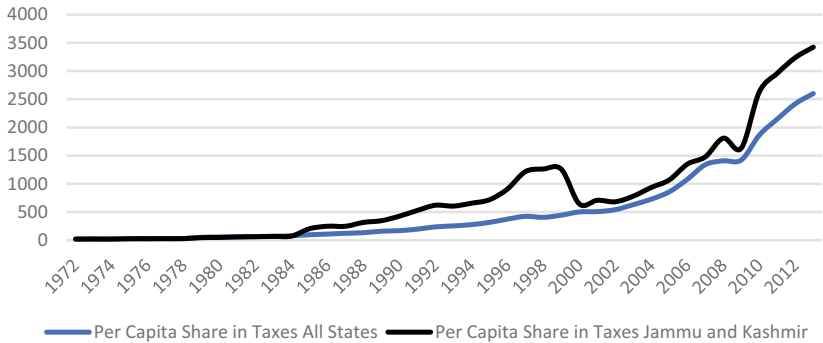


Fig. 23 Per capita share in taxes: Jammu Kashmir versus all states (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

all-India average since then (Fig. 24). Post-conflict, the state’s economic growth plummeted (Fig. 25), and more industries have been established in neighboring Himachal Pradesh than in Kashmir (Figs. 26 and 27). While conflict might have contributed to some deindustrialization of Kashmir, it is notable that the share of industry in Kashmir’s economy continued to decline even after terrorist violence began to decrease in the 2000s (Fig. 27). Moreover, the financial approach of the central government has left the state highly indebted (Fig. 28).

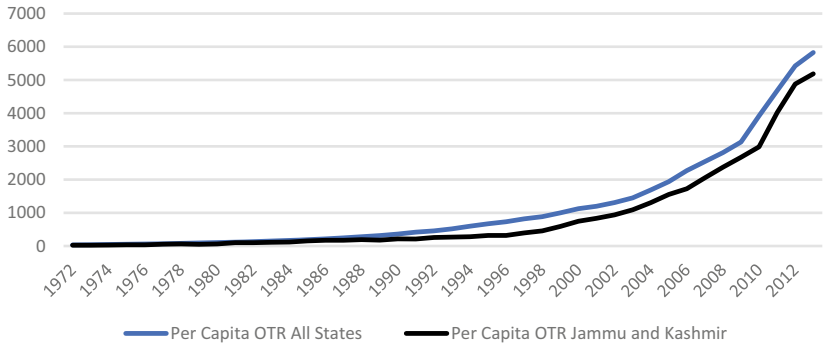


Fig. 24 Per capita own tax revenue: Jammu Kashmir versus all states (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

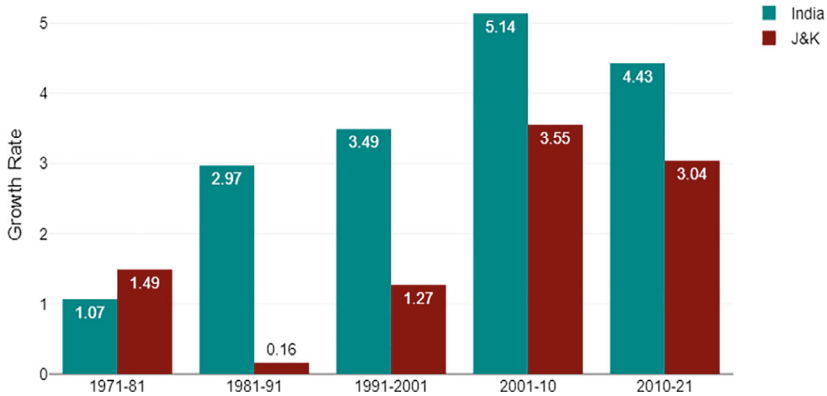


Fig. 25 Economic growth rate: All India vs. Jammu and Kashmir (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

Reversal of Symbolic and Substantive Concessions: A Shift from a concessionary to a non-concessionary approach

The concessions extended to Jammu and Kashmir after its accession to India served as a pacifying force, preventing separatism for decades. However, the disputed 1987 elections marked a turning point, triggering the outbreak of violent secessionism. Once this “genie was out of the bottle,” it proved impossible to return to the previous status quo through concessions or even through force. As all attempts to normalize the situation proved largely futile, it became evident that a strategy was required to dismantle the local support for militancy and counter foreign patronage, particularly from Pakistan.

On August 5, 2019, India’s policy towards Jammu and Kashmir, once a shining example of “concessionary federalism,” took a dramatic turn. In an abrupt reversal, the Modi administration rescinded all concessions previously extended to the region and abrogated both Article 370 and Article 35A. Simultaneously, the government bifurcated the region into two separate Union Territories—Jammu and Kashmir, and Ladakh marking the end of Jammu and Kashmir’s semi-autonomous status. The Government of India decisively asserts that the matter of Kashmir is now conclusively settled with the Union Territory of Jammu and Kashmir being the integral part of India (The Times of India, [2020](#)).

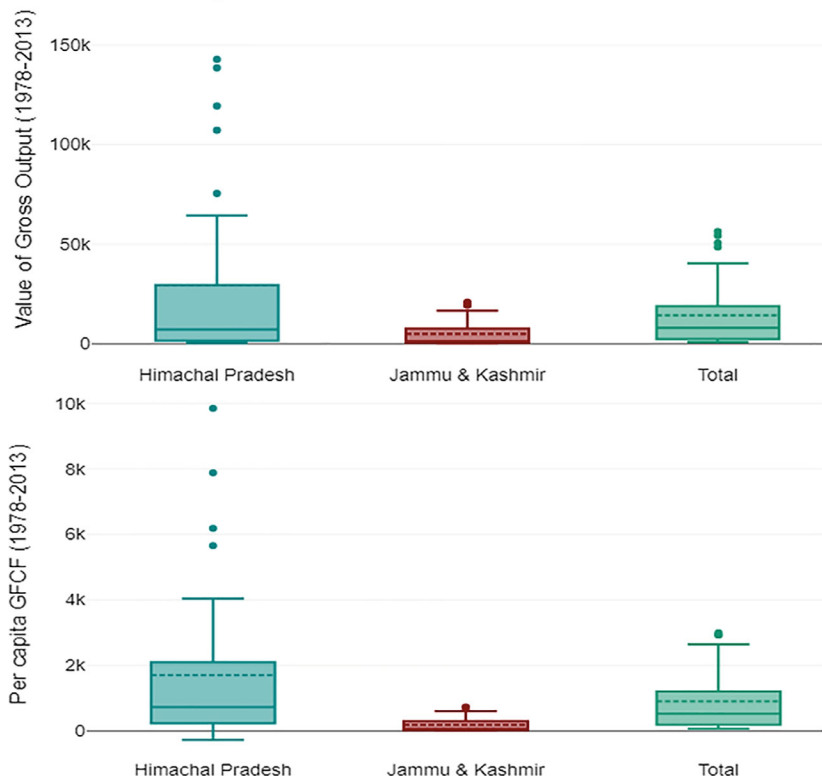


Fig. 26 Industrialization in Jammu and Kashmir, Himachal Pradesh, and all India average (*Source* Reserve Bank of India (Various years). *State Finances: A Study of Budgets*)

Non-Escalation of Secessionist Crisis Following Reversal of Concessions

Contrary to expectations, the revocation of concessions to Jammu and Kashmir did not provoke a surge in separatist activity (Fig. 29). While it is not straightforward to assert a complete cessation of secession in Kashmir, the region currently enjoys relative stability, peace, and harmony. The Kashmir case, thus, calls into question the hypothesis that the withdrawal of symbolic concessions exacerbates secessionist crises (Basta, 2021).

Studies endorsing this hypothesis perhaps did not consider the unique context of a country like India, where the federal structure allows

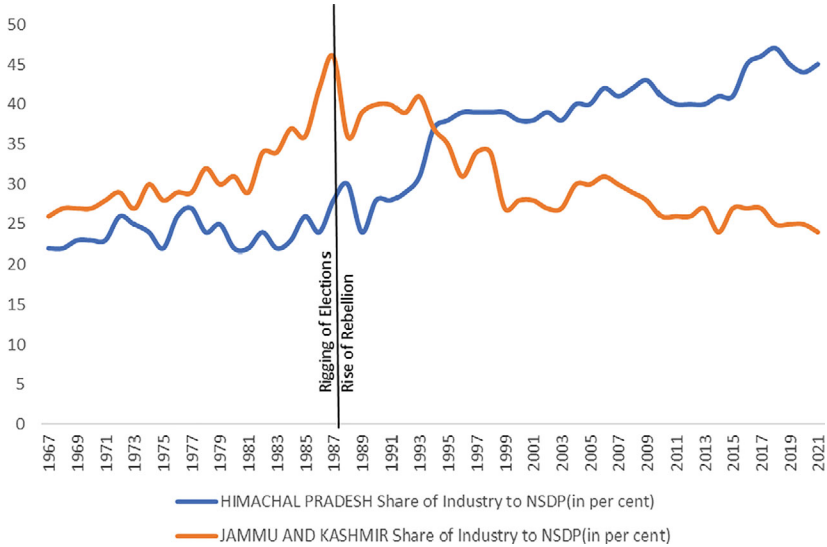


Fig. 27 Share of industry in economy: Himachal Pradesh vs. Jammu and Kashmir (*Source* Reserve Bank of India (Various years). State Finances: A Study of Budgets)

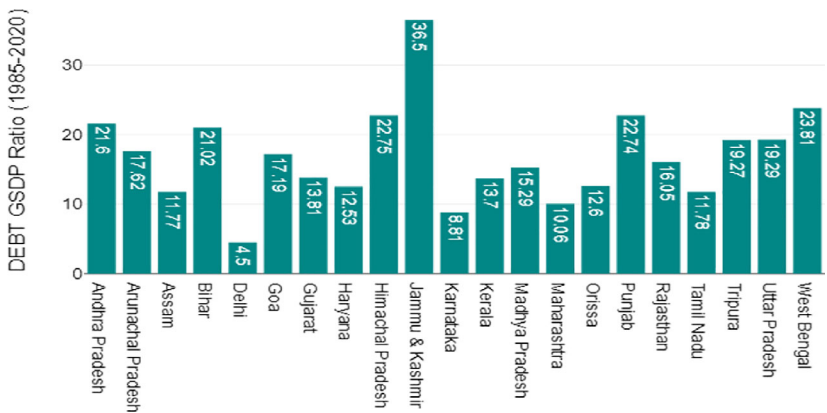


Fig. 28 Debt-GSDP Ratio: A comparative overview of the Indian states (*Note* Reserve Bank of India, various years)

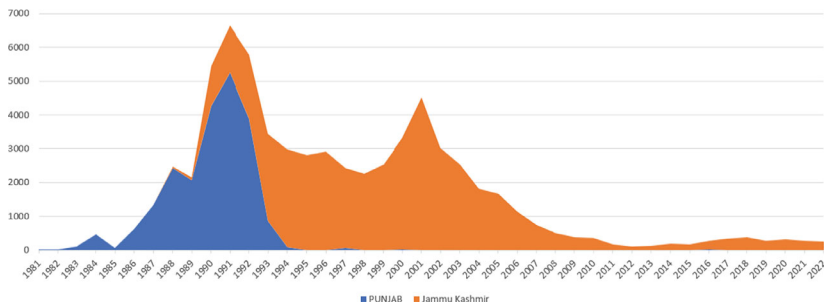


Fig. 29 Secessionist violence (total fatalities) in Punjab and Jammu and Kashmir (Source South Asia Terrorism Portal <https://www.satp.org/>)

for dynamic boundary changes and fluid state-to-Union-Territory status transformations. This underscores the need for context-specific analysis in studying separatist movements and the effectiveness of state responses. In the context of India, when concessions and counterinsurgency fall short in stifling separatism, the government can resort to more assertive punitive measures, including a fundamental reconfiguration of the state's territory and its identity to extinguish local support and foreign patronage to militants, thereby defusing the secessionist crisis.

CONCLUSION

In this concluding section, I synthesize a variety of insights gleaned from the intricate interplay between fiscal federalism and secessionist movements in India. This is done by focusing on the cases of Assam, Punjab, and Kashmir. First, this study has found support for the hypothesis that the central Government promotes financial dependence of secessionist regions rather than fostering their fiscal and financial autonomy. Second, as long as violent separatism, which necessitates counterinsurgency, is absent, a nuanced concessionary approach is typically employed by the central authorities when dealing with secessionist-prone areas. The Concessionary Federalism approach straddles a delicate balance—negotiating concessions sufficiently persuasive to dissuade these regions from pursuing secession, while cautiously ensuring not to kindle either aspirations for independent statehood or stir up resentment among the majority nationality over the perceived excessive concessions granted to these

regions. The central government aims to convey to secessionist regions that the rewards of secession are negligible, whereas the costs of disassociation are considerable and that the merits of maintaining allegiance to the union outweigh these costs.

The rest of the findings have been categorized into four distinct yet interconnected themes: the genesis of conflict, the escalation of conflict into violence, the approach of military suppression and conditional concessions, and the role and impact of military action.

The Genesis of Conflict: The “Overlap Thesis”

The Overlap Thesis highlights the origins of secessionist sentiments. This thesis argues that separatist tendencies are only ignited when economic and ethnic divisions intersect, thereby creating a dynamic interplay and mutual reinforcement.

In both Assam, a less affluent state, and Punjab, a wealthier state, economic grievances were the primary catalysts for conflict. In Assam, the central point of contention stemmed from the local population’s lack of autonomy over their land and natural resources. Conversely, in Punjab, the central government’s perceived control over resources, unfair income distribution, and economic policies were deemed problematic. In the Kashmir Valley, considered a middle-income region, pervasive resentment existed against the state governments’ economic mismanagement, corruption, and nepotism. The successive state governments were widely perceived as puppets of the Indian Government. Consequently, these adverse conditions resulted in the exclusion of the majority Muslim population in the valley from receiving policy benefits.

However, perceptions of economic injustice within a minority community region merely create a potential for secessionist sentiment to escalate into violent secessionist conflict. The real tipping point emerges when state institutions and political processes fail to provide a platform for the expression of discontent. This brings us to the second thesis.

The Escalation of Conflict into Violence: The “Twin Catalysts Thesis”

The Twin Catalysts Thesis highlights the lethal synergy of economic injustice and political disempowerment in the escalation of conflict into secessionist violence (Fig. 30). While the perception of economic injustice often serves as the initial catalyst—which politicizes insecure

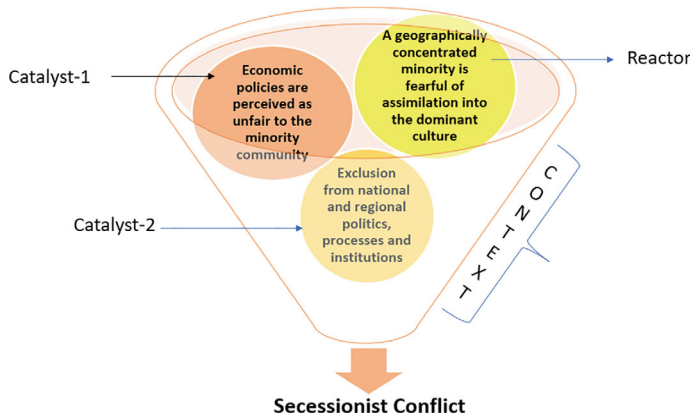


Fig. 30 The chemistry of conflict: Twin catalyst thesis

ethnic minorities and propels them to seek avenues for expressing their grievances—it is typically the failure of state institutions and political processes to provide legitimate channels for the expression of discontent that drives these groups to resort to violence to achieve their interests.

Military Suppression and Conditional Concessions: The “Dual Strategy”

India’s experience with violent secessionist movements in Assam, Punjab, and Kashmir reveals a dual strategy adopted by the central government, amalgamating military suppression with conditional concessions. The central government commits to addressing the ethnic and economic demands of the secessionist region, contingent upon the movement leaders’ renunciation of secession. When leaders accept the proposed concessions, military action is suspended. This typically results in the cessation of the movement, as observed in Assam. However, if secessionist leaders persist in their demands for independence, refusing concessions, military action continues, often intensifying, leading to a brutal conflict.

*Concessions, No Concessions, or Withdrawal of Existing Concessions:
The “Military Outcome-Dependent Approach”*

Once military suppression commences, it often exacerbates the forces it seeks to subdue, plunging the secessionist crisis into a destructive cycle of reinforcement. The success or failure of military operations hinges the extent of local support and the level of foreign assistance provided to militants combating the central and state governments. As Fig. 31 shows, military forces prevail in the absence of internal or external support to militancy, effectively quelling the rebellion, as observed in Punjab. This significantly diminished the incentive for the central government to offer concessions. Therefore, following the cessation of militancy, Punjab was met not with financial or socio-political concessions, but with a distinct void of financial support. Even the promises encapsulated within the Rajiv-Longowal Accord remained unfulfilled relics of the past. However, the case of Punjab also demonstrates that maintaining the integrity of state-level electoral institutions plays a role in restoring local trust in political processes.

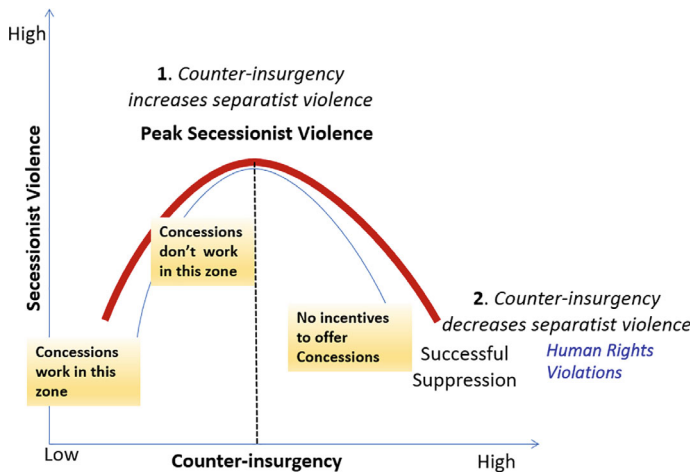


Fig. 31 Relationship between secessionist violence, counterinsurgency and concessions (*Note* Outcome 2 is achieved when the separatists’ militant insurgency receives limited external support from foreign countries and modest internal support from their own populace)

Conversely, military action becomes protracted when either internal or external support persists. In such scenarios, the government often resorts to revoking previously granted concessions to the secessionist region, as seen in the case of Jammu and Kashmir. In 2019, the Indian Government withdrew Article 370, thus ending the region's special rights. With this decision, the Indian Constitution is now fully applicable in Jammu and Kashmir. Further, the central government changed the region's status from a state to a union territory, bringing it under direct central administration. Interestingly, the decision has not resulted in the escalation of secessionist crises. Instead, it has resulted in stabilization and, in some accounts, a modest improvement in the situation.⁶ This thesis thereby emphasizes the interplay between the efficacy of military suppression and the adjustment of concessions, highlighting the conditional and reactive nature of government response to secessionist movements.

Finally, this study suggests that equalization policies can act as double edged swords. While an optimal level of fiscal equalization can resolve conflicts, the extremes of no equalization and full equalization can instigate anxieties, fears, and insecurities in low and high-income states respectively (Fig. 32). However, the emergence of secessionism in such economically aggrieved states is contingent upon the existence of an ethnic-economic overlap and a perceived sense of deprivation and disempowerment among ethnic minorities. These two conditions, essential for the rise of violent secessionism, are encapsulated by the Overlap Thesis and the Twin Catalyst Thesis.

The juxtaposition of Jammu and Kashmir with Assam, Bihar, Punjab, and Himachal Pradesh suggests that economic hardships or injustices alone are insufficient to ignite separatist sentiments. These hardships must intersect with a sense of identity and alienation (the Overlap Thesis), as well as political disempowerment or the inability to express grievances through established political institutions (the Twin Catalyst Thesis). The case of Punjab substantiates the viewpoint that the presence of political channels to express discontent, especially free and fair elections, is vital in fostering trust in legitimate constitutional channels among minorities. Post-conflict, state-level free and fair elections have kept anti-central sentiments from escalating beyond a certain point in Punjab.

⁶ This phenomenon runs counter to the hypothesis that secessionist crises intensify when symbolic concessions to minority nations are withdrawn by the central government, often to placate majoritarian views (Basta, 2021).

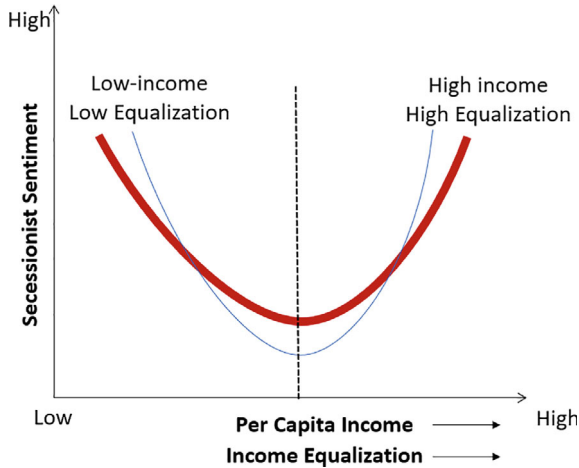


Fig. 32 Relationship between income status, equalization policies, and secessionist sentiments (*Note* These findings are subject to the existence of the ethnic-economic overlap (See Overlap Thesis) and the presence or perception of economic injustice and political disempowerment (See Twin Catalysts Thesis))

However, external support from foreign countries does play a role. Unlike Assam and Punjab, the persistent external support, primarily from Pakistan, has significantly contributed to the longevity and intensity of the conflict in Jammu and Kashmir (Fig. 29). The combination of identity elements, a sense of belonging to a marginalized national minority, economic deprivation, political disempowerment, and external support has sustained the separatist sentiment.

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