Regional disparities in india

N.J.Kurian

I. Historical Trends

India has had a glorious past. Our cultural heritage is comparable to that of China or Egypt. We had great kings and kingdoms. Half of the major world religions had their origin in India. We had produced great thinkers and philosophers who contributed to several branches of knowledge.

But most of our history before 1500 AD is in oral traditions. Indians, by and large, were not good at record keeping. This is especially true about hard facts and data relating to various aspects of life. Even for the period 1500 to 1750 AD data are rudimentary. The historical trends discussed in this section, by and large, are based on Cambridge Economic History of India edited by Dharma Kumar with editorial assistance by Meghnad Desai and Tapan Raychaudhuri and Irfan Habib.[1]

Mughal period (1500-1750)

India during Akbar's time was considered as prosperous a country as the best in the world. Though mainly agrarian, India was a leading manufacturing nation at least at par with pre-industrial Europe. She lost her relative advantage only after Europe achieved a revolution in technology.

The economy was village-based. Though under Muslim rule for over 500 years, the society continued to be organised in Hindu traditions. Caste system was intact. The social disparity often added another dimension to economic exploitation. While the Jajmani system ensured social security, the caste system ensured social immobility.

However, flexibility of the Jajmani system ensured that the artisans working under it were not completely cut off from the market. They were free to sell outside the village the surplus goods left after the fulfillment of community obligations. The traditional economic system based on agriculture and small-scale industries was not disrupted either by the activity of native capital or by the penetration of the foreign merchant capital.

There is historical evidence to indicate that there were food surplus and deficit regions as trade in foodgrains between regions took place. This contradicts the postulate that a uniform pattern of self-sufficiency for the entire sub-continent existed. For example, rice was being purchased from Konkan coast to be transported through sea to Kerala. Similarly, Bengal rice was

sent up the Ganges to Agra via Patna, to Coramandel and round the Cape to Kerala and the various port towns of the West Coast. The best mangoes in Delhi's Mughal Court came from Bengal, Golconda and Goa. Salt to Bengal was imported from Rajputana.

Domestic trade was facilitated by a fairly developed road network. Sher Shah Suri during his short regime laid the foundation of a highway system in India. He alone had built 1700 sarais for the convenience of travellers, mainly traders, on the highways.

India exported common foods like rice and pulses, wheat and oil, for which there was considerable demand abroad. Bengal, Orissa and Kanara Coast north of Malabar were the major grain surplus regions. Besides, Bengal exported sugar and raw silk, Gujarat exported raw cotton, while Malabar sent out its pepper and other spices.

The Indian merchant lived in a keenly competitive world but he accepted important social limits to competition. Business was organized around the family with an occasional trading partner from the same social group.

Agra during Akbar and Delhi during the reign of Shahjahan were no lesser cities that London and Paris of those days. Foreign travellers who visited India during the Sixteenth and Seventeenth centuries present a picture of a small group of ruling class living in great luxury, in sharp contrast to the miserable condition of the masses. Indigenous sources do not disagree; they often dwell on the luxurious life of the upper classes, and occasionally refer to the privations of the ordinary people. Such sharp inequality in living standards was not peculiar to India; it existed in a greater or lesser degree everywhere, including Europe.

The Indian village was highly segmented both socially and economically. There was significant inequality in distribution of farm land, though there was plenty of cultivable waste-land available which could be brought under plough if capital, labour and organization were forthcoming.

The share of produce retained by different classes of peasants varied. The general Mughal formula for the authorized revenue demand was one-third or one-half. The precise share depended on a number of factors—nature of the soil, relationship of the peasant with the Zamindar of the area, traditions, etc. Caste might have also played a role. For instance, in some parts of Rajasthan, members of the three upper castes—the Brahmans, the Kshetriyas or Rajputs and the Vaishyas or Mahajans paid land revenue at concessional rates. Because of these factors one would expect

considerable inequality within the village. In any case the class and caste distinctions superimposed on each other made the rural society extremely complex and unequal.

In comparison to the rural rich, the urban rich especially the merchants in coastal towns were much wealthier. Some of the merchants of Bengal and Gujarat had stupefying wealth. The pattern of life of the nobility and the upper class in Mughal India has become a byword for luxury and ostentation. There is hardly any evidence to show that the puritan style set up by Aurangzeb had any marked effect on the lives of the nobility. Of course, this consumerism created demand for a horde of luxury items which generated employment, income and general prosperity.

The British Period (1757-1947)

The debate concerning the level of India's economic development in the pre-colonial era is unlikely to ever reach a satisfactory conclusion as the basic quantitative information is absent.

Dadabhai Naoraji was the first one to make an attempt to estimate national and per capita income in India. He placed per capita income of India at Rs.30 in 1870 compared to that of England of Rs.450. However, since necessities in India cost only about one-third as compared to England at that time, the real difference in terms of purchasing power parity was not fifteen times but only five times.

The statistical reporter of the 'Indian Economist' ran a series of articles on the standard of living in India in 1870. One of the items which was given regionwise was value of per capita agricultural output for 1868-69. According to that it varied from Rs.21.7 in Central Province to as low as Rs.11.1 in Madras. Others were Bombay (Rs.20.0), United Provinces (Rs.12.1), Punjab (Rs.17.4) and Bengal, including Bihar and Orissa (Rs.15.9).

Regionwise birth rates, death rates and life expectancy at birth are given in the table below for the period 1901-1911 :

Table 1

Region	Birth rate	Death rate	Life expectancy	
			Male	Female
East	52.8	45.8	22.4	22.8
West	48.1	42.1	24.8	23.8
Central	46.6	31.3	31.7	32.7
North	48.6	48.7	21.7	19.2
South	40.3	32.2	29.8	32.3
All India	47.7	41.7	24.7	24.4

In 1901, there were 2093 towns in the Indian Sub-continent and about ten per cent of the population was urban. There was considerable variation in the level of urbanization across the country, it varied from 18.8 per cent in Bombay Presidency to five per cent in Bengal Presidency, including Bihar and Orissa.

The dependence on agriculture for livelihood varied considerably across the regions. While the share of cultivators in the male working force in Assam, Bihar, Orissa and Uttar Pradesh was 55 per cent or more, it was less than 40 per cent in Gujarat, Maharashtra, Kerala and West Bengal in 1911.

Industrialization in India, from the beginning, had been experiencing a duality. European entrepreneurs invested more and more in industries which were mainly export-oriented whereas Indian entrepreneurs concentrated on industries mainly for the Indian markets. Thus jute, tea, etc. were mainly in European hands whereas textile, sugar, etc. were mainly Indian. Apart from other factors, one main reason was that Indian market offered higher profit margins which Indian industrialists found easier to penetrate. Not surprisingly this tendency continues even today.

The benefit of irrigation development was mainly concentrated in northern, western and southern provinces during British period. Central and Eastern India were relatively neglected. This has had serious implications in the post-independence period also. While the former areas were ripe for benefiting from the green revolution package, the latter could not.

From its beginning in 1853, India's railway system expanded rapidly to become, by 1910, the fourth-largest in the world. This network which covered most of the Sub-continent, radically altered India's transportation system.

Railways vastly increased the speed, availability and reliability of transportation, reduced the cost, allowed regional specialization and expansion of trade. For attracting private investors, Government of British India assured guaranteed return. Under this scheme, which was used in other parts of the world to build railways, if a company did not attain a minimum rate of return of five per cent, it received compensation for the difference from the Government. Stimulated by an assured rate of return, British investors swiftly made their capital available to the private railway companies. By 1947 all but a few remote districts in far-flung remote regions were served by railways.

The fiscal system during the British rule gradually evolved into a federal system from a highly centralized control. Over the years relations between the centre and the provinces were made more elastic but not much more systematic. In particular, there was no attempt to equalize provincial levels of public services, or the tax burdens on similar classes of tax payers in different States. There were enormous differences in tax incidence and standards of public services in the beginning, and these differences were perpetuated since precedent was followed rather than any principle.

The main source of differences in tax burdens was the variation in the system of land revenue, the largest source of public revenue. This also explained one source of difference in expenditure. Bombay spent much more per head on nearly every head of expenditure than the others. The other provinces clamoured for less inequality but to little effect. Bombay continued to spend far more on every major head than the other provinces, and Bihar and Orissa far less. The poverty of these provinces became evident when they were separated from Bengal in 1912-13.

Table 2

Relative Provincial Expenditure per head on selected services
1876-77 and 1927-28, Bengal = 100

Province	General Administration		Education		Health	
	1876-77	1927-28	1876-77	1927-28	1876-77	1927-28
Bombay	374	411	325	345	285	141
Central	185	169	197	131	142	53
Madras	159	193	112	166	139	98
Punjab	244	103	145	199	135	126
United	140	103	110	123	78	51
Bengal	100	100	100	100	100	100
Assam	159	136	117	120	82	121
Burma	470	292	295	276	260	201
Bihar and Orrisa	---	75	---	83	---	51

Many critics also argued that the system did not even encourage economy, but rather extravagance, since the actual expenditure in one period formed the basis of allocations from the centre in the next. For the same reason, the provinces had little incentive to try to raise their tax revenues. A more or less similar situation exists in India even today when the Finance Commissions assess the revenue gaps of the States and try to fill such gaps by increased transfers.

Post-Independence Period

Government's economic policies during the colonial period were more to protect the interests of the British economy rather than for advancing the welfare of the Indians. The primary concerns of the Government were law and order, tax collection and defence. As for development, Government adopted a basically laissez-faire attitude. Of course, railways, irrigation systems, road network and modern education system were developed during this period. Railways and road network were more to facilitate movements of goods and defence personnel and to facilitate better administrative control. Irrigation canal system was mainly to fight repeated droughts and famines and to boost land revenue. Education, to begin with, was developed mainly to train lower-ranking functionaries for the colonial administration.

Particularly lacking was a sustained positive policy to promote indigenous industry. Indeed, it is widely believed that government policies, far from encouraging development, were responsible for the decline and disappearance of much of India's traditional industry.

Altogether, the pre-independence period was a period of near stagnation for the Indian economy. The growth of aggregate real output during the first half of the twentieth century is estimated at less than two per cent per year, and per capita output by half of a per cent a year or less.

There was hardly any change in the structure of production or in productivity levels. The growth of modern manufacturing was probably neutralised by the displacement of traditional crafts, and in any case, was too small to make a difference to the overall picture.

Along with an impoverished economy, independent India also inherited some useful assets in the form of a national transport system, an administrative apparatus in working order, a shelf of concrete development projects and a comfortable level of foreign exchange. While it is arguable whether the administrative apparatus built by the British helped or hindered development since 1947, there is little doubt that its existence was a great help in coping with the massive problems in the wake of independence such as restoring civil order, organising relief and rehabilitation for millions of refugees and integrating the Princely States to the Union.

The development projects initiated in 1944 as a part of the Post-war Reconstruction Programme was of particular value to Independent India's first government. Under the guidance of the Planning and Development Department created by the Central Government, a great deal of

useful work was done before Independence to outline the broad strategy and policies for developing major sectors and to translate them into programmes and projects. By the time of Independence several of these were already under way or ready to be taken up. They included programmes and projects in agriculture, irrigation, fertilizer, railways, newsprint and so on. Though the first Five Year Plan began in 1950-51, with the establishment of Planning Commission, a well-rounded planning framework was in place only with the second Five Year Plan after five years. By and large, the basis of the first Five Year Plan was the groundwork done before independence. Most of the principal projects were continuations and major efforts were made to complete them early.

II. **Recent Trends**

Indian economy has experienced an average annual growth rate of around 6 per cent during the last two decades. Though, moderate compared to the performance of several east Asian economies during the same period, this was quite impressive compared to the performance of Indian economy during the preceding three decades when the average growth logged 3.5 per cent per annum. Even the growth rate of 3.5 per cent experienced during the first three decades of the republic had been spectacularly better that the virtual stagnation of the Indian economy during the first half of the Twentieth Century.[2] In terms of per capita income, the improvement has been even more remarkable - around 4 per cent per annum in the recent period as compared to less than 1.5 per cent in the earlier period. Further, during the recent period, there has been a steady acceleration in the growth performance over the years. The average compound growth per annum was 5.7 per cent during the Sixth Five Year Plan (1980-85), 6.0 per cent during the Seventh Plan (1985-90) and 6.6 per cent during the Eighth Plan (1992-97). While the growth rate dropped to 3.1 per cent during the two-year period 1990-92 in the wake of international payment crisis and the introduction of major economic reforms, the growth process picked up fast in the subsequent years. Indeed, the growth averaged about 7.5 per cent during the three-year period ending 1996-97, which is impressive by any standards. The growth rate has been somewhat lower in the subsequent three years. In contrast to stagnation/negative growth of most of the East Asian economies India's performance, however, is remarkable. The World Bank and other international agencies have characterized India as one of the fastest growing economies of the world.

As is to be expected, improvement in economic growth and per capita income translated, at least partly, into reduction in the level of poverty in the country. Though there are differences in the estimates of the percentage of the poor by different sources, all agree that there has been a secular decline in the share of poor in the population since the late Seventies. The official estimates

of population below poverty line released by the Planning Commission on the basis of the Expert Group methodology indicates this secular downward trend:

Year	1977-78	1983	1987-88	1993-94	1999-2000
Percentage of poor	51.3	44.5	38.9	36.0	26.10

The last two decades had seen the introduction/expansion of several anti-poverty programmes and public intervention policies in favour of the poor including public distribution of subsidized food grains. The reduction in poverty in the recent period is attributed to anti-poverty programmes by their protagonists and to accelerated economic growth by market friendly experts.

Alongwith faster economic growth and reduction in poverty, there has been accelerated improvement in various indicators of human development since the early Eighties whether it is in the case of demographic characteristics or social development indicators. During the last two decades, the country has made major strides in health and education sectors. The economy got diversified significantly and the share of the service sector in employment and incomes improved considerably. While there is a broad consensus on the overall improvement of the economy and quality of life during the period under consideration, there are significantly differing perceptions about the distributional impacts of these gains.

Disparities in economic and social development across the regions and intra-regional disparities among different segments of the society have been the major planks for adopting planning process in India since independence. Apart from massive investments in backward regions, various public policies directed at encouraging private investments in such regions have been pursued during the first three decades of planned development. While efforts to reduce regional disparities were not lacking, achievements were not often commensurate with these efforts. Considerable level of regional disparities remained at the end of the Seventies. The accelerated economic growth since the early Eighties appears to have aggravated regional disparities. The on-going economic reforms since 1991 with stabilisation and deregulation policies as their central pieces seem to have further widened the regional disparities. The seriousness of the emerging acute regional imbalances has not yet received the public attention it deserves.

Most of the studies on inter-country and inter-regional differences in levels of living and income are done within the theoretical framework of neoclassical growth models. These models, under plausible assumptions demonstrate convergence of incomes. Three notable recent studies[3],

however, indicate that in the Indian context these convergence theories do not explain the ground realities.

The scope of analysis in this section is restricted to a comparative analysis of the emerging trends in fifteen major States[4] in respect of a few key parameters which have an intrinsic bearing on social and economic development. The variables chosen for examination include those which have a bearing on gender and equity issues. The fifteen States together account for 95.5 per cent of the population of India. The remaining 4.5 per cent of the population is spread out in 10 smaller States and seven Union Territories including the National Capital Territory of Delhi. Leaving out these States and UTs from detailed study is mainly due to non-availability of all relevant data and also to keep the data sets analytically and logistically manageable. The fifteen States taken up for the detailed study have been grouped into two - a forward group and a backward group. The forward group consists of Andhra Pradesh, Gujarat, Haryana, Karnataka, Kerala, Maharashtra, Punjab and Tamil Nadu. The backward group comprises of Assam, Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal.

Geographically, the forward group of States fall in the Western and Southern parts of the country and are contiguous except for Punjab and Haryana which are separated by Rajasthan from the rest of the States in this group. The group of backward States are in the Eastern and Northern parts of the country and are geographically contiguous. Another notable geographical feature is that while six out of eight States, except Haryana and Punjab, in the first group have vast sea coasts, only two out of the seven in the second group viz., Orissa and West Bengal are littoral. While the forward group of States account for about 40.4 per cent of the national population, the backward group accounts for as much as 55.1 per cent of the population of the country according to 2001 census[5]. In terms of natural resources including mineral wealth, water resources and quality of soil, the latter has definite edge over the former.

A limitation of inter-regional analysis using States as units is the fact that this may not be able to capture the significant intra-State disparities in economic and social development, which exists today. The larger States in both the groups have regions within themselves, which are vastly different in terms of various indicators of development. There are identifiable distinct regions, at different stages of development, in several States. After discussing the inter-regional disparities in development, treating States as units, we will take up intra-State disparities for a brief analysis in the latter part of the present study.

Demographic and Social Characteristics

As noted earlier, the group of eight forward States together accounted for 40.4 per cent of the population of the country whereas the group of seven backward States together accounted for as much as 55.17 per cent of the population of the country according to 2001 census. However, the contribution of the group of forward States to the country's population growth during the last decade was much higher at 59.2 per cent. On the other hand, the contribution of the group of backward States was as low as 33.8 per cent. All the States, except Assam and Orissa, in the backward group had a higher contribution to population growth than their share in population. Thus, Uttar Pradesh's contribution to population growth was 18.8 per cent against its population share of 16.2 per and Bihar's contribution was 10.1 against its share of population of 8.17 per cent.

In contrast, out of the eight States in the forward group, all except Maharashtra, Gujarat and Haryana had a lower contribution to population growth during the last decade than their respective shares in the population. Indeed, Kerala's contribution to population growth was as low as 1.5 per cent against its share in the population of 3.1 per cent and Tamil Nadu's contribution to population growth was as low as 3.4 per cent against its share in the population of 6.1 per cent.

To broadly characterise, the two groups of States are at different stages of demographic transition. States like Kerala and Tamil Nadu which have already reduced their birth rates to levels which are comparable to those of developed countries and achieved the replacement level of total fertility rate (TFR) of 2.1. All the remaining six States of the forward group are expected to reach the replacement level of TFR by 2025, one year in advance of the projected year of attainment of replacement level of TFR by the country. On the other hand, the seven States in the backward group are at different stages of demographic transition. Some of them like Uttar Pradesh, Bihar, Madhya Pradesh and Rajasthan continue to experience high rate of birth rates and fairly low levels of death rates and a significantly high level of TFR. On the other hand, States like Assam, Orissa and West Bengal have somewhat moderate birth and death rates and relatively moderate TFR. These three States are expected to reduce their TFR to replacement level well before the country's TFR comes down to that level. As against this, Bihar is expedited to reduce TFR to replacement level by 2039, Rajasthan by 2048, Madhya Pradesh by 2060 and Uttar Pradesh beyond 2100.

According to 2001 census, the literacy rate for the country is 65.4 per cent. All States in the forward group, except Andhra Pradesh, have literacy rates above the national average. Their rates vary from 90.9 per cent in Kerala to 67.0 per cent in Karnataka. The level of literacy in Andhra

Pradesh is only 61.1. In the backward group, all except West Bengal have literacy rates below national average. They vary from 64.3 per cent in Assam to as low as 47.5 in Bihar. The level of literacy in West Bengal is 69.2 per cent.

Census 2001 indicates that the gender gap in literacy has come down for the country from 24.8 percentage points in 1991 to 21.7 percentage points in 2001. Now the male literacy is 76.0 per cent and female literacy is 54.3. On the whole, the literacy gap is lower in the forward group of States as compared to the backward group of States. Six out of eight States in the first group, except Haryana and Gujarat, have literacy gaps below the national average. On the other hand, all States except Assam and West Bengal have gender gap in literacy higher than the national average. The gender gap in literacy is as low as 6.3 percentage points in Kerala and as high as 32.1 percentage points in Rajasthan. There appears to exist a strong inverse relationship between the gender gap in literacy and the status of women in society. Also, there is a fairly well-established inverse empirical relationship between the female literacy and TFR. The national as well as international experience is that with higher female literacy rate, birth rate come down irrespective of the social backgrounds, religious beliefs and income levels.

The group of backward States account for 63.3 per cent of the illiterate females in the country, a share which far exceeds its population share. On the other hand the group of forward States account for only 34.4 per cent of the illiterate in the country, a share far less than its population share. In this group, Andhra Pradesh is the only State where the share of illiterate females is higher than the share of population.

Income and Property

The most common indicator of the economic development of a society is the per capita annual income generated by it. The level of poverty or the share of population which do not have minimum income to meet its basic requirements is an indicator of the level of economic development as well as the inequality in the income distribution.

Per capita gross state domestic product (GSDP) as a percentage of per capita GDP of the country at four time periods since 1980-81 for forward and backward group of States are presented in the table below:

Table 3

Per capita GSDP as a percentage of GDP
(Three-year average of incomes at current prices centered on)

States	1981-82	1985-86	1990-91	1997-98
Forward group				
Andhra Pradesh	87.4	82.4	92.5	92.9
Gujarat	125.3	124.4	118.8	137.4
Haryana	146.5	139.9	146.6	139.4
Karnataka	92.8	93.7	95.4	107.2
Kerala	90.5	90.9	87.8	116.4
Maharashtra	143.0	134.7	144.7	167.5
Punjab	168.6	165.0	169.7	146.5
Tamil Nadu	92.8	97.0	100.0	119.5
Backward group				
Assam	83.6	92.1	83.1	62.2
Bihar	58.8	60.6	53.5	44.2
Madhya Pradesh	80.8	74.8	78.1	73.5
Orissa	75.0	74.7	66.9	61.8
Rajasthan	76.6	74.0	79.3	81.1
Uttar Pradesh	75.8	71.9	70.6	64.4
West Bengal	103.3	102.9	91.7	85.1
All India	100	100	100	100

This table is based on table 2 in Saumitra Chaudhuri.[6]

The table sharply focuses the differential growth in per capita incomes of the two groups of States over the last two decades, especially during the last decade. All the States in the forward group, except Haryana and Punjab have improved their relative position over the last two decades. Further, these improvements were more spectacular since 1990-91, especially in Gujarat, Kerala, Maharashtra and Tamil Nadu. It is noteworthy that the relative decline in per capita incomes of Haryana and Punjab was a phenomenon of the 1990s.[7] Percapita incomes of four out of eight States in the group were below the national average in the eighties. But by late nineties, all except Andhra Pradesh, have gone above the national average.

In contrast, all the States except Rajasthan in the backward group experienced relative deterioration in terms of per capita income. And the deterioration was more marked after the reforms. This especially is true of Assam, Bihar, Orissa, Uttar Pradesh and West Bengal. Indeed, West Bengal was the only State in this group, which had above national average per capita income to begin with. Though that State experienced significant growth in agriculture, especially in the eighties, because of the deterioration of industrial sector in the State the overall relative performance came down in the nineties.

Table 4 below presents the trend in percentage share of poor in the two groups of States individually and collectively.

Table 4

States	1983-84	1987-88	1993-94	1999-2000
Forward Group				
Andhra Pradesh	5.10	5.22	4.81	4.57
Gujarat	3.65	3.98	3.28	2.61
Haryana	0.92	0.83	1.37	0.67
Karnataka	4.64	5.17	4.88	4.01
Kerala	3.31	2.88	2.39	1.58
Maharashtra	9.01	9.65	9.53	8.76
Punjab	0.89	0.82	0.78	0.56
Tamil Nadu	8.05	7.53	6.31	5.01
Total for forward States	35.57	36.08	33.35	27.77
Backward Group				
Assam	2.41	2.47	3.01	3.63
Bihar	14.31	13.71	15.40	16.36
Madhya Pradesh	8.61	8.61	9.32	11.47
Orissa	5.62	5.40	5.01	6.50
Rajasthan	3.93	4.65	4.01	3.14
Uttar Pradesh	17.24	17.47	18.87	20.36
West Bengal	9.87	9.24	7.95	8.20
Total for Backward States	61.99	61.55	63.57	69.66
All India	100.00	100.00	100.00	100.00

Source: Planning Commission, Govt of India

The sharp decline in the share of poor in the forward States since 1987-88, especially after 1993-94 is commendable. We have already noted that there was a steep fall in the share of poor in the country during the nineties. The two together imply that the main beneficiaries of the overall decline in poverty in the country have been the fast growing States in the forward group. This, in a sense, unequivocally establishes the close positive relationship between poverty reduction and economic growth.

In contract, the share of the poor in the seven States in the backward group has gone up significantly. Now they account for about 70 per cent of the poor in the country. As the table indicates, each one of the States in this group, except West Bengal, experienced considerable increase in the share of the poor. West Bengal's exceptional experience was mainly on account of the fast growth in agricultural production and the associated rural prosperity. Again, the positive association between poverty reduction and economic growth, especially agricultural growth is to be noted. It may, however, be mentioned that since the overall poverty in the country has come down substantially in the nineties, an increase in the State share in poverty need not imply an increase in

the number of poor. Indeed, between 1993-94 and 1999-2000, the absolute numbers of poor in all the States have come down.

Resource Transfer from the Centre to the States

There is an in-built imbalance between the expenditure responsibilities and the revenue sources of the State governments. The founding fathers of the Indian Constitution were aware of this fact and ensured a comprehensive scheme of devolution of Central Tax revenues through the mechanism of Finance Commissions. The sharing of Personal Income Tax and Excise duties collected by the Centre with the States is periodically reviewed by the Finance Commission appointed every five years.[8] The Commission also decides the principles and the formula by which the allocable funds are to be distributed among the States.

An important aspect of the devolution of Central tax revenues under Finance Commission dispensation is that it has an in-built bias in favour of fiscally weak States. Population and per capita income of the State get high weight-age in the distribution formula.[9] A State with larger population and lower per capita income gets a higher share in the Central tax revenues. The gap between revenue receipts (other than the Central tax revenues) and revenue expenditure is another parameter, which decides the level of a State's share. As a result the Central tax share constitutes a major revenue source for the backward States. While it constitutes about one-third of the total tax revenues of all the States taken together; it accounts for more than 50 per cent of the total tax revenues of less developed States like Bihar and Orissa; but its share is less than 15 per cent of the total tax revenues of more developed States like Gujarat, Haryana, Maharashtra and Punjab.

A second channel of resources flow from the Centre to the States is Planning Commission, which provides Central Assistance for State Plans. The State plans are financed partly by States own resources and the balance by Central Assistance. Central assistance is provided as a block assistance of which 30 per cent is grant and the remaining 70 per cent is a long term loan. The rationale for this grant-loan proportion is imbedded in the fact that about 30 per cent of the plan expenditure was of revenue nature and 70 per cent was of capital nature when this proportion was decided in the late Sixties. Since plan expenditure of revenue nature is not expected to yield any financial returns for servicing the loan, this share was provided as grant by the Centre.[10]

The distribution of Plan assistance to the States has been governed by 'Gadgil Formula' since the Fourth Five Year Plan (1969-74). As in the case of Finance Commission devolution, 'Gadgil Formula' which is administered by the Planning Commission also has its built in bias in

favour of backward States. Population and per capita income together account for 85 per cent of the weight in the formula. The remaining 15 per cent weight-age is equally divided between State performance in the achievement of certain priority national objectives and the special problems of the States. Central assistance constituted about 45 per cent of the State Plans when all States are taken together. While the share of Central assistance constitutes less than 25 per cent of the Plan finances of the more developed States, it accounted for the major share of Plan finances of the backward States. Indeed, the Plans of the most backward States, especially the Special Category States, have been fully financed by Central Assistance.

In the wake of the foreign exchange crisis in the early nineties, the Centre has been encouraging States to seek and absorb more and more external aid for development projects. The external aid to the States is routed through Central budget and devolved as additional Central Assistance for State plan on the same terms and conditions as the normal Central assistance to the State Plans. From the early Nineties, there has been a substantial increase in aid flows to the States. However, the major share of such flows have been absorbed by a few developed States. As a result, during the nineties, there has been an apparent increase in the Central assistance to the more developed States. While 'Gadgil Formula' based normal Central assistance continued to be positively discriminating towards backward States, additional Central assistance for externally aided projects was skewed towards better off States. Indeed, external aid accounted for 40 to 60 per cent of Central Plan assistance to some of the developed States, while such assistance contributed less than 10 per cent of the Central Plan assistance to most of the backward States. Table 5 below presents the total number of external aid flowing to the States year-wise and the shares of a few States which accounted for the lion's share of such resource flows.

Table 5

External Assistance : Relative shares of States

States	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
All States (Rs. crore)	1887	3326	3741	3447	3832	3872	5252	5096	6356
Percentage share of:									
Andhra Pradesh	9.0	11.1	19.0	17.1	11.9	11.8	10.0	16.3	16.2
Gujarat	12.2	8.6	12.0	3.0	1.7	2.2	7.8	3.9	4.6
Karnataka	5.9	7.7	6.5	7.7	6.8	3.3	3.6	3.4	4.8
Maharashtra	11.2	10.2	13.0	15.3	16.4	21.4	19.2	12.7	9.2
Tamil Nadu	9.3	8.7	10.3	11.6	15.8	10.6	7.8	6.0	5.1
Uttar Pradesh	24.5	23.1	10.1	12.8	5.5	7.9	11.4	10.6	7.7
West Bengal	3.4	3.4	2.4	2.1	1.9	1.4	4.6	11.0	15.1
Total share of the seven States	75.5	72.8	73.3	69.6	60.0	68.6	64.4	63.9	62.7

Source: Controller of Aid Accounts, Ministry of Finance, Govt of India.

From table 5 it is evident that the total aid flows to the States have been showing a more or less steady growth in the last decade. However, there are heavily biased in favour of seven States, of which five belong to the forward group. In four out of nine years, the highest share went to Andhra Pradesh and in another three years it was the turn of Maharashtra. A redeeming trend indicated by the last row of the table is that the share of seven States has been secularly declining over the period.

As noted in the preceding paragraphs, resource flows through the Finance Commission and Planning Commission account for a substantial share of State resources. Though their overall effects are highly beneficial to the fiscal health of the States, there are certain adverse effects of such flows on the State finances. First, since the Finance Commission approach to revenue deficit is basically a gap-filling approach, this diminishes the incentive of the States to raise revenue receipts and reduce revenue expenditure. In other words, there is an implicit premium on fiscal profligacy. Second, continuing expenditure on plan schemes beyond the Five Year Plans became the committed expenditure of the States and add to their fiscal burden. Since there is a premium on plan expenditure, State governments have a tendency to under-fund maintenance expenditure to inflate the plan size. This results in poor maintenance of public assets created in the past and poor quality of public services, which are outside the plan. A further complication is due to steep increase in the revenue component of plan expenditure over the years. While the grant-loan ratio of Central assistance is still 30:70, the revenue share of State Plan expenditure has reached almost 60 per cent. As a result, the debt-servicing burden of the States has gone up significantly.

Pattern of Private Investment

In the wake of economic reforms initiated in 1991, the role of private investment has acquired a special significance in the context of economic development of various States of the Indian Union. Indeed, there has been an element of competition among States ever since for attracting private investment, both domestic and foreign. Some of the States have been offering various tax concessions and other special facilities to new investors on a competitive basis. We present State-wise data on investment proposals, assistance by all India financial institutions and assistance by State financial corporations in Table 6.

Table 6

Investment Proposals and Disbursal of Financial Assistance for Investment

Sl. No.	State	Percentage share of investment proposals between August 1991 and March 2000	Cumulative share of financial assistance disbursed by all India Financial Institutions (upto March end 1999)	Cumulative financial assistance disbursed by State Financial Corporations (upto March end 1999)
	(1)	(2)	(3)	(4)
1	Andhra Pradesh	7.5	7.2	7.8
2	Gujarat	17.3	13.5	9.3
3	Haryana	3.4	2.5	4.8
4	Karnataka	4.5	6.1	15.5
5	Kerala	1.1	1.7	4.4
6	Maharashtra	21.7	21.0	11.5
7	Punjab	4.4	2.4	3.6
8	Tamil Nadu	6.8	9.0	10.6
Sub-total (1 to 8)		66.7	63.4	67.5
9	Assam	0.7	0.5	0.5
10	Bihar	1.1	1.4	2.0
11	Madhya Pradesh	7.2	5.1	3.2
12	Orissa	2.6	1.8	3.7
13	Rajasthan	3.8	4.5	6.1
14	Uttar Pradesh	8.5	7.9	11.1
15	West Bengal	3.5	3.9	2.5
Sub-total (9 to 15)		27.4	25.1	29.1
All India		100 (Rs.908888 crore)	100 (Rs.312502 crore)	100 (Rs.20896 crore)

Source: 1. Annual Report 1999-2000, Ministry of Industry, Govt of India
2. RBI, Report on Currency and Finance 1998-99, Vol. 1

Notes: 1. Investment proposals include Industrial Entrepreneurial, Memorandum (IEM) Filed for items under delicensed sector and letter of indent in respect of items under licensed sector.
2. All India Financial Institutions include IDBI, IFCI, ICICI, UTI, LIC, GIC, IRBI and SIDBI.

The total investment proposals received by all the States and UTs since the inception of economic reforms in August 1991 till the end of March, 2000 are worth Rs.908,888 crore. The percentage share of different States in these investment proposals is given in column 2 of Table 6. The disparities are obvious. The group of forward States accounted for two-third of the amount while the group of backward States accounted for just over 27 per cent of the amount. Indeed, Gujarat and Maharashtra together accounted for 39 per cent of the investment proposals, which is significantly more than the total investment proposals received by all the States in the second group. While Gujarat which accounted for less than 5 per cent of the population of the country, received over 17 per cent of the private investment proposals; Bihar which accounts for more than 10 per cent of the population of the country, received just a little over one per cent of such proposals. This is a clear pointer to the direction of private investment in the coming years.

The cumulative share of financial assistance disbursed by all India Financial Institutions upto March end 1999, State-wise, are given in column 3 of Table 6. The great divide between forward and backward States is clear. Maharashtra alone received almost as much financial assistance as all the States in the second group put together. It may, however, be noted that Mumbai being the headquarters of large number of private companies in the country, it is possible that some of the financial assistance accounted for as Maharashtra's may be actually flowing into other States for actual investment. Here again, the shares of States like Assam, Bihar and Orissa are far below their respective population shares. These figures give a clear indication as to where the resources mobilized through the all India financial institutions are flowing into.

The last column of Table 6 gives the share of cumulative financial assistance provided by the State financial corporations during 1991-99. The pattern is not any different from the other sources of financing private investment as far as the State-wise distribution is concerned. While over two-thirds of such assistance is provided by the financial corporations in the forward States, just 29.1 per cent is accounted for by all the States in the backward group.

The State-wise details of banking operations in the country as on March 31, 2000 are presented in Table 7. Column two gives the State-wise distribution of bank branches in the country. It is obvious that, by and large, the bank branches are fairly distributed across the States without any major bias towards the group of forward States. It may need mention that this could be attributed to the banking sector policies pursued after nationalization of the major commercial banks in the country in 1969.

Table 7

Bank Branches, Deposits and Bank Credit

(As on 31st March, 2000)

Sl. No.	State	Bank Branches	Share of bank deposits	Share of bank credit	Credit-deposit ratio
1	2	3	4	5	6
1	Andhra Pradesh	5102	5.3	6.9	63.8
2	Gujarat	3626	5.9	5.1	49.8
3	Haryana	1492	2.1	1.6	41.4
4	Karnataka	4697	5.4	6.6	61.0
5	Kerala	3231	4.6	3.7	42.3
6	Maharashtra	6205	19.9	25.9	83.8
7	Punjab	2498	4.6	3.2	39.1
8	Tamil Nadu	4736	6.6	11.5	88.0
Sub-total (1 to 8)		31587 (48.3)	54.4	64.5	
9	Assam	1229	1.0	0.6	31.5
10	Bihar	4992	4.3	2.1	22.5
11	Madhya Pradesh	4472	3.9	3.6	49.2
12	Orissa	2216	1.5	1.2	39.8
13	Rajasthan	3306	2.8	2.4	46.7
14	Uttar Pradesh	8855	9.9	5.1	27.5
15	West Bengal	4382	7.5	6.2	45.2
Sub-total (9 to 15)		29452 (45.1)	30.9	21.2	
All India		65340	100	100	57.1

Source: RBI, Report on Trend and Progress of Banking in India, 1999-2000.

The shares of different States in bank deposits as on March 31, 2000 are given in column 3 of Table 7. The inter-State and regional disparities are obvious from these data. The group of forward States account for over 54 per cent of the bank deposits while the group of backward States accounts for only about 31 per cent of the bank deposits. Maharashtra alone accounts for about 20 per cent of the bank deposits.

The distribution of bank credit across the States given in column 4 of Table 7 shows that bank credit distribution is even more skewed than bank deposit distribution. This implies that a part of the deposits mobilized in the backward States is getting transferred to the advanced States. While the first group of States accounted for about 65 per cent of the bank credit, the second group of States could receive only about 21 per cent of the bank credit. Indeed, Maharashtra alone accounted for more bank credit than all the seven States in the second group put together. Similarly, all the States in the second group, except Uttar Pradesh and West Bengal, put together received less bank credit than Tamil Nadu. The implications of such skewed distribution of bank credit across the States on economic growth and income distribution in the coming years are obvious. The fact that Maharashtra and Tamil Nadu have major metros in them might have helped them to get higher share of bank credit. Having Calcutta as the State capital might have helped West Bengal also somewhat. In this connection, it may be of interest to note that all the 15 States considered together which account for 96.5 per cent of the population of the country accounted for only around 85 per cent of bank deposit and bank credit. The fact that the remaining 15 per cent have gone to the minor States and UTs may be somewhat surprising. This, however, is because of NCT of Delhi accounting for over 10 per cent of bank deposits and bank credit.

The last column of the Table gives the credit-deposit ratios for different States. Credit-deposit ratio captures the discrepancy in credit absorption vis-a-vis deposit mobilization. Exceptions apart, credit-deposit ratios are much more favourable to the group of forward States as compared to the backward States.

III. Intra-State Disparities

In the foregoing sections, we have examined the various dimensions of interstate disparities. An important aspect of regional disparities in India, which could not be covered by this approach, is the significant level of regional disparities, which exist within different States. An important cause of regional tensions which lead to popular agitation and at times militant activities is such regional disparities in economic and social development which exist within some of the States. Indeed, creation of some of the States in the past was in the wake of popular agitation based on perceived neglect of certain backward regions in some of the bigger States. The best examples of such cases are the creation of Andhra Pradesh and Gujarat in the Fifties and creation of Punjab, Haryana and Himachal Pradesh in the Sixties. The latest example is the creation of three new States caved out from an existing larger State viz., Madhya Pradesh, Bihar and Uttar Pradesh respectively. The past experience, by and large, is that when two or more States are carved out from an existing one or a new State is created by combining parts from more than one State on the basis of some

homogeneity criterion like language or some other common heritage, the newly created States develop faster than the pre-partition States.

A number of States included in our analysis have clearly identifiable regions which are at different stages of development and which have distinct problems to tackle. Creation of new States, certainly, may not be a solution to such regional disparities. At the same time, it is important to recognise such intra-State regional disparities explicitly and tackle them through special efforts. As we have noted in an earlier section, Maharashtra is a typical example of a State where overall development is quite good in terms of almost all indicators, but extreme regional disparities exist.[11] Andhra Pradesh has three distinct regions which are at different stages of socio-economic development, viz. Coastal Andhra, Telangana and Rayalaseema. Similarly, North Bihar and South Bihar before State reorganisation in 2000 were at different stages of development with entirely different problems. Uttar Pradesh, even after caving out Uttaranchal, has at least three regions with varying problems and different levels of socio-economic development. Other States like Gujarat, Karnataka, Madhya Pradesh, Orissa, Rajasthan and West Bengal also have regions with distinct characteristics of backwardness.

A closer examination of the nature of backward regions in each State will indicate specific reasons for their backwardness. The major cause of backwardness of Vidharba and Marathwada in Maharashtra, Rayalaseema and Telangana in Andhra Pradesh and Northern Karnataka is the scarcity of water due to lower precipitation and lack of other perennial sources of water. On the other hand, backwardness of certain regions in Gujarat, Madhya Pradesh, Bihar and Orissa can be associated with the distinct style of living of the inhabitants of such regions who are mostly tribals and the neglect of such regions by the ruling elite. Topography of a region could also constrain the development of that region; the desert region of Rajasthan is an example of such a case. Historical factors like the attitude of rulers of the former Princely States towards development could have significantly affected the development of a region. For example, the distinctly higher level of social development of the Travancore and Cochin regions of Kerala can be traced back to the enlightened attitude of the former rulers of the Princely States of Travancore and Cochin. On the other hand, the poor social development of Telangana region of AP and certain other parts of the Deccan could be traced back to the absence of visionary rulers in the respective princely States.

An important question, however, is why after 50 years of planned development efforts, such intra-State disparities remain unattended? Often, the answer depends on whether it is given by people who are the victims of underdevelopment or not. The representatives of the backward regions often attribute the cause of their backwardness as neglect on the part of the rulers of the

State, who are often from the well heeled regions. The ruling class may come up with any number of explanations for the underdevelopment of backward regions, which are beyond their control. Indeed, there are specific institutional arrangements for development of backward regions in some of the States. Maharashtra and Uttar Pradesh (before State reorganisation) are two such examples. In Maharashtra, there are separate regional plans for the backward regions. In Uttar Pradesh, there was a separate regional plan for the hill region which is characterised as Uttarkhand.

Besides the State-specific efforts for reducing intra-State regional disparities, a number of Centrally Sponsored Programmes have been in operation for the last two to three decades for taking care of specific aspects of backwardness of such regions. The Tribal Development Programme, the Hill Area Development Programme, the Western Ghat Development Programme, the Drought Prone Area Programme and Desert Development Programme are examples of such ongoing efforts. The evaluation studies of some of these programmes have indicated clearly identifiable benefits of such programmes, though at the same time criticised these programmes for their cost-ineffectiveness due to various drawbacks in their design, planning and implementation. Often they are conceived, planned and implemented by the bureaucracy without any involvement of the local people. More often, discontent and agitation on the basis of perceived neglect of the backward regions by the rulers at the State level and at the Centre are led by local leaders who demand some form of autonomy to determine their own destiny. Even those who demand separate State for their region are often willing to settle for autonomous regions within the existing State with considerable financial and administrative powers. The problem, however, is that the State level rulers are generally unwilling to part with their own power of patronage. Those who demand more autonomy for the States from the Centre are often unwilling to share power, either administrative or financial, with the elected local bodies. Indeed, with the 73rd Amendment Act of the Constitution, the Panchayat Raj Institutions were expected to function as local governments with sufficient finances and functions to take care of most of the developmental functions. If they are allowed to function as responsible self-governing local governments, considerable ground can be covered to reduce the regional disparities within the States.

Before concluding this Section, we may mention a few successful cases, where intra-State regional disparities have been reduced considerably through public policies. First, in 1956 when Kerala was formed at the time of State re-organization, there was substantial disparity in the social development of Malabar region vis-a-vis the Travancore-Cochin region. Over the last four decades, there has been remarkable improvement in the social indicators of Malabar to catch up with the rest of Kerala as a result of appropriate public policies. The development of the drought prone districts of Haryana through irrigation is another remarkable example of reduction in

economic disparities across the regions within a State. Provision of educational, health and communication facilities even in the remotest villages of Himachal Pradesh is a third example of successful public policies in reduction of regional disparities within a State. Overall, Tamil Nadu could be considered as one State which is most successful in reducing regional disparities in economic and social development even when there was substantial variation in the natural endowments in different parts of the State. This was achieved by a combination of public policies and private initiatives. In other States, especially in Maharashtra, Gujarat and Rajasthan, there are a number of successful cases of NGOs which succeeded in transforming pockets of destitution into areas enjoying very high levels of socio-economic development.

IV. Profile of Regional Disparities for Different Growth Scenarios 2025

An analysis of the historical trends, especially the more recent trends, leads to the inevitable inference that regional disparities are bound to aggregate in the coming decades. Regions, which are characterized as backward in our foregoing discussions, have very weak growth impulses.

Their demographic disadvantage is implicit in the fact that major States in this region, viz., Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh are likely to have fertility rates exceeding the replacement level well beyond 2025, a level which some of the forward States like Kerala and Tamil Nadu have already achieved and others are expected to achieve within a decade or so. We have noted that if the current trend is projected, Madhya Pradesh will reach replacement level only by 2060, and Uttar Pradesh only by 2100.

The implications of these divergent demographic trends on population density, employment opportunities, social sector investments and the overall development can be extremely grave. One of the major objectives of development planning initiated immediately after Independence has been, among others, reduction of regional disparities in social and economic development. Direct investment by the Central Government and Centrally directed investment of the private sector have been two powerful instruments to achieve this objective.

During the first four decades of development planning, most of the large units in basic and heavy industries were set up in the public sector in a regionally well-balanced manner. Indeed, their location, other things being equal, was biased towards backward regions as natural endowments such as mineral deposits were concentrated in those regions. Massive public investments have been made to provide economic and social infrastructure in the backward regions to accelerate their overall development.

The natural tendency of the private sector is to set up industries and other related activities in developed regions. To counter-balance this tendency, various incentive and disincentive schemes have been introduced as public policies to direct private investments to backward regions. Fright equalization scheme was just one of them.

The efforts of the first four decades of planned development to reduce various imbalances across the regions have been only partially successful. At best they have ensured that regional disparities in terms of various indicators of development are not aggravating. Of course, even this is no mean achievement.

Economic reforms initiated in 1991 implied among, other things, that the private sector would be the principal engine of economic growth. Most of the restrictions on private investment have been removed. Mounting debt burden of the government has imposed a cap on public investment. As a result, while there was significant increase in the quantum of private investment, there was a sharp fall in the public investment over the last decade.

The flow of private investment, both domestic and foreign, has been extremely biased in favour of the more developed regions of the country. This has enabled the developed regions to achieve accelerated economic growth during the 1990s. On the other hand, backward regions of the country, which were unable to attract any significant private investment flows, experienced decelerated economic growth during this period.

The net result of this divergent growth performance of the developed and backward regions has been a widening of the regional disparities in the country in terms of per capita income and other indicators of well-being of the people.[12]

The ability of the governments at the Centre and in the States to counter this trend by effecting countervailing public investment also has been reduced considerably. In the context of macro-economic stabilization policies initiated in 1991, the ability of the Centre to finance public investment by borrowings has been severely constrained. Revenues of the Centre also experienced reduced buoyancy in the wake of tax reforms especially due to reduction in customs tariff to levels comparable to those of our trading partners.

The factors which attracted more and more private investments to developed regions have been their better developed economic and social infrastructure as well as more efficient and investor friendly State governments. The backward regions, to be attractive to the private investors, have to improve their infrastructure facilities, both economic and social, considerably. This needs

substantial public investment. The State governments in the backward regions are, however, strapped for funds even to meet the current expenditure.

Almost all the State governments in the backward regions find that their entire revenues are not sufficient to meet even the committed revenue expenditure like interest liability, salaries and pensions. A sizable share of their borrowings is diverted to fill the gap between the revenue receipts and revenue expenditure. There are several States where borrowings have been steadily increasing, but investments have been decreasing secularly.

The adverse impacts of the deteriorating State finances are much more severe for the backward States as compared to the developed States, where investments of the past have created adequate social and economic infrastructure to attract private investments. The backward States are facing multiple dilemma. They are not able to attract investments due to lack of infrastructure. They are not in a position to provide these facilities on their own due to lack of investible funds. Unlike in the past, Centre is not in a position to help them either as the Centre itself has a serious fiscal constraint.

Alongwith social and economic infrastructure, efficiency of administration and the quality of governance including law and order situation are important factors in attracting private investment. Studies conducted by NCAER and some of the apex associations of industries have indicated that prospective investors give higher weight-age to these factors than various incentives, including fiscal incentives offered by the State governments. Indeed, there are enough evidences to the effect that the investors don't mind paying speed money to get things done fast. In other words, a corrupt but efficient regime is preferred to an honest but inefficient regime in the context of investment decisions. Other aspects of governance like the law and order situation, trade union activism, etc., are also important factors affecting the flow of private investments.

On almost all indicators of governance discussed above, the backward States are at a disadvantage. Indeed, even perceptions about the governance issues based on past may haunt the States in such matters. The cases of Kerala and West Bengal are typical in this regard. All the efforts of these two States during the last decade to woo the investors, both domestic and foreign, have not yielded any significant results. This was mainly on account of the general perception of investors that these States are dens of militant trade union activism, though in reality such militancy, of late, has been significantly subdued in these States.

To conclude this section, it will be appropriate to state that there are hardly any signs of reversing the recent trend of accentuating regional disparities in the country in the coming decades.

Indeed, almost all the relevant forces are such that the disparities are likely to widen deriving the next quarter century. It will require Herculean tasks on the part of the Centre and the leadership in the concerned regions to ensure that the gap does not widen further.

V. **Impact on political, social and economic stability**

It comes out clearly from the discussions in the preceding section that if the past trends, especially those of the recent past continued for the next two decades or so; India will be a highly uneven nation in terms of various dimensions of public life. Incomes and living standards will vary considerably across the nation. People in most of the southern and western parts of the country will be enjoying fairly high per capita incomes, which may be comparable to those of middle income developed countries today. More than half of the people in this part of the country will be living in cities and towns with all modern facilities. Even in rural areas amenities of modern life and reasonably efficient civic facilities will be available. Almost all the children of school-going ages will be attending schooling. There will be hardly any difference between boys and girls in school. The gender difference in literacy will have almost disappeared. Population growth might have come down below replacement level in all the States in this region. A few States like Kerala and Tamil Nadu might have reached stable population level. The average health and nutrition level might have increased significantly. Life expectancy in all States of this region might have crossed 70, both for men and women.

The sectoral employment and incomes will have changed considerably. The share of agriculture in the State domestic product will be 10 to 20 per cent in different States and the population dependent on agriculture will be 20 to 40 per cent.[13] The share of tertiary sector in employment and income will have increased significantly and accounting for 30 to 40 per cent of employment and 50 to 60 per cent of incomes. Secondary sector will account for the balance.

On the whole, productivity of labour will be increased substantially in all the sectors mainly on account of new technologies and skill-endowed labour forces. As a result of secular economic growth of 8 to 10 per cent for over two decades and negligible population growth, per capita incomes in the region will have nearly quadrupled as compared to today. Even in agriculture, which would have been highly diversified and market-oriented, incomes will have gone up significantly. Also, because of effective watershed management, even in the drought prone areas, yearly fluctuations of agricultural output will have been minimal.

Abject poverty and deprivations will be unheard of. An effective food security and social security administered by the village Panchayats takes care of the needs of the poor. The Panchayats

will administer most of the civic facilities as well as social and economic infrastructure and services. A similar situation will prevail in the urban areas also. One of the major problems in the larger cities, however, will be ensuring civic facilities and housing for the migrant labour from the other parts of the country.

VI. **Policy initiatives for balanced regional growth**

We shall initiate the discussion on initiatives for balanced regional growth by illustrating two instances of initiatives in the past. One relates to agriculture and the other relates to industry, the two most important sectors of our economy. The strategy to boost agricultural production and to ensure food security was evolved in the mid-Sixties when the country faced a grim situation following two consequent years of severe draught. The strategy consisted of various incentives to farmers to adopt high yielding seeds of wheat and paddy along with complimentary inputs, assured minimum support prices for the output, buffer stocking of the foodgrains and supplying the same to the States to distribute through the public distribution system (PDS) to the consumers, especially in the deficit regions. To back up this strategy, institutions like Agricultural Prices Commission (APC), Food Corporation of India (FCI) and Warehousing Corporation of India and other ancillary institutions were established. Arrangements were made to spread the message of high yielding seeds and the associated package of inputs and practices.

The above strategy ushered in a green revolution, which resulted in doubling of wheat and rice production in the country over a short period. Adequate foodgrains surpluses were generated to build up the needed buffer stock. India was no more a 'basket case'.

The initial success of green revolution strategy was restricted to Punjab, Haryana and western Uttar Pradesh where assured irrigation networks already existed. Subsequently it was extended to a few irrigation commands in the South and West also. It was, however, expected that with the expansion of assured irrigation the green revolution would spread to other parts of the country soon. In the event this did not happen. Even today almost the entire foodgrain surpluses are generated by the small region, which benefited initially. Though massive public funds are spent on food subsidies, very little is spent on spreading irrigation. Besides food subsidies, large implicit subsidies to farmers for power, diesel, canal irrigation, fertilizer and credit are born by public exchequer at the Centre and in the States. Agricultural Price Policy which was evolved by APC to ensure adequate protection to the interests of the producers and consumers has been 'high-jacked' to serve the interests of the large farmers who produce for the market. It hardly serves the interests

of farmers in the emerging surplus regions. The distinction between support price and procurement price is no more there. Similarly, the Food Corporation of India and the associated procurement agencies operate, by and large, only in the traditional surplus regions and farmers in newly emerging surplus regions almost invariably end up selling their surpluses in distress.

Today the foodgrain management and the food security system is near collapse. As against a total requirement of 24 million tonnes of foodgrain for buffer stock and PDS together, the public stock is over 60 million tones as on July 1,2001. A substantial share of this is not even properly stored and may not be suitable for human consumption. On the other hand due to severe drought conditions large scale unemployment and hunger are reported from several States. Per capita net availability in the market has come down. PDS system has virtually collapsed. Poor people cannot afford the 'so called economic price' of foodgrains available in the PDS shops.

This is a classic case of a public policy evolved with much thought and resulted in significant gains for the country, as a whole, for several years initially but gone sore subsequently. Instead of adjusting the agricultural and food security policies to expand the scope of green revolution technology to the other regions of the country, they were allowed to be high-jacked by vested interests.

The other example of a major public policy, which had gone sore after initial success is the industrial policy. In the Fifties, when India initiated a policy of import substitution by starting various industries in key sectors there were very few critics both within the country and abroad. Indeed, the industrial policy embedded in the second Five Year Plan, giving emphasis to basic and heavy industries, was lauded equally by Russian experts as well as western experts. That policy enabled the country to lay the foundations of an industrial base.

Gradually the ills of public sector undertakings and the stifling effects of a market without competition became more and more evident. By late Sixties and early Seventies, several perceptive observers noted that there was need to deregulate the industrial sector to allow competition. Government, instead, went ahead with nationalization of more and more key sectors of the economy and also further throttling of private sector to control concentration of wealth and industrial power. The result was further retrogression and immiserization of the economy.

The above two examples have been described in some detail to make the important point that major public policies initiated with thought and foresight and which initially yielded results, subsequently generated into fiefdom of powerful vested interests who will try all the trides in their trade to frustrate corrective measures. Kulaks and the so-called 'Deshi' industrialists who benefited

from 'licence-permit raj' are not the only vested interests who stand in the way of programmes and reduction in regional disparities. The list includes politicians, trade unions, bureaucracy, various monopolists in the economy and the educated intelligent who occupy positions of power and patronage. Most of them collect one kind of 'rent' or other which they are not willing to give up only when there is crisis they will loosen their stranglehold, that too only a little which will suffice to defuse the crisis.

The economic reforms initiated in 1991 was also essentially crisis driven. It was the international payment crisis which forced the country to carry out deregulation of trade and industry. Again, once the crisis was overcome reforms also slowed down. There are several vital areas of reforms, which we have been talking about for the last one decade without doing much—public sector reforms, reform of labour laws, reform of the legal system, establishment of effective regulatory bodies and so on. Again, it is the politicians, the bureaucrats, the 'Deshi' industrialists and the trade union leaders who are standing in the way. They do not want to give up the powers, perks and monopoly profits, which they have been enjoying.

The main interest of the foreigners in India is its large potential market. Unless the rural incomes grow, especially in the backward regions this potential market will not be realized. Corporate India must realize that its future lies with the masses. Raising rural incomes should no longer be looked upon only as a philanthropic objective.

Also reduction of regional disparities should be looked upon as a national objective. The strength of a building depends on the strength of its weakest pillar. In a similar way the strength of the Indian economy depends on the strength of the economy of Bihar. Similarly, the bottomline of India's human development will depend on the incomes and socio-demogrpahic indicators of development in northern and eastern India.

While the development of depressed regions is a national responsibility, the solution mainly rests with the local leadership. Unless the local leadership—political, bureaucratic and intellectual—resolve to usher in development based on sharing the gains on egalitarian basis with the masses, results will be hard to come by. Resources are not the real constraint. It is the way resources are spent. Large sums are spent on education and health care in the backward States. But the results are not there. This happens because the teachers and medical personnel who are expected to provide the requisite services draw their salaries but provide poor services or no services. Unless this kind of work culture in public services changes, funds alone will not solve the problems.

Lastly, with divergent trends in various sectors of development, there emerges a resistance to vertical and horizontal fund transfers to the backward regions by forward regions. Immediately after the report of the Eleventh Finance Commission there was an uproar from the so-called 'performing States' against increased tax revenue devolution to the backward States. One of the main arguments was that non-performing States are rewarded for their non-performance. It is imperative that Centre and the leadership of the backward States should evolve institutional arrangements to ensure that funds transferred result in the best use in terms of development.

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Notes :

1. The Cambridge Economic History of India, Volume I and II. General Editors: Dharma Kumar and Tapan Ray Chaudhuri, Orient Longman, Third Edition, 1991.
2. See for detail : S. Sivasubramanian : The National Income of India in the Twentieth Century, Oxford University Press, New Delhi, 2000.
3. These are (i) convergence of incomes across Indian States – A Divergent View by M.G. Rao, R.T. Shand and K.P. Kalirajan, (ii) Trends in Inter-State Inequalities of Income in India by Nirupam Bajpai and Jeffery D. Sachs, and (iii) Widening Inter-State Economic and Social Disparities in India by Fahrettin Yagci. The first study was published in EPW, March 27, 1999. The other two were presented in a seminar organized jointly by the World Bank and the Institute of Social and Economic Change at Bangalore in May, 1999.
4. With the recent reorganization of the States, there are a total of 28 States, besides 7 Union Territories in the Indian Union now. In the absence of the relevant data, for the purpose of the present study, we consider the undivided States of Bihar, Madhya Pradesh and Uttar Pradesh.
5. See for detail : Provisional Population Totals – Paper One of Census of India 2001, Registrar General and Census Commissioner of India, New Delhi
6. Soumitra Chaudhuri : Economic Growth in the States – Four Decades – 1; Money and Finance, Vol.2, Number 4, Oct-Dec., 2000.
7. It is well known that Punjab and Haryana with their heavy dependence on agriculture (44 per cent and 38 per cent of GSDP respectively) could not gain significantly from deregulation and liberalization which helped the other States in the forward group to grow faster through accelerated growth of industry and service sectors.
8. The Tenth Finance Commission recommended an alternate formula for devolution of a fixed share of the pooled tax revenues from all major taxes, including customs duty and corporation tax. This was to be made effective from April, 1996 which required an amendment to the Constitution. Though the Government had accepted alternate formula, in principle, the required Constitutional amendment was carried out only in May 2000.
9. The formula recommended by the Eleventh Finance Commission gives the following weights : Population – 10.0%, per capita income – 6.25%, Area – 7.5%; Index of infrastructure –7.5%, Tax effort – 5.0% and Fiscal discipline – 7.5%. While State-wise allocation is inversely related to per capita income, it is directly related to all other variables.
10. Over the past three decades, the share of revenue expenditure in the plan expenditure has been steadily increasing due to various reasons to reach an averse level of about 60% for all States together. As a result there has been persistent demands from the States to the Centre to raise the grant component of Central assistance to atleast 50%.
11. An important characteristic of Maharashtra's development is its regional concentration. Most of the high income activities are concentrated in Mumbai-Pune region. Further, a substantial share of income accrues to migrants who transfer part of their earnings to their places of origin. These factors may partly explain the paradox of high per capita NSDP and high share of population below poverty line in Maharashtra.
12. A recent report by National Commission on Population titled 'District-wide Social Economic Demographic Indicators' rank 569 districts in the country on the basis of a composite index based on 12 indicators. While almost all the districts (95%) in the developed region have ranks above 300, half of the districts in the backward region have their ranks below 400. Indeed, the socio-demographic distance between the two regions is frighteningly large.
13. If current trend continues, Punjab and Haryana are likely to have a higher level of dependence on agriculture. However, since the present system of foodgrain management based on procurement at support prices is likely to collapse soon on its own weight policy changes are imminent. This will lead to a significant reduction of dependence on agriculture in these States.

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