Regional Disparities in India

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I am motivated to write this column from an hour long discussion with one of my friends while returning from a conference on Economic Development in India. Scholars of different parts of India presented their papers on different issues of Indian economic development. There were papers related to state wise variations of economic and social indicators. The main concern of those studies is that there is a wide disparity of the values of those indicators among the states. Some states are lagging far behind the other high growth states in terms of many social and economic indicators. The basic question that emerged was what policies a less developed state will take to catch up with the fast growing states. Let us discuss some issues on the factors behind the difference of growth among states and what could be the possible way out in narrowing the development gap among the states. Recognizing the need to make growth 'more inclusive' in terms of benefits of growth flowing to all sections of population 'inclusive growth' is the major thrust of The Eleventh Five-Year Plan (2007-12). It has been understood that the benefits of growth have not reached all parts of the country in an equitable manner.

In late nineties I had a paper on the regional growth and convergence of Indian states during early period of liberalization. In that paper we argued that in contrast to the conventional results of the developed countries, Indian states have been diverging over the period. Moreover, this result does not nullify the role of planning through disbursement of development funds across the states. The Indian scenario exhibits interesting relationship between private and public capital in the regional context. Till then there were a number of papers published in different national and international journals. However the conclusions of those papers regarding growth and convergence are not unidirectional. The national character in terms of their economic and social indicators of most of the developed countries, particularly the small countries are almost homogeneous. On the contrary the national character of India in terms of her population, geography, culture and economy is diverse in nature. Thus this heterogeneity is also reflected in economic and social development of different regions on India. A major thrust of the economic policy, since the initiation of the planning process way back in the 1950s was to foster 'balanced' regional development with active support for industrialization in backward regions as well as through minimizing interregional disparities in costs and prices. The well known policy of 'freight-equalization' and subsidies to industries in backward regions point towards the commitments of the planners towards harmonious progress of the nation. But the disparity of all round development among the states is still a major concern of the policy personnel.

Let us first review the latest positions of the states in terms of some major indicators. If we do not consider the figures of Union Territories the Census of 2011 tells us that population density of the states varies from 17 persons per square kilometer in Arunachal Pradesh to 1102 in Bihar, which indicates a wide variation of demographic character of Indian states. In terms of literacy rate Kerala is the most advance states with 93.3 percent literate population while the figure of Bihar is only 67 percent. According to Human Development Report of India 2011 the Infrastructural Development Index (IDI) shows a wide variation among the states. Values of the IDI in the states like Bihar, Orissa, Assam, MP and Rajasthan are cradled around 88. While the States like Punjab and Kerala the figure is above 150. It is found from the values of HDI and the values of IDI that there is a correlation between these two values. However, there are some states with high IDI but low HDI and vice versa. But the figures of inequality indicate that many states with high IDI and HDI have very high value of inequality. For example, Tamil Nadu with a very high value of IDI (149.3) shows 22.9% of the people is below poverty line while Rajasthan with lowest value of IDI (75.9) have only 18.7% of population below poverty line.

Now, if we look at some of the other economic indicators of the states we also find large variations among these states. Welfare of any country or region is primarily reflected in the state of per capita income or Gross Domestic Product (GDP) of that region. If we look at the recent figures on Per Capita Net State Domestic Product (PCNSDP) of Indian States we again find a large disparity among the states. The rank of Uttar Pradesh is the lowest with only Rs. 2461 (about 38 US$) per annum while Haryana is top in the list with Rs. 8026 (about 147 US$), which is almost four times high of the lowest figure. Some low ranking states are Assam, Madhya Pradesh, Bihar and Orissa (less than 55 US$). And some high ranking states are Gujarat, Andhra Pradesh, Punjab and Tamil Nadu (more than 125 US$). The figures of growth rate of PCNSDP during last 20 years show a wide variation among the state. If we consider the sectoral components of different states the figures shows a wide deviation of share of agriculture sector in total GDP and a moderate variation in industrial sector. However, we find a minimum variation in the share of service sector in total GDP. Also, if we compare the year wise value of the dispersion of share of these sectors it is observed that the dispersion of agriculture is increasing over time while those of industry and service sector are declining.

The development of a region can be verified from the growth of GDP and is components. It is observed again that the states with low level of PCNSDP also have very low rate of growth compared to other high growth states. This phenomenon of growth could be explained by the theory of convergence. The pioneering works of Barro and Sala-I-Martin gives an empirical verification of the theoretical model of convergence, which basically rests on the concept of diminishing marginal productivity of capital. The application of convergence theory on Indian states shows two basic results. First, the period of post-liberalization shows divergence from the steady state path of development while during the pre-liberalization period the states show convergence of per capita income. Second, if two groups of states are clubbed according to some economic and social characteristics convergence of PCNSDP is found for both the groups. The states are grouped as BIMAROU (in Hindi 'BIMAR' means illness) states (Bihar, MP, Assam, Rajasthan, Orissa and UP) with poor social and economic condition and the other NON- BIMAROU states. This phenomenon can be described as conditional convergence. The first result is obvious from the diminishing role of planning in India after taking the policy of liberalization. If the investment in any region is controlled by market force only, then the poor regions will get less priority compared to advance regions. Naturally the growth of per capita income in those states lagged far behind the developed regions. The second result indicated that there exist a low level equilibrium of the per capita income for the states with low level of infrastructure and other economic and social variable.

Now let us think about growth differentials of the regions or states.

Though there is a relationship between infrastructure and development in a diverse country like India it is very natural that growth depends not only on some standard economic factors like initial per capita capital stock or infrastructural facilities of that region. Many non economic issues may be responsible for the low growth rate of a region. However, not all the factors act equally to all the regions in fostering growth. In some states the negative impact of political activities may be more important than other factors while in some other regions the issue of ethnic and cast conflict poses main hindrance of growth. Some other common state specific factors like geographical locations, demographic structures etc. are also responsible for determining the growth rate. In some recent literature of economic development it is argued that social attitude is one of the main forces of productivity and growth. The trust worthiness of the people towards their organization leads to a better relation among employees and employer that helps to increase higher productivity and growth. Thus the policy to remove or narrowing the differences of economic development among the states should also consider the non economic factors like attitude, social and political issues along with economic factors like infrastructural development, restructuring of tax system and investment policies of the states.