

# 19

## **Growing Regional Inequalities in India – An Experience of Post Reform Period**

**Dr. Madhu Sharma\***

India Has been one of the Fastest Growing Economies in the developing World Since the 1990's, its annual GDP growth averaged 6.1 Percent From 1992 to 2000 and 7.2 Percent during 2002-06. With an anticipated growth of 8.1 Percent in the Last three Years Ending in 2005-06 (Economic Survey 2005-06)

Rapid growth has to be an essential Part of the Strategy Since it is only in a rapidly Growing Economic That We Can expect to raise the income of the mass of the Population Sufficiently to Bring about a General Improvement in Living Condition. Fortunately, the growth Objective is now more achievable than it has ever been. Work done in the Planning Commission and Elsewhere Suggests that the Economy Can Grow between 8 Percent and 9 Percent and Population Growing at 1.5 Percent per Years. But What needs to be ensured is that Growth is Broad Based, Benefited all Parts of the Country and especially the Rural areas.

This must be accompanied by a Major effort to provide the Basic Facilities such as Health, Education, clean drinking Water etc., to Large Parts of Our National economic Performance and the Success or Failure of various aspects of National Policies, but there is Relatively little analysis of how Individual States Have Performed Over time and the role of State Government Policy in Determining state Level Performance. This

---

\* Associate Professor, Economics Department, R.S.S. P.G. College, Pilkhuwa, Ghaziabad (U.P.)

neglect is to some extent the Natural Consequences of not Specifying state-specific Growth targets in our national Plans which are approved by the National Development Council which includes all the chief Ministers. The plan document lays down GDP growth targets for the Country as a whole but this aggregate growth is not Disaggregate into targets for the growth of state Domestic Product in Individual states. The plan also does not report the growth Performances of different states in the past, nor analyse the reason for differences in performance across states. The annual economic survey brought out by the Finance Ministry is also silent on these issues and yet there are very good reasons why we should pay much greater attention to this subject. We are a federal democracy in which the constitutional division of Powers Between the centre and the state makes the states pre-eminent in many areas and co-equal with the centre in other. Government at the state level are run by different political parties and competitive Politics should make the Performance of Individual state a Matter of high Political and electoral interest. Liberalisation has reduced the degree of control exercised by the centre in many areas Leaving much greater scope for state level initiative. This is particularly True as far as attracting investment both Domestic and Foreign is concerned. State Level Performance and Policies therefore deserve much closer attention than they receive, it is Particularly important to study the differences in performance among states in order to extract lessons about what works and what does not. A better understanding of the reasons for the superior Performance of some states would help to spread country to the Other.

Balanced regional growth is necessary for the harmonious development of a federal state such as India. India However, Present a picture of wide regional Variations, in terms of such indicators of economic growth as per capita income, the proportion of population living below the poverty line, working population in agriculture the percentage of urban population to total population, the percentage of workers in Manufacturing industries, etc. Relatively speaking some states are economically advanced while others are relatively backward. Even within each state, some regions are more developed while others are almost primitive. Regional imbalances may be Natural due to unequal natural endowments or man made in the

sense of neglect of some regions and preference of others for investment and development effort. Regional imbalances may be inter-state or intra-state. they may be total or sectoral.

To study regional imbalance, the 15 major states of India have been classified into two major groups forward states and backward states. Among the forward states are included Punjab, Gujarat, West Bengal, Haryana, Maharashtra, Karnataka, Kerala, Tamil Nadu and Andhra Pradesh. Among the backward states are Madhya Pradesh, Assam, Uttar Pradesh, Rajasthan, Orissa and Bihar. These 15 states taken together accounted for 90 percent of the total population in 2001—about 48% in the forward states and 42 percent in the backward states.

### Some Indicators of Regional Inequalities

#### 1. Per Capita Income as Indicator of Regional Imbalance

**Table 1. Per Capita Income of Indian states at Constant (1993-94) Price in Rupees**

States	1993-94	2003-04
Forward States		
Punjab	12710	15800
Gujrat	9796	16779
Maharashtra	12183	16479
Haryana	11079	15721
West Bengal	6756	11612
Karnataka	7838	13141
Kerala	7938	12109
Tamil Nadu	8955	12976
Andhra Pradesh	7416	11333
Backward States		
Madhya Pradesh	6584	8284
Assam	5715	6520
U.P	5066	5702
Rajasthan	6182	8502
Odissa	4896	6487
Bihar	3037	3557

Source: Ministry of Finance, India Public Finance Statistics 2004-05, Statistical abstract of India 2007.

Per Capita Income of Indian States is an important indicator of Regional Disparity. For our Purpose, we have classified the States on

the basis of per Capita income into forward and backward states.as the table 1 Show Punjab topped the list as it had the highest per capita income in 1993-94 and Bihar was at the bottom. However, in 2003-04 Gujrat was at the top and Bihar was at the bottom on the basis of per Capita income.

**2. Net State Domestic Product (NSDP) as the indicator of Regional disparity**

**Table 2. State wise Net Domestic Product at Constant Price (1993-94)**

States	RS Crores		Annual average Growth Rate 1990-91, to 2004-05
Forward States			
Punjab	23693	43122	4.37
Maharashtra	79869	182388	6.06
Haryana	18215	37983	5.37
Gujrat	36207	90783	6.79
West Bengal	40633	103361	6.88
Karnataka	29845	76298	6.91
Kerala	19774	44056	5.86
Tamil Nadu	43937	90137	5.26
Andhra Pradesh	45131	97699	5.65
Sub Total	337304	765826	6.03
Backward			
Madhya Pradesh	41833	53539	1.78
Assam	12299	19041	3.18
Uttar Pradesh	74791	109768	2.79
Rajasthan	29713	59911	5.11
Orissa	13450	28871	5.052
Bihar	37607	33460	-0.99
Sub Total	209693	304590	2.069
All India	623407	1364027	5.76

Source: -Ministry of Finance Indian Public Finance Statistics 2004-05, Statistical abstract of India 2007.

Table:2 indicates that the average growth rate of net state domestic Product of Forward States Was 6.03 Present, while that of the

Backward States was only 2.69 Percent Per annum. These differentials Aggravated Regional Disparities During the Post Reform Period. While Forward States like West Bengal, Karnataka, and Gujrat indicated Very High Growth Rates of NSDP (over 6 Percent) the backward states like Uttar Pradesh, Madhya Pradesh ad Bihar (with very large population)Indicated very low growth rates during the 14 Years Period(1990-91 and 2004-05) The Most Distressing fact was that Bihar Indicated a Negative growth rate of NSDP at (-) 0.99 Percent,While Uttar Pradesh with a Population of 1666 million (16.2 percent of total Population) indicated a Very low Growth rate of 2.79 percent. Madhya Pradesh Showed a Very Dismal Performance with a growth rate of merely 1.78 percent of NSDP. This implies that the Backward States With Very Large Population Share -U.P, Bihar and Madhya Pradesh- acted as a Drag on the growth Process of the Indian Economy, Orissa and Rajasthan Have Picked up growth rate of the Order of 5.52 percent and 5.11 Percent Respectively, Which Though Still Quite Low, are Showing Sing of Improvement vis a vis other Backward State During the 14 Years Period.

The Planning Process by Helping the Backward Regions, made an effort to reduce Regional Disparities, But the Forces of Liberalization and Globalization Strengthened Investment in forward States Much More than in Backward States. Consequently, regional Disparities in Growth Rate Widened Further.

### 3. Infrastructural Disparities:

**Table 3. Level of Infrastructure Development**

States	Per Capita Power Consumption 1996-97	Registered Vehicles Per 1000 Persons as on 31.03.97	Road Length per 100 km of Area of the States
Forward States			
Punjab	790	103.2	113.1
Maharashtra	557	57.2	73.1
Haryana	508	64.6	61.0
Gujrat	686	91.5	55.6
West Bengal	197	19.8	69.9
Karnataka	338	56.5	73.0
Kerla	236	46.5	358.2
Tamil Nadu <sup>469</sup>	469	56.9	157.5

Andhra Pradesh	332	42.1	20.7
Backward States			
Madhya Pradesh	368	38.8	47.6
Assam	108	19.9	86.7
U.P	194	22.7	72.7
Rajasthan	295	45.1	38.0
Orissa	447	22.9	134.8
Bihar	145	16.4	50.6
All India	338	44.0	91.7

Source:-Planning Commission,Ninth Five Years Plan (1997-2002) CMIE,Profiles of States,March 1997 and tata Services L. T.D,Statistical Outlines of India (1999-2000) & Eleventh Finance Commission (2000)

Glaring Infrastructural Disparities are Visible in India. Table 3 Provides data on Consumption of Power per Capita,Registered Vehicles per 1000 Persons,Road Length per 100 sq Kms.of Area.

Consumption of power per Capita is an Indicator of Level of Energy Consumption From data Given in Table 3.it is evident that but for Andhra Pradesh,Kerala and West Bengal,all the Other Forward States are above the National Average of 338 Kwh in 1996-97.As Against Bihar and U.P.are Way Behind at 145 kwh and 194 Kwh Respectively.

Stateswise Number of Registered Vehicles per 1000 Persons is an Important Indicator,though it cannot be Treated as a Comprehensive indicator of the level of Transport Development,Since it does not take

Into account (a) Railways and (b) Road Length per 100sq Kms.Which has become a major Source of Transport,While Creation of Infrastructure is Important but the intensity of its use would depend upon the state of Development of the State In Terms of Net State Domestic Product as well as Per Capita Income.It is due to this Reason that Certain Anomalies Need to be explained.For instance Orissa Has 134.8 Kms of Road length per 100 Sq Kms of area,but it ranks very low in terms of NSDP (Both total and per Capita income) This explains the under Utilization of Roads.

Whether we use Registered Vehicles per 1000 persons it is also not an Indicator by itself indicates the intensity of utilization.to that extent,the use of these Criteria to Indicate a direct Connection Between them and rate of Development has its own Limitations,Infrastructure developments can be demand Drives when it is Followed by investment

in directly Productivity Activities and it is Supply Driven when it is Preceded by investment in Directly Productive Activities. Demand Driven extension of infrastructure leads to its better Utilisation with very little time lag but supply Driven enlargement of capacities does lead to its Utilisation with a time lag. There can be Justification of both approaches. Nevertheless, the development of infrastructure is an essential, though not a Sufficient Condition for Development.

#### 4. Central Assistance to State Plans:

**Table 4. Central Assistance to State Plans**

<b>Plan</b>	<b>Total Assistance To all States (Rs Crore)</b>	<b>Total Assistance to backward States (Rs Crore)</b>	<b>Percentage of Assistance Backward State</b>
Sixth Plan (1980-85)	16560	7590	46
Seventh Plan (1985-90)	31420	13200	42
Eight Plan (1992-97)	93830	35160	37
Ninth Plan (1997-02)	185260	69990	38
Tenth Plan (2002-07)	254100	91080	36

Source:-Compiled from Tenth Five Year Plan (2002-07) Table 6.1.P.118 of Vol.III

The resource Transfers relate to Central Assistance for State Plans, Transfers Effected under the Recommendations of Finance Commission, adhoc Transfers From the Centre to the State, the Distribution of Assistance for Centrally Sponsored, the Distribution of Long Term and Short Term Credit From Financial institution etc. The Share of the Backward States in the Plan outlay and in Central Assistance Steadily Rose from 48 Percent in the First Plan to 57 percent in the third Plan . Since then, the Share of the backward states in the central Plan Assistance has Been Gradually Declining to 50 Percent in the fifth Plan, 46 Percent in the Sixth Plan and 37 Percent in the Eighth Plan. The tenth Plan has Projected a Further Decline to 36 Percent.

## 5. Social Infrastructure and Human Development

**Table5. Selected Indicators of Human Development**

States	Life Expectance at Birth (Years) (1999-2003)	Literacy Rate in Percent (2001)	Death Rate (per Thousand) 2005	Birth Rate (per Thousand) 2005	IMR (per Thousand) 2005
Forward States					
Punjab	68.4	69.9	6.7	18.1	44
Maharashtra	66.4	77.3	6.7	19.0	36
Haryana	66.4	68.6	6.7	24.3	60
Gujrat	63.5	70.0	7.1	23.7	54
West Bengal	64.1	69.2	6.4	18.8	55
Karnataka	64.6	67.0	7.1	20.6	50
Kerala	73.6	90.9	6.4	15.0	14
Tamil Nadu	65.4	73.5	7.4	16.5	37
Andhra Pradesh	63.7	61.1	7.3	19.1	57
Backward States					
Madhya Pradesh	57.1	64.1	9.0	29.4	76
Assam	58.0	64.3	8.7	25.0	68
U. P.	59.3	57.4	8.7	30.4	73
Rajasthan	61.3	61.0	7.0	28.6	68
Orissa	58.7	63.6	9.5	22.3	75
Bihar	61.0	47.5	8.1	30.4	61
All India	62.7	65.4	7.6	23.8	58

Source: Government of India, Economic Survey (2006-07) and Census of India 2001, Series-1-India, Paper 1 of 2001.

Table 5. Presents Data on Selected Indicators of Human Development Viz, Life Expectancy Literacy Rate, Infant Mortality rate, Death rate and Birth Rate. If the Purpose of all Development is to Improve the Quality of Life, Then Human Development Indicators are end Product of the Development Process.

Wide Disparities are Observed among Different States. Kerala and to Some Extent Tamil Nadu Have Show that it is Possible to achieve Higher Levels of Human Development even with Low Level of economic Developments but, by and large, Better Levels of per Capita Income are associated with Higher Levels of Human Development. To Achieve Higher



Levels of Development, it is Necessary that Investment in Education and Health infrastructure be Stepped up. Among the Backward States Bihar, Rajasthan and Uttar Pradesh Have Very Poor Record in terms of Literacy. They Have also Failed to Make adequate investment in health infrastructure and Consequentiy have Lower Life Expectancy, Higher infant Mortality rate Higher Birth rate . The Private Sector Which is the torch bearer of economic reforms may be setting up Nursing Homes or Elite Educational Institutions with Higher Levels of Charges or Fees to meet the Demand of the Upper Middle Class and affluent Sections but is does not other anything for the welfare of the poor. Either the private Sector Should Assume a Higher Social Purpose or the State Should Invest More in Education and Health Infrastructure.

N.J. Kurian after Making a Detailed analysis of Regional Disparities after the Initiation of Economic reforms reaches the Following conclusion. "The Accelerated Economic Growth Since the Early 1980's with increased Participation by the Private Sector Appears to Have aggravated regional Disparities. The ongoing Economic Reforms Since 1991 with Stabilization and Deregulation Polices as their Prime Instruments and very Singificant Role for the Private Sector Seem to have Aggravated the Inter-State Disparities." He Further States The Better Off States are able to attract Considerable amount of Private Investment, Both Domestic and Foreign, to Improve their Development potential Because of the existing Favourable investment Climate including better Socio-economic infrastructure.

The backward States are unable to attract private Invesment because of unfavourable investment climate including Poor . infrastructure they are unable to improve the investment climate by improving the existing poor infrastructure Facilities due to lack of Resources. Their Lack Resources is Linked to their Poor development. Thus They are Truly in a Vicious Circle"

#### **6. Disparities in State HDIs in India:**

**Table 6. Disparities in State HDI in India**

<b>States</b>	<b>States HDI</b>
Kerala	0.773
Tamil Nadu	0.657

Karnataka	0.633
Nagaland	0.620
West Bengal	0.610
Maharashtra`	0.580
Punjab	0.537
Uttar Pradesh	0.532
Arunachal Pradesh	0.513
Gujrat	0.479
Chattisgarh	0.471
Sikkim	0.454
Himanchal Pradesh	0.433
Rajasthan	0.424
Assam	0.407
Orissa	0.404
Madhya Pradesh	0.394

Note :- Data for States has Been re-arranged in the descending Order on the Basis of State HDI.

Source: State Human Development Reports (SDHRs) as Given in Eleventh Five Years Plan 2007-2012)VoI.I

Indian Has the Largest Programme of any Country in the world for the Preparation of Human Development Reort at the State Level.so far,18 States Have Published these reports. Others are in the process of preparation. On account of difference in methodology, the human development Indices (HDI) developed by them are not comparable, notwithstanding that, they broadly indicate the level of human development in a state. According to the Human development report countries which attain HDI level of 0.8 and above are classified among the high HDI countries. Those with HDI in the range of 0.5 to 0.8 are among medium HDI countries and others showing HDI below 0.5 are among the poor HDI countries. Treating India as a sub continent and considering each state as a country, we observe that none of the India states can be classified as one with a high HDI. Kerala with an HDI of 0.773 is making an effort to reach the high HDI category. Arunachal Pradesh, Karnataka, Maharashtra, Nagaland, Tamil Nadu and Uttar Pradesh fall in the Medium HDI Range. All other states are in the range of low HDI. Efforts have, therefore, to be made to concentrate development on those sections of our population which have remained poor, lack health and education

facilities. The backward states should be helped to catch up with the relatively more advanced HDI states.

The upshot of the analysis of Indicators of regional disparities is the though even during the planning process, there is some evidence of the growth of regional disparities but still, the state made a conscious effort to reduce them. But the reform process, which strengthened market forces within the country, coupled with globalization favour the forward state and neglected the backward states. As a result regional disparities were aggravated.

### **Conclusion**

A federal system involves explicit and implicit balancing of the interests of its constituent units. Perception of fairness among the constituents units can matter as well as the objective material gains from being part of the larger nation. India has faced these issues since independence (and earlier) and central policies have always incorporated inter regional and inter state considerations, in matters such as directing investments, controlling prices and restricting the movements of certain goods. The loosening of Central Control that has been an important part of the reform package has heightened two related fears: first, that the poor would be left behind: Second, that some constituents political units of the nation would be left behind.

There are some indications of increases in regional inequality, but they are neither uniform nor overly dramatic. To some extent, increases in regional inequality are driven by factors that are necessary for accelerated growth-in particular, the more efficient allocation of private capital, foreign as well as domestic. The state government policies can make a difference; government in poorer states such as Madhya Pradesh and Rajasthan have made strides in improving, on average, the relative standard of living of their constituents. Hence liberalization does necessary leave certain states behind.

The Central government may also draw some lessons from the empirical evidence on regional inequality. Clearly, inter-governmental transfers cannot remove such inequalities. However they can be designed to more clearly meet classic Musgravian horizontal equality objectives, without reducing incentives for fiscal discipline, than is a

case now. Streamlining the centre state transfer system can only help isolate any interstate disparities that are likely to cause political tensions, and make clear the redistributive effort that is politically necessary. In the respect, it is important to recognize that implicit financial transfers by the central government, through its control of the financial system, have been important and have after favoured higher income states [Rao, Shand and Kalirajan 1997]. Reducing the pervasive government presence in the financial sector can be an important complement to making the inter-governmental transfer system at all levels more efficient, if regional inequalities are to be clearly addressed by the government policy.

Our conclusion is the India's record with respect to inequality in the post reform period is not bad, with respect to potential problem of growing regional disparities. Economic reform has actually done better than many commentators have expected, Clearly these are policy improvements that can help further in managing inequalities, but they are much more in the spirit of further reform than of any backpedaling.

### References

1. Ahluwalia, Montek (2002), "*State level performance under economic reform in India*" In Anne Krueger (ed.), *Economic policy reforms and the Indian Economy*, University of Chicago press, Chicago.
2. Bhandari, Laveesh and Aarti Khare (2002), "*The geography of post 1991 Indian Economy*" Indicus Analytics, New Delhi, April.
3. Singh, Nirvikar and T.N. Srinivasan (2002), "*Indian Federalism, Economic reform and Globalization*", paper prepared for CREDPR projected on globalization and comparative federalism.
4. Rao, M. Govinda, Ric Shand and K.P. Kalirajan (1999), "*Convergence of Incomes across Indian states: A Divergent View*," *Economic and political weekly*, March 27 April 2.
5. Planning Commission of India (2002). *National Human Development Report*, <http://planning.commission.nic.in/nhdp/nhd2001.pdf>

6. Bhattacharya, B.B. and S. Sakthivel (2004) "*Regional growth and Disparity in India: Comparison of pre-and post-Reform Decades,*" Economic & political weekly. 29(10) 6 March.
7. Vithal, B.P.R. and M.L. Sastry (2002) "*the Gadgil formula for allocation of central assistance to state plans,*" centre for economic and social studies, Hyderabad.
8. Nirvikar Singh, Laveesh Bhandari, Aoyu chen, and Aarti Khare, "*Regional Inequality in India: A fresh look*".
9. Government of India (2004), Report of the twelfth finance commission (2005-10).
10. Reddy, G.R. (2005), "*Twelfth Finance Commission and backward states,*" (mimeo), centre for economic and social studies, Hyderabad.
11. Hayyar, Deepak (2006), "*Economic growth in independent India,*" Economic and political weekly, No, 15 April.
12. Government of India, Economic Survey, 2005-06.
13. UNDP (2005) Human Development Report.
14. Rao, C.H.H. (2006) "*Growing Regional Disparities in development in India: Post reform experience and challenges Ahead.*" Lecture dedicated to the memory of Prof. A.M. Khusro, the 88<sup>th</sup> annual conference, the Indian Economic Association, December, 27-28, 2005, Published in UMA Kapita (ed), economic development in India, Vol. 97.
15. Kurian N.J. "*Widening Regional Dispartieis,*" Economic and political weekly, Feb 12-08-2000.