Inter-State Disparities under Economic Liberalisation in India (1981-2001)

Dissertation submitted to Jawaharlal Nehru University in partial fulfilment of the requirements for the award of the degree of

MASTER OF PHILOSOPHY

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CERTIFICATE

This is to certify that the dissertation entitled **INTER-STATE DISPARITIES UNDER ECONOMIC LIBERALISATION IN INDIA (1981-2001)** submitted by **RASHMITA BEHERA** in partial fulfilment of the requirements for the award of the degree of **MASTER OF PHILOSOPHY**, is ~~her~~ our own work and has not been submitted for the award of any degree of this or any other university.

Rashmita.
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We recommend that this dissertation be placed before the examiners for evaluation.

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New Delhi *Rashmita Behera*

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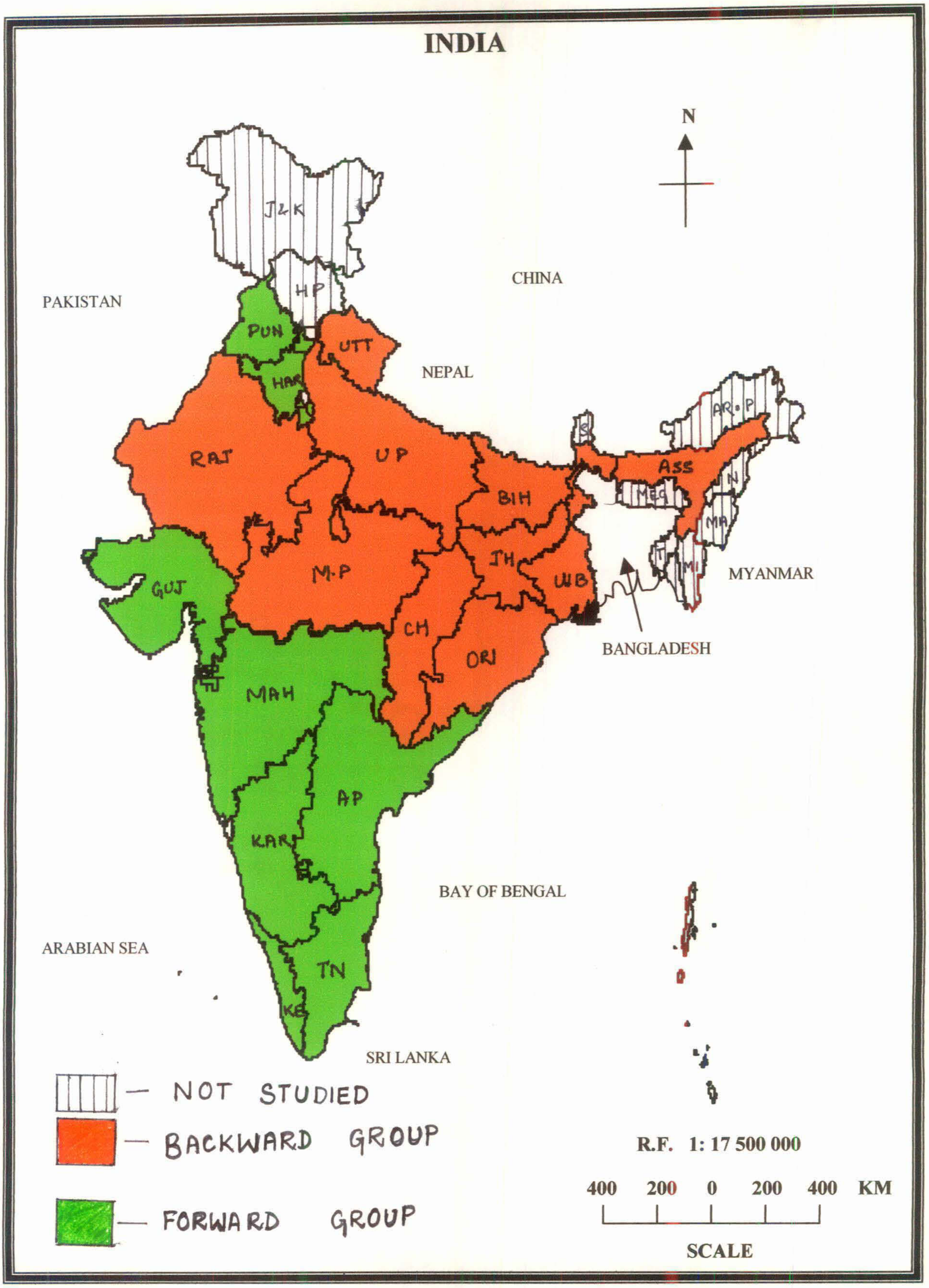
PATTERN OF GROWTH AMONG INDIAN STATES



Introduction

1. Statement of the Problem:

Regional imbalance is a ubiquitous phenomenon in both developed as well as underdeveloped economies. However, it seems to have become glaring and acute in developing nations. National economies are often composed of a set of smaller and localised economies. It is because of this factor that it becomes essential for the constituent regional economies to be brought into some sort of harmony for the overall prosperity of the national economy.

Balanced regional growth is necessary for the harmonious development of a nation. However, almost all the large economies of the world present a picture of [1]extreme regional imbalances, in terms of indicators like per capita income, proportion of population living below the poverty line, population engaged in agriculture, the percentage of urban population to rural population, percentage of workers in manufacturing industries, percentage of population working in the tertiary sector, etc. Economic backwardness of a region is indicated by symptoms like high pressure of population on land, excessive dependence on agriculture leading to high incidence of rural employment, absence of large-scale urbanisation, low productivity in agriculture and cottage industries etc.

According to D.S.Bhullar, regional inequalities may be natural, due to differences in natural endowments, or manmade in the sense of neglect of some regions and preference of others for investments and development efforts. The process of development starts first in the naturally favoured regions. Once the process of development starts, these regions become favoured for investments. Further he says, the problem of economic disparity between regions has now been increasingly realised by economists and statesmen of both developed as well as underdeveloped countries. Though developed countries also experience social unrest because of regional imbalances, however, economic and social disparities are widely observed in underdeveloped countries like India, Pakistan, Bangladesh, etc. The very existences of

[1] Bhullar, D S (1998): *Regional Economic Disparities and Area Planning*, Jaipur: ABD Publishers, Pg. 6-7.

regional disparities are threatening the political and economic stability of the various nations of the third world.[2]

Balanced regional development is necessary for political as well as economic integration of a nation. No single country would be regarded as having a well-integrated economy as long as glaring disparities persisted between the levels of development and standard of living in different areas within it. Shankar and Shah have claimed that, "Regional inequalities represent an ever present development challenge in most countries especially those with large geographic areas under their jurisdictions. Globalisation heightens these challenges as it places a premium on skills."[3] In their view typically rich regions also have better educated and skilled labour, the gulf between rich and poor regions widens. In the words of Amaresh Bagchi and N J Kurian, "Large regional disparities represent serious threats in federal states as the inability of the state to deal with such inequalities creates potential for disunity and, in extreme cases, for disintegration."[4]

As put forward by "Federal countries, however, do better in restraining regional inequalities. This is because widening regional disparities pose a greater political risk in federal countries like India. In such countries inequalities beyond a threshold may lead to a voice for separation from both rich as well as poor corners of the country. While the poorest regions may consider such inequalities as manifestation of regional injustice, the rich regions may view that a union with the poor regions may possibly hold them back in their drive towards prosperity in the long run."[5]

India had adopted a planned development model after independence for the overall development of the country. However, it was realised that the development in the country was highly imbalanced and therefore steps were taken to direct heavy investment towards the backward regions for establishment of heavy industries,

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[2] Bhullar, D S (1998): *Regional Economic Disparities and Area Planning*, op.cit. , Pg. 1-2.

[3] Shankar, Raja and Anwar Shah (2001): 'Bridging the Economic Divide within Nations: A Scorecard on the Performance of Regional Development Policies in Reducing Regional Income Disparities', *Policy research Working Paper2717*, Washington DC: World Bank, Pg. i.

[4] Bagchi, Amaresh and N. J. Kurian (2005): 'Regional Inequalities in India-Pre and Post Reforms Trends and Challenges for Policies', in Jos Mooij edited *The Politics of Economic Reforms in India*, New Delhi: Sage Publications, Pg. 322-350.

explore their huge natural resources, create employment opportunities and thus help the backward regions to be at par with other developed regions. However, the expected development never occurred and there was concentration of development in some areas and backwardness in other areas.

Prior to liberalisation, India had experienced high rate of growth of population, high levels of illiteracy, poor health attainments, pervasive poverty, inequitable distribution of income and assets and unequal policies on the part of the government. These initial conditions did not seem to improve much during the process of economic reforms. Rather there is a sign of further divergence of regional disparities in this phase of liberalisation. While the incidence of poverty declined both in terms of depth and severity during the period of liberalisation in India, disparities between rural and urban areas still persisted. The income distribution across the various economic groups worsened during this period. With the onset of liberalisation, India seems to have failed to maintain a balance between economic and social development policies.

The Indian economy initiated a set of economic reforms in 1991. Though these reforms were a consequence of pressure from international institutions and also to come over the balance of payment crisis, still it was expected that they would help in the rapid economic development of the country. Though the economic growth rate has increased to 8 percent in the year 2006, still the problem of regional disparities is looming large among the states of India. On comparing the regional inequalities in the pre- and post-liberalisation period, it seems that this problem of inter-state disparities, has widened in the liberalisation period.

2. The Area of Study:

In order to understand the kind and magnitude of inter-state disparity in the liberalisation period, I have tried to make a comparison of the various indicators of development in a group of 15 major states. These states together account for 96 percent of the population of India.[6] The remaining 4 percent of the population are spread in 10 smaller states and seven union territories including the National Capital of Delhi. The 15 states taken up for the detailed study have been grouped into two- a

[5] Shankar, Raja and Anwar Shah (2001): 'Bridging the Economic Divide within Nations: A Scorecard on the Performance of Regional Development Policies in Reducing Regional Income Disparities', art. cit., Pg. ii.

[6] I have taken only these 15 states as these states are geographically spread all over India. They together account for 96 percent of the population of the country and almost 85 percent of the GDP and hence comprise of a sufficiently representative sample of the country as a whole.

forward group and a backward group. The forward group consists of Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Punjab, Haryana, Tamil Nadu, and Kerala. The backward group comprises of Assam, Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh, and West Bengal. [7]

Jammu and Kashmir is one of the Himalayan state of India, though it has performed well and is coming in the developed group of states but has been excluded due the to political disturbances within the state in the 1990's. This is one state, which now earns maximum out of the tourism sector but the militant activities in the 1990s had greatly hampered this sector. Therefore, we are not taking the performance of this state in our study. The three newly created states, namely Chattisgarh, Jharkhand and Uttaranchal are also excluded because there are no time-series data available for them as they have been recently created. Bihar, Uttar Pradesh, Madhya Pradesh therefore refers to the undivided states. Delhi has been excluded as it is the capital of India and is not comparable with the rest of the Indian states in per capita income, infrastructure, and the number of industries. The northeastern states are also avoided because of their small size and lack of data. However, these states are better performing states in themselves and have not been affected much by reforms. Other states and Union Territories like Goa, Pondicherry, Daman and Diu, Himachal Pradesh, and etc., have not been included in the study as they are too small to reflect general economic behaviour of the states of India.

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 the group. The group of backward states is in the eastern and northern parts of the country and is geographically contiguous. Another notable geographical feature is that while six out of eight states, except Haryana and Punjab, in the first group have vast seacoasts, only two out of seven in the second group, that are, Orissa and West Bengal are littoral. While the forward group of states accounts for about 42 percent of the national population, the backward group accounts for as much as 54 percent of the population of the country.[8]

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[7] Kurian, N J (2000): 'Widening Regional Disparities in India - Some Indicators', *Economic and Political Weekly,* 35(7), Pg. 539.

[8] These percentage shares are based on 1991 Census. Indeed, the subsequent state-specific growth of population might have resulted in a reduction of the share of the forward group to about 40 percent and an increase in the share of the backward group to about 56 percent.

In terms of natural resources including mineral wealth, water resources and quality of soil, the latter has a definite edge over the former.[9]

There is a limitation associated with the study of 'states' as the unit of analysis of the inter-regional disparities. The reason behind this is that we cannot have a clear picture of the intra-regional disparities through such a study. The large states of India have enormous imbalances within the states as far as the various indicators of development are concerned and my study would emphasize on the fact that regional disparity has been widening during the phase of economic reforms and that it does not show any signs of narrowing. The widening regional disparities are to be shown by making a clear study of three sectors that are the primary, secondary and the tertiary sectors.

Distinct regions at different stages of development are identifiable in several states. Therefore after making a clear description of the inter-state disparities existing in India I would also try to bring out the complex problem of intra state disparities and also make a case study of the kind of disparities existing within Andhra Pradesh which is in the forward group and Orissa which is in the backward group. The purpose of taking Andhra Pradesh and Orissa is the fact that these two states lie in the south-eastern part of our country and share a common border, the topography and climatic conditions are almost the same still there exists enormous differences in the levels of development of these two states. Andhra Pradesh is a considerably developed state and is doing well on the basis of its tertiary sector whereas Orissa is still lagging behind though heavy investment was made in the backward regions of the state during the planning period to set up heavy industries for the upliftment of these regions. A study of disparities within Andhra Pradesh and Orissa is also looked into in this chapter.

3. Survey of Literature:

A number of previous studies on convergence of income across Indian states covering different time periods have examined whether per capita income levels have been converging[10] or diverging in India. Most of these papers including mine show

[9] Kurian, N J (2000): 'Widening Regional Disparities in India - Some Indicators', art. cit., Pg. 539.

[10] The convergence theorem postulates that when the growth rate of an economy accelerates, initially some regions with better resources would grow faster than others. But after some time, when the law of diminishing returns sets in, first the growth rates would converge due to differential marginal productivity of capital. (Higher in poorer regions and lower in rich regions), and this in turn would bridge the gaps in the levels of income across regions. This theorem was put forward by Barro, Robert and Xavier Sala-I-Martin (1999): *Economic Growth*, US: MIT Press, Pg. 383-384.

that there is a tendency towards divergence rather than convergence in the income of the economies during the period of economic reforms.

P. C. Sarkar[11] in his article '*Regional Imbalances in The Indian Economy over the Plan Periods*'[12] studied the pre-reform period, found a strong link between regional imbalances and the plan outlays. He found that per capita plan outlays were strongly linked with per capita consumption of electricity, per capita expenditure on health, percentage of villages electrified and effective literacy rates.

Ravindra H. Dholakia in his article, '*Regional Disparity in Economic and Human Development in India*',[13] analysed 20 Indian states over a long span of thirty years, from 1960-1990 and found marked tendencies of convergence of long-term SDP growth rates[14]. Paul Cashin & Ratna Sahay also reach similar conclusions in their work, '*Regional Economic Growth and Convergence in India*',[15] as that of Dholakia, found absolute convergence in a study of twenty states spanning over the period of 30 years, that is from1961-1991[16].

M Govind Rao, Ric Shand, & K P Kalirajan in their work, '*Convergence of Incomes Across Indian States*'[17], by contrast suggested that per capita SDP in the Indian states have tended to diverge rather than converge. Per capita SDP growth is positively related to their initial levels. States with better infrastructure and human resources have had an edge over the others in attracting investments in the post reform period. Dipankar Dasgupta et al in their study, '*Growth and Inter State Disparities in India*',[18] also reported a distinct tendency for the Indian states to have diverged during the period between 1960-95. As far as per capita SDP is concerned. N J Kurian in his

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[11] Studying fifteen major states of India, the author employs principal component analysis to construct a composite index of development according to which Punjab scores the highest and Bihar the lowest.

[12] Sarkar, P. C (1994): 'Regional Imbalances in the Indian Economy over Plan Periods', *Economic and Political Weekly*, 24(11), Pg. 621-633.

[13] Dholakia, Ravindra H (2003): 'Regional Disparity in Economic and Human Development in India', *Economic and Political Weekly*, 38(39), Pg. 4166-4172.

[14] Interestingly, he identifies 1980 as the year from when several of the lagging states started growing and the leading states beginning to stagnate.

[15] Cashin, Paul and Ratna Sahay (1996): 'Regional Economic Growth and Convergence in India', *Finance and Development*, March, Pg. 49-52, available at http://ksghome.harvard.edu/~drodrik/Growth%20volume/Clarl-India.pdf, last accessed on 02.02.2004.

[16] It may be due to the fact that they had made a study of twenty states, including some north-eastern and Himalayan states, and covered a period between 1961-91

[17] Rao, M Govind, R T Shand and K P Kalirajan (1999): 'Convergence of Incomes across Indian States', *Economic and Political Weekly*, 34(13), Pg. 769-779.

[18] Dasgupta, Dipankar, Pradip Maiti, Robin Mukherjee, Subrata Sarkar, and Subhendu Chakrabarti (2000): 'Growth and Inter State Disparities in India', *Economic and Political Weekly*, 35(27), Pg. 2413-2422.

study, *'Widening Regional Disparities in India - Some Indicators',* [19]found widening regional disparities among the 15 major Indian states and a clear dichotomy between what he called the forward and backward states. The forward states having higher levels of per capita income, better infrastructure, high per capita resource flows and private investments and better social and demographic indicators compared to the backward states.

Jeffrey D Sachs, Nirupam Bajpai, & Ananthi Ramiah in their study, '*Understanding Regional Economic Growth in India*'[20], found evidence of divergence of the state domestic products in the time period 1971-1998 on comparing the SDP of fourteen major states. Gregory Clarck & Susan Wolcott made a study, '*One Polity, Many Countries: Economic Growth in India 1873-2000*'[21], in which they viewed that though the economic growth has been impressive in India since 1986, however, there is increasing regional variation in income per capita across states in India despite the dominance of national economic policies.

Montek S. Ahluwalia in his study, ' *Economic Performance of States in Post-Reforms Period*',[22] analysed the economic performance of Indian states during the post-reform period and suggested that not all the richest states got richer relative to poorer states. He cites Punjab and Haryana as two key examples. While these were the two richest states in 1990-91, their growth rates of per capita SDP in the 1990s were not only lower than in the 1980s, but also below the national average. He also pointed out that not all the poorer states lagged behind. While suggesting that two poor states, Rajasthan and Madhya Pradesh had performed well, Ahluwalia, however, does not offer an explanation for their better performance.

Jayati Ghosh in an article, '*Economic Performance of the States in the 1990s*', [23]has concluded that the overall growth process in the Indian economy has widened income differentials not only across classes and economic groups, but also across the regions. The richer states of Gujarat, Karnataka and Tamil Nadu have also had the

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[19] Kurian N J (2000): 'Widening Regional Disparities in India - Some Indicators' art. cit. Pg. 538-550.

[20] Sachs, Jeffrey D, Nirupam Bajpai and Ananthi Ramiah (2001): 'Understanding Regional Economic Growth in India', paper read at *Asian Economic Panel Meeting*, Seoul, October 25-26, Pg, 1-49, available at http://eprints.anu.edu.au/archive/00001753/01/Jeffrey Sachs.pdf, last accessed on 22.03.2005.

[21] Clarck, Gregory and Susan Wolcott (2001): 'One Polity, Many Countries: Economic Growth in India 1873-2000', Pg. 1-43, available at http://ksghome.harvard.edu/~drodrik/Growth%20volume/Clarck-India.pdf, last accessed on 02.02.2004.

[22] Ahluwalia, Montek S (2000): 'Economic Performance of States in the Post Reforms Period', *Economic and Political Weekly,* 35(19), Pg. 1637-1648.

highest growth rates over the recent period. Meanwhile, as is clear from the charts, the poorest states have been the most laggard in terms of economic performance. All in all, it appears that the uneven development of states is something that has been accentuated in the 1990's. Amaresh Bagchi & N J Kurian in their article titled, *'Regional Inequalities in India-Pre and Post Reforms Trends and Challenges for Policies'*,[24] debated on the trends of regional inequalities in India and concluded that the 'divergence' prospect is stronger than the 'convergence' prospect in development among the states, particularly in the post-reform era.

S. D. Naik in his work, *'Correct Regional Disparities, Rural and Urban Divide'*[25], argues that though the regional imbalances and socio-economic disparities have persisted in India over last 50 years, it should be a matter of concern to policy makers that the same has tended to widen at an alarming rate in the post-reform period. Farhad Noorbakhsh in the work, *'Human Development and Regional Disparities in India'*[26], argued that regional inequalities in India was initially high in the 1980s, and have not been reduced significantly after a decade, rather seems to have increased in some aspects. There is little evidence to suggest that any convergence of sigma-type or of beta-type is taking place amongst the states in India. On the contrary the evidence points at divergence rather than convergence.

B.B.Bhattacharya & S. Sakthivel in their work *'Regional Growth and Disparity in India- Comparison of Pre-and Post Reform Decades'*,[27] found that while the average growth rate of GDP increased only marginally in the 1990's as compared to the 1980's, regional disparities have widened significantly during the 1990's, and so far there is no evidence of convergence. Whether this is due to the ongoing economic reforms is a matter of investigation, but the evidence very clearly indicates a rise in regional inequity in the post reform period

The conclusions of these studies differ according to which groups of states have been examined. When focusing on the most populous states there seems to be

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[23] Ghosh, Jayati (2001): 'Economic Performance of the State in the 1990s', *People's Democracy*, 25(21), Pg. 1-7, available at http://pd.cpim.org/2001/may27/may27_eco.htm, last accessed on 02.02.2005.

[24] Bagchi, Amaresh and N. J. Kurian (2005): 'Regional Inequalities in India-Pre and Post Reforms Trends and Challenges for Policies', art. cit. Pg. 322-350.

[25] Naik, S D (2003): 'Correct Regional Disparities, Rural and Urban Divide', *The Business Line*, 16 August, available at http://www.blonnet.com/2003/08/16/stories/2003081600070800.htm, last accessed on 27.10.2004.

[26] Noorbakhsh, Farhad (2003): 'Human Development and Regional Disparities in India', Pg. 1-34, available at http://www.wider.unu.edu/conference/conference-2003-2/conference%202003-2-papers-pdf/noorbakhsh%2029403.pdf, last accessed on 24-12-2004.

little evidence of convergence, while there may be some convergence of the small north-east states with the rest of the country.

4. Objectives and Key Researech Questions of the Study:

There are a number of objectives associated with my work. The main objectives are:

- To understand the various concepts related to development in the developing nations of the world.
- To study the various causes of inter-state disparity in India and the impact of Liberalisation and globalisation on this disparity..
- To have a better idea about the impact of political and economic policies in increasing or decreasing the inter-state disparity.
- To focus on the trends of inter-state and intra-state inequalities in the 1980s and the 1990s, that is, in the liberalisation and pre-liberalisation period.
- To understand the concept of intra-regional imbalances and thereby understand the disparity within Orissa and Andhra Pradesh.

The key research questions associated with this entire work are:

- What has been the impact of planned model of development on the balanced regional growth of a nation?
- What are the possible causes of the existence of inter-state disparities in India?
- What were the various factors led to the initiation of full-fledged reforms in 1991 and how have they the affected the regional balance within the nations?
- What have been the tentative causes of intra-regional disparity in the states and how have they affected the growth of a nation?
- What are the trends of regional inequalities in Orissa and Andhra Pradesh?

5. Methods of Study:

For a researcher the most important aspect of research is the method that is used, and problems arise as the study progresses. My study is no exception to such problems. My study on the impact of liberalisation on inter-state disparity in India had to face many ups and downs in the process of its evolution. Information on the political relations between the 'core' that is the centre and the 'periphery' i.e. the states was very difficult to find. The states crave for more autonomy to be able to

[27] Bhattacharya, B B and S Sakthivel (2004): 'Regional Growth and Disparity in India- Comparison of Pre-and Post Reform Decades', *Economic and Political Weekly*, 39(10), Pg. 1071-1077.

form their own policies for development, instead of being dependent on the centre. However, in this process, they seem to neglect the actual power they have in influencing the policies of the central government in this age of coalition politics in India.

The problem of availability of data is compounded by the shortage of reliable data on the states in India. This is one of the major reasons why researchers lack interest in carrying forward research at the state level. In my work, I have used the comparative research design to compare the impact of liberalisation on the various states of the Indian union as well as the trend of disparity in the reforms period. For a detailed research on this area, I have made the maximum utilisation of existing literature in this area, both primary sources and secondary sources, those focussing on regional disparity in the liberalisation period, development studies in developing and underdeveloped nations, etc. However, it is really sad to say that most of these studies lack the perspectives of those who make policy decisions and whose choices affect the economic outputs. There is almost no linking of the mechanisms and actual processes operating at the regional level. There is not much contemporary work on regional disparities of the period before liberalisation, which has in a way hindered the extensive comparison of the two periods.

There is not much information in formal statistics and reports. Moreover, the large surveys and reports usually sacrifice quality of data for the sake of quantity of data. Thus the only option was to rely on the government reports and the information in the writings of some prominent personalities, which may be questionable to various other people.

Various history books, provided invaluable source of historical information about the evolution of regional disparity and the process of its widening as there is further development of a region. The various reports of the central and state government have provided me a wealth of information. My professors and friends have guided me to able to carry on a rational path of thinking in my research work.

Statistical information in all areas and sectors of regional disparities is not available in a consistent way across states and time; therefore the data is taken from existing materials like journals, books, articles, etc. It is important to say here, that the information available is not uniformly available for all the years. There are some data like FDI, agricultural growth, etc., which is available at the national level but not available at the state level for all the states.

To be able to compensate for these kinds of shortcomings, it is important to use a wide variety of measures possible and to piece together fragmentary evidence from various sources and for various years. This is because multiple sources give us some indicator of the trends. Historical and sociological details have to be kept in mind to be able to have a better analysis of the data. The historical and political context is often ignored in the best of surveys.

My study tries to bring out the existing fact that the process of economic reforms has further widened the process of liberalisation. My idea of re-examining the old fact that as the economy grows the disparity among the developed and the underdeveloped regions diverges initially only to converge later is capable enough to say that probably India is only in the initial stage of reforms and that disparities would gradually reduce in the long run.

6. Organisation of the Study:

My dissertation can be divided into two sections. Section-A comprises of the first two chapters dealing with the various concepts, historical analysis, etc related to regional disparities. This section mainly revolves round the time before any attempt towards liberalisation was made in the Indian economy. Section-B deals with the last three chapters, which focus on the advent and progress of economic reforms in India. This segment also studies the impact of liberalisation on regional inequalities in India. Here I have also tried to elaborate the regional disparities aspect within Orissa and Andhra Pradesh This categorisation of chapters is done in a manner that no chapter can be studied in isolation. Each chapter precedes another. It is through these five chapters that I have tried to do full justice to my area of research, 'Inter-State Disparities under Economic liberalisation in India (1981-2001)'.

Regional disparity is a matter of serious concern and so it should be studied extensively to be able find ways to reduce it. The first chapter of my dissertation on '*Regional Disparities and Uneven Development: Concepts and Theories*' deals on the various concepts and terminologies that are important to understand my work. Here I have tried to give a concrete picture of the problem of regional disparity in the third world countries. It is an effort to study the nature and causes of regional disparity in the developing world. I have tried to find out the ways of measuring disparity among and within different regions.

Since it is never possible to study the fruit without the root, similarly, it becomes impossible to study the present status of regional disparities in India without a clear picture of the past experiences of regional disparities in India. My second chapter on '*A Historical Overview of Regional Disparities*' traces back the evolution of regional disparities in India. There is an elaborate study on the impact of the political systems on the regional disparities of a region. It makes a detailed discussion on the development models initiated in India after independence and the various institutions established to maintain the pace of regional growth in India.

In order to study the trends of regional disparity in India in the reforms period, it is essential to have an understanding of the fact that reforms are not the fruits without the roots. A clear picture of the internal and external situation existing in the 1980s would help us to understand the fact that neither regional disparities nor liberalisation were totally new to the Indian development process, that is, we already had few steps taken in the past under Indira Gandhi and Rajiv Gandhi as Prime Ministers, though they were only short-lived reforms. My third chapter '*The* Advent *of Liberalisation: Context and Characteristics (1981-1991)*' tries to deal with these issues.

The fourth chapter on '*The Progress of Liberalisation: (1991-2001)*', deals with the various factors that compelled India to initiate full-fledged economic reforms in 1991. This segment studies the various political compulsions behind the acceptance of reforms in India. It studies the various misconceptions associated with reforms. The chapter tries to bring together the reforms undertaken in various sectors in India. Here I have tried to measure regional disparity taking into consideration various indices like GDP growth, inflow of FDI, etc. This chapter will help in understanding the ongoing process of reforms in the country and its impact on regional disparities.

The last but the most important chapter '*Regional Disparities Today: The Marco Picture*', which needed an extensive study to be written and completed, includes vast areas of research. Here I have tried to bring forward a review of some of the existing literatures on the widening of regional disparities in India and whether the process of economic reforms would help in convergence or further divergence in the Indian society. A clear distinction between the developed and underdeveloped states is made and I have tried to establish a co-relation between development and regional disparities. The chapter includes a study on the inter-sectoral and intra-state disparities in the reforms period. In the end I have tried to focus on the two states of Orissa and Andhra Pradesh to be able to bring out the trend of regional disparities of these states in relation to other states and also the disparities within these two states.

Section-A

Chapter 1

Regional Disparities and Uneven development: Concepts and Theories

1. Introduction

In the words of Amartya Sen, "It is the nature of human beings to strive for equality[28]". Equality is desirable not only on ethical grounds but also on economic, political and social grounds. The struggle of human kind for equality has been stressed to the extent of making it an instrument for social and economic transformation. One of the main issues of the present times is the widening gap between the possessed and the dispossessed, between the privileged and the under privileged and between the developed and the under developed regions in the process of development. This widening disparity is posing threats to social peace and progress. Regional disparities and interpersonal inequalities give rise to social tensions and violence.[29]

Subrahmanyam argues, "Any study of regional development has to begin with a suitable definition of region. Traditionally three different approaches have been used in defining a region. The first approach stresses homogeneity with respect to one or a few characteristics. The second approach emphasises nodality or polarisation around some urban centre. The third approach defines a region as an administrative unit and it is designated as a programming region. This definition is useful at the time of implementation of the policies identified for regional development. The three definitions, though appear to be distinct, are not mutually exclusive. They are variations of the homogeneity criterion. A programme region is homogeneous in the sense that it is entirely under one administrative control. A nodal region is homogeneous in the sense that it combines all the areas dependent on the centre in trade or functional sense. There is no need that we should always confine to

[28] The demand for equality stems from the existence of 'human diversity'. Human beings differ from each other in many different ways. The consequence of 'human diversity' is that equality in one space tends to go, in fact, with inequality in another. Sen, Amartya (2005): *Inequality Reexamined*, New Delhi: Oxford University Press, Pg. 19-20.

[29] Bhullar, D S (1998): *Regional Economic Disparities and Area Planning*, op. cit., Pg. 1.

administrative divisions in defining a region. A homogeneous agricultural region can cut across the smallest administrative unit above the village. A regional study can indicate potentialities and requirements of the region, which can be incorporated in the development plan for the region, in thinking of the problems of economic backwardness of regions and remedies sought for them, a large number of factors which may be historical, institutional and political have to be taken into account for this larger area than an administrative unit. When it comes to planning, say at the district level, this information can be put in a meaningful frame and a regional study provides inputs for planning."[30]

Balanced regional growth is necessary for the harmonious development of a country. However, almost all the large economies of the world present picture of extreme regional variations, in terms of various indicators of per capita growth such as per capita income, proportion of population living below the poverty line, population engaged in agriculture, the percentage of urban population to rural population, percentage of workers in manufacturing industries, etc. Some states are economically advanced while some are relatively backward. Even within each state some regions are more developed and some are almost primitive. The co-existence of relatively developed and economically depressed states and even regions within each state is referred as regional imbalance or disparity.

As pointed out by Bhullar, The problem of economic disparity between regions has been increasingly realised by the elite, specially economists and statesmen of both developed as well as underdeveloped countries. Even the developed countries experience social unrest because of regional imbalances. However, economic disparity is widely observed in underdeveloped countries like India, Pakistan, Bangladesh, etc. And it is threatening their political and economic stability.[31] Rich countries like US, England, France, Italy, and Greece are also facing the problem of regional disparities. Even the socialist China is not free from this problem.

In the view of Sachs, Ramiah and Bajpai, "In China, the coastal regions are relatively more advantaged than the interior regions, as the coastal regions face much lower transaction cost in participating in global trade and investment. Coastal, urban-

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[30] Gadgil, D R (1972): 'Non-Geographical Aspects of Regional Planning', in A R Kamat edited *Writings and Speeches of Prof. D R Gadgil (1967-71)*, New Delhi: Orient Longman, Pg. 24-27.

[31] Bhullar, D S (1998): *Regional Economic Disparities and Area Planning*, op. cit., Pg. 2.

based industry can serve both the internal as well as international market. It can more readily make logistic links with foreign suppliers and customers than interior based enterprises".[32]

A perfect balanced regional development is not possible partly because of regional factors like resources and endowments and partly due to the tendency of new investment in areas with infrastructural development facilities. The favoured regions attract both private and public investment and develop into areas with infrastructural development facilities. Attraction of both private and public investment by such regions results in accentuation of regional imbalances in the process of development. The location factors such as the availability of cheap power, modern means of transport and communication, banking, insurance and such other services, cause the concentration of industries in a few urban areas, as these factors tend to cluster mainly in urban centres.[33] Thus the process of regional imbalances gets accentuated with economic progress.

2. Nature and Relevance of Regional Disparities:

As suggested by Bhullar, 'Regional imbalances can be classified into two categories: natural and created imbalances. The different regions of an economy are endowed with uneven distribution of natural, human and other resources, raw materials and certain locational advantages necessary for economic development. These natural differences lead to a certain pattern of production and specialisation in different regions. Thus creating a system of advantageous and disadvantageous regions of the economy, for example, the advantageous position of Calcutta, Madras and Bombay in the early period of British rule in India. Investment becomes safe in these regions due to availability of infrastructural facilities, markets and skilled labour. There is a flow of efficient resources and capital from the lagging regions to the advancing regions. Thus the advantaged regions prosper at the cost of lagging regions'.

By created imbalances, Bhullar refers to imbalances in the process of development of different regions, which may be attributed to deliberate human effort, may be as a consequence of deliberate developmental policies. Created imbalances

[32] Sachs, Jeffrey D, Nirupam Bajpai, and Ananthi Ramiah (2001): '*Understanding Regional Economic Growth in India*', paper prepared for the *Asian Economic Panel Meeting*, Seoul, art. cit., Pg. 4-16.

[33] Myrdal, Gunnar (1964): *Economic Theory and Underdeveloped Regions*, London: Matheun & Co.

may also emerge from ignorance on the part of policy makers and planners or non-consideration of the dimension of regional imbalances in the process of formulating, executing and implementing development plans. Instead of a uniform development policy for all regions, the development strategy tends to be area bound taking account of potential resources, needs and priorities of that area. There may be several other factors responsible for created imbalance like political pressure, socio-politico-psycho frame of the regions, involvement of local people, skilled labour, industrial capital, finance, infrastructural development etc[34].

Balanced regional development is necessary for political as well as economic integration of the country. No single country would be regarded as having a well-integrated economy as long as glaring disparities persisted between the levels of development and standard of living in different areas within it. Shankar and Shah[35] claimed "regional inequalities represent an ever present development challenge in most countries especially those with large geographic areas under their jurisdictions." They further went on to said "globalisation heightens these challenges as it places a premium on skills. With globalisation, skills rather than the resource base of regions determine their competitiveness. Skilled workers gain at the expense of unskilled ones. As typically rich regions also have better educated better skilled labour, the gulf between rich and poor regions widens. Large regional disparities represent serious threats in federal states as the inability of the state to deal with such inequality create potential for disunity and, in extreme cases, for disintegration."[36] The last fifty years provide several instances of federations breaking up because of tensions created by inter-regional inequalities.

Widening regional disparities pose a greater political risk in federal countries compared to the unitary ones.. In such countries inequalities beyond a threshold may lead to calls for separation by both rich and poor regions. While the poor regions may consider such inequalities as manifestation of regional injustice, the rich regions may

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[34] Bhullar, D S (1998): *Regional Economic Disparities and Area Planning*, op. cit., Pg. 8.

[35] Shankar, Raja and Anwar Shah (2001): 'Bridging the Economic Divide Within Nations: A Scorecard on the performance of Regional Development Policies in Reducing Regional Income Disparities', art. cit., Pg. i-ii.

[36] Bagchi, Amaresh and N. J. Kurian (2005): 'Regional Inequalities in India-Pre and Post Reforms Trends and Challenges for Policies', art. cit., Pg. 322.

view a union with the poor regions possibly holding them back in their drive to prosperity in the long run.[37]

3. Measures and Causes of Regional Inequalities[38]:

Shankar Raja and Anwar Shah have put forward a detailed explanation of several ways of measuring regional inequalities. There are two types of measures of income inequality- static and dynamic. Static measures provide a snapshot of these inequalities at a point of time where as the dynamic measures capture historical trends.

Static measures of regional inequality: The measurement of regional disparities is an arduous task and no single statistical measure is able to capture its myriad dimensions. Some selected measures to highlight various dimensions of these inequalities are:

Maximum to Minimum Ratio (MMR): A comparison of the per capita GRDP of the region with the highest income compared to the region with the lowest income provides a measure of the range of these disparities. It provides a quick, easy to comprehend and politically powerful measure of regional income inequality.

Coefficient of Variation (CV): The coefficient of variation is a measure of dispersion around the mean. This measure can be used for comparisons of regional disparities within countries across time; it is problematic for comparison between countries.

Some other static measures for measurement of regional disparities are: Relative Mean Deviation (R_w), Gini Index (G), and Theil Index (T).[39]

Dynamic measures of regional inequality: While a snapshot view of regional income disparities is illuminating, a long-term perspective is more helpful in ascertaining the impact of public policies. This requires developing a time profile of static measures and discerning whether or not these inequalities appear to diminish (the so-called convergence hypothesis) or accentuate (divergence hypothesis) overtime. Strong convergence hypothesis suggests that equality in factor productivity and income levels will be achieved regard less of initial conditions provided diffusion and

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[37] Shankar, Raja and Anwar Shah (2001): 'Bridging the Economic Divide Within Nations: A Scorecard on the performance of Regional Development Policies in Reducing Regional Income Disparities', art. cit, Pg. i-ii.

[38] Shankar, Raja and Anwar Shah (2001): 'Bridging the Economic Divide Within Nations: A Scorecard on the performance of Regional Development Policies in Reducing Regional Income Disparities', art. cit., Pg. 2-8.

[39] Not being a student of economics, it is difficult for me to go into the intricacies of these measures of regional disparities.

adoption of technological change is unrestrained. A weak convergence hypothesis on the other hand requires competitive market structures to send the right signals for allocation of productive factors.

As discussed earlier, regional disparity may be natural, existing in the form of differences in natural endowments or it may be man made. However, these disparities can be reduced with proper and focused planning. The concern arises when the gap between regional economies persists. There may be various reasons for existing disparity among regions. These various factors leading to regional disparities could be classified into following five broad categories.

Natural Causes: There are some natural factors, which lead to disparity among regions. Big geographical area is one such factor. In vast countries, where there is extreme variation in climatic conditions and physical endowments, different regions vary in their economic performances. In big countries, regions vary in natural resource bases like minerals, soil, irrigation facility, climate, etc., which have a great impact on economic performance. The regions with better natural resource bases outperform the other regions leading to inter regional disparities. Geographic location of a region also matters for development. The regions, which are open to sea, have a great scope of trade and business and they usually develop more than the inland regions. Modern industries are encouraged and infrastructural facilities are created in regions closer to the sea. Population is also another important factor. It is a general trend that with an increase in population, poverty also increases, resources being limited. Increase in population also leads to increase in unemployment, deterioration of health facilities, increased illiteracy, etc. But at the same time, it is also true that developed regions attract more people, in search of employment and a better standard of living. It is because of this reason that most of the urban places and big cities are highly populated.

Historical Causes: It is very important to have a glance at history to locate the roots of regional imbalances. Those countries, which were once colonised, have greater disparities among their regions. The colonial rulers usually confine the development to a few pockets and enclaves, which could mostly serve the colonisers and their trade interest. The colonisers usually developed the regions close to sea, so that they could transport raw materials and other consumer products to their country easily. While developing the regions where they settled, they have exploited the other regions.

Dynasty rules have also contributed to the cause of regional inequalities for their benefits. While some rulers were development oriented, others were more devoted to their own luxury. Regions, which had dynamic rulers, who worked for the development of their kingdom, have done fairly well compared to those who lack a vision for future development.

Political Causes: Political culture and systems also matter for balanced regional development. The nations having fragmented politics over time become victims to regional imbalances. The regions having consolidated political systems have uniform development across the regions.

Cultural Causes: Regions vary in social culture and practices. This has an immense impact on development. The regions with different cultures follow different models of development. The regions, which have a liberal culture, are more open societies and hence tend to do well, while the regions having conservative cultures lag behind. Thus a nation having a heterogeneous culture may have regional differences. Nations having homogenous culture do relatively better than one with heterogeneous culture.

Economic Causes: In recent times, regions vary with infrastructure facilities and human resources which have a great impact on economic development. Regions with better infrastructure and human resources attract more capital and industries, and so tend to develop faster than the regions lacking them.

4. Political Structures and Uneven Development:

In the words of Atul Kohli, "Nature of the political system and economic policy making are highly correlated. It is claimed that unitary political systems do relatively better in terms of economic policy making than federal states. For example, the success of East Asian countries is often cited to support the claim."[40] The unitary systems have relative autonomy over economic policy making, which the federal systems lack. The policy-making environment in federal systems is changed with the presence of sub-national units with any kind of independent jurisdiction. These sub-national units act as new 'veto players' who must approve the policies and thus increase country's status quo bias.[41] In a unitary state, the government is independent

[40] Kohli, Atul (1994): 'Where do High Growth Political Economies Come From? The Japanese Lineage of Korea's "Developmental State"', *World Development*, 22(9), Pg. 1269-1271.

[41] Srinivasan T N and Jessica Wallack (2003): 'Federalism and Economic Reform in a Global Economy', Pg. 1-51, available online at http://www.yale.edu/leitner/pdf/PEW-SW.pdf, last accessed on 21.04.2004.

of these veto players in the policy process. Alfred Stepan argues that federal institutions matter for policy making at all points. All federal systems constrain the law making capacity of the democratically elected legislatures at the centre.[42] Haggard and Webb have argued, 'an authoritarian government will be more autonomous than a democratic government, as in the latter all the stakeholders have a say in the process. The democratic governments are less autonomous because of greater influence by rent-seeking groups. Authoritarian governments, by contrast, can override interest group demands by fiat. Partly because of their ability to dominate interest groups, authoritarian governments also have longer time horizons'.[43]

There is a general perception that the unitary systems do well in terms of economic development in comparison to the federal systems. It is because of this fact that economic policy making is done only at the central level in a unitary system, while it is distributed between the centre and the states in a federal system. The unitary systems have a consistent policy making, while the federal systems lack it due to a two-level policy making. This difference in economic policy making is reflected in economic development of the unitary and federal states.

As Stepan has discussed about the wide spread assumption that centralised countries or unitary systems are better at equalising economic differences among regions. It is more applicable for small unitary states. Federal systems are claimed to have wide regional disparities. This claim may be substantiated by the fact that, it is the federal states rather than the unitary states, which are most often associated with multinational democracies. Federal states are also associated with large population, extensive territories, and democracies with territorially based linguistic fragmentation.[44] The argument that federal states are more unequal is challenged in a study by the World Bank,[45] which claims that the unitary countries are more unequal than federal countries. They also claim that significant regional inequalities persist in

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[42] Stepan, Alfred (1999): 'Towards a New Comparative Analysis of Democracy and Federalism: Demos Constraining and Demos Enabling Federations', paper presented at the conference on *Federalism, Democracy and Public Policy*, Centro de Investigacion y Docencia Economicas, Mexico City, Mexico, June 14-15, Pg. 2.

[43] Haggard, S. and S. B. Webb (1993): 'What do We Know about the Political Economy of Economic Policy Reform', *The World Bank Research Observer*, 8(2), Pg. 143-168

[44] Stepan, Alfred (1999): 'Federalism and Democracy: Beyond the US Model', *Journal of Democracy*, 10(4), Pg. 1-2.

[45] Shankar, Raja and Anwar Shah (2001): 'Bridging the Economic Divide Within Nations: A Scorecard on the performance of Regional Development Policies in Reducing Regional Income Disparities', art. cit. Pg. 17.

developing countries. By most measures of regional inequality, developing countries are two to six times unequal than developed countries.

5. Impact of Globalisation and Liberalization on Regional Disparities:

In the words of Ranjan Ray, "The last three decades of the 20^{th} century have seen a significant integration of markets in commodity, services, finance and technology between countries. Goods produced in one country increasingly find their way to markets in other countries. Capital and labour are increasingly mobile between countries. The low wage cost of labour in developing countries has caused many multinationals to locate their production processes in such countries. These developments have been broadly referred to as 'globalisation' since they portray the world as a 'global village' largely unhindered by geographical distances, time zones or other physical barriers to movement between countries. The worldwide move towards globalisation and free trade coincided with the process of structural reforms and economic liberalisation.[46]

Parikh and Shah have claimed "Globalisation, through movement of goods, services, people and information across national boundaries, has resulted in the opening up of the economies and societies. The nature and speed of this process has been facilitated and accelerated by new developments in the information and communication technology sector. International financial markets through long and short term capital flows, and trans-border production networks have been driving the global integration of economies. Globalisation is now a fact, not an option. The communications revolution has turned the world into a 'global village' where everyone knows what is going on and what is available".[47]

Nayar has emphasised on the fact that "Globalisation is an integrated process between the expansion of industrial co-operation outside the national boundaries and national economic advantage and relation, which quickly mature through continuous changes. It is the best theory towards the goal of world corporate programmes. As per ideology, globalisation does not mean only independence and internationalism but also helps to earn benefits of free trade, comparative advantage and overall efficiency. In one strong version, globalisation refers to the presumed emergence of a 'supra-

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[46] Ray, Ranjan (2003) 'Understanding Globalisation', *Economic and Political Weekly*, January 11.

[47] Parikh, Kirit S. and Ajay Shah (2000): 'Second Generations Reforms', in Kirit S Parikh edited *India Development Report 1999-2000*, New Delhi: Oxford University Press with IGIDR, Pg. 27-28.

national', borderless global economy with its own laws of motion, encompassing and subordinating the various local economies in a single worldwide division of labour, rendering national governments into municipalities. A softer version of the concept treats globalisation less as an end-stage and more as a process in which the 'international' economy becomes more closely integrated, with domestic economic agents increasingly oriented to the global market rather than to particular national markets, even as the state continues to remain central to national economic development."[48]

In the era of globalisation, world is facing "rising income inequality". As Amartya Sen pointed out that world is confronted with rising deprivation and disparities in the levels of living.[49] Globalisation heightens these challenges as it places a premium on skills. With globalisation skills rather than the resource base of regions determine their competitiveness. Skilled workers gain at the expense of unskilled ones. As typically rich regions also have better educated better skilled labour, the gulf between rich and poor regions widens. Large regional disparities represent serious threats in federal states, as the inability of the states to deal with such inequities creates potential for disunity and, in extreme cases, for disintegration.[50] While the policy challenges in reducing regional disparities are large, federal flexibility in the choice of instruments is curtailed by the division of powers in a federation. Under these circumstances, there is a presumption in development economics that a decentralised fiscal constitution would lead to ever widening regional inequalities.[51]

Barbara Stallings has given four basic arguments with respect to the impact of financial globalisation. First, it has increased the capital available to developing countries, which potentially increases their ability to grow more rapidly than if they had to rely on their own resources. Not all capital flows contribute equally to growth; however, short-term flows and the purchase of existing assets are less valuable than investment in new facilities. At the same time, the increasing mobility of capital can

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[48] Nayar, Baldev Raj (2001): *Globalisation and Nationalism: The Changing Balance in India's Economic Policy 1950-2000*, New Delhi: Sage Publications, Pg. 14-20.

[49] Sen, Amartya (2002): 'Globalisation, Inequality, Global Protest', *Development*, 45(2), Pg. 11-16.

[50] Liberalisation brings along with it two fears: a) the poor could be left behind; b) constituent political units would be left behind.

[51] Shankar, Raja and Anwar Shah (2001): 'Bridging the Economic Divide Within Nations: A Scorecard on the performance of Regional Development Policies in Reducing Regional Income Disparities', art. cit., Pg. i-ii.

also lead to greater volatility, which is very costly for growth. Second, capital flows are unequally distributed by region and country, thus skewing the patterns of growth. There is also an unequal distribution of capital within countries by geographic area, sector, type of firm, and social group, creating a division between winners and losers. Third, government attempts to extract the benefits from the globalisation of capital, while limiting the costs, are more possible then usually thought. The source of many problems is local rather than global, and the experience of India indicates that 'heterodox' policies can be followed. Finally, policy changes at the global, regional, and national levels could improve the existing regional inequality in the developing countries like India.[52]

Prior to globalisation, South Asia had experienced high population growth rates, high levels of illiteracy, poor health attainments, pervasive poverty and inequitable distribution of income and assets. These initial conditions did not improve much during globalisation. While the incidence of poverty declined both in terms of depth and severity during the period of Globalisation, disparities between rural and urban areas persisted. The income distribution across the various economic groups worsened during globalisation. With the onset of globalisation, most South Asian countries failed to maintain a balance between economic and social development policies.[53]

The manner, in which countries like India are being integrated into the global economy through the exertions of the World Bank, the IMF, and the WTO, is fraught with serious consequences. Some of these are already evident in India during the 90s of the 20th century, in the form of an increasing poverty ratio, a declining per capita food grain production, an accentuation of the fiscal crisis that leaves the state totally incapable of undertaking any meaningful investment or social expenditure effort, and an increasing submergence of the economy in the vortex of international financial flows (which the second generation reforms involving financial liberalisation that the government is currently attempting will only aggravate it further). In short, beneficial globalisation for economies like India requires a different international economic order than the one under which they are being currently globalised. To be sure the

[52] Stallings, Barbara (2005): 'Globalisation and Liberalisation: The Impact on Developing Countries' in Atul Kohli, Chung-in Moon, and Georg Sorensen edited *States, Markets, and Just Growth: Development in the Twenty-First Century*, Jaipur: Rawat Publications, Pg. 1-10.

removal of poverty and backwardness requires in addition crucial domestic reforms, such as agrarian reforms, reforms aimed at making the state more accountable, including thorough decentralisation of resources and decision making to lower level elected bodies, direct and urgent action against poverty, illiteracy, and the generally low levels of health and rural infrastructure. But, a condition for such reforms to succeed, or even get initiated, is a more congenial international economic order.

As discussed by Nayar, "The economic integration of the world has been based on economic specialisation, which has tendered to place countries in a hierarchical order. It has resulted in dividing the economies into 'core' and 'periphery'. Though the distinction between the two categories is blurred at the margins, the core economies have been the centres of autonomous growth and expansion, more advanced in technology, specialised in capital and skill intensive manufacturing and producing complex and higher value goods. In contrast, the poor and marginalised economies of the periphery have stood at the other pole, largely rendered into a source of raw materials, cheap labour and market for the higher value manufactures of the core. The periphery economies were made dependent on the core, with the core having the ability to transfer its economic disturbances to the periphery or dominate them politically, and thus to condition their development. In this system, the actors in the less developed parts lack economic autonomy and are simply the objects of the decisions of the advanced part".[54]

Again Nayar has argued, "About 75 percent of the Foreign Direct Investment (FDI) stock and 60 percent of the FDI flows in early 1990s confined to North America, Europe and Japan, while the Third World countries remain marginal in both investment and trade. The extremely unequal distribution of FDI underlines not international economic integration but the lack of it".[55]

"The top fifth of the world's people living in the richest countries had 86 percent of the world GDP in 1997, while the bottom fifth had only 1 percent and the middle 60 percent had 13 percent, the same top fifth had a share of 82 percent in the export of goods and services, and a share of 68 percent in FDI. There has also been an

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[53] Mahbub ul Haq Human Development Centre (2002): Human Development in South Asia 2001: Globalisation and Human Development, New Delhi: Oxford University press, Pg. 4.

[54] Nayar, Baldev Raj (2001): *Globalisation and Nationalism: The Changing Balance in India's Economic Policy 1950-2000*, op. cit., Pg. 25-26.

intensification of inequality, evidencing a 'race to the bottom' rather than a 'climb to the top".[56]

The Report on Human Development in South Asia comes up with certain important points. It says that during the globalisation phase about half a billion people in South Asia have experienced a decline in their incomes. The benefits of economic growth that did take place were limited to a small minority of educated urban population. The income inequalities have increased. With continuing reforms, productivity and efficiency will rise, and hence global trade, finances and services will increase but it is the poor who will bear the burden in the short term. The balance sheet of gainers and losers in the globalisation process shows the uneven burden borne by the poor among and within nations. Though the level of human development has improved since 1960s, it has started to stagnate or even decline in the 1990's. Comparing the growth rates between pre and post globalisation period, it seems that growth has in fact been lower in the 1990s.[57]

To sum up, although globalisation has been providing ample scope for growth for developing and underdeveloped countries, at the same time, it has widened the gulf between them. Although the periphery countries are developing, their growth is not as fast as the core countries. It creates doubt on the claim that core countries represent the future of the periphery countries. If this trend of growth persists, then the periphery countries can never reach the core. On the other hand, globalisation has also increased gulf between the regions within nations. Although globalisation integrates national economies to an emerging global economy, it is not able to integrate all regions within a country. The regions, which are already a little developed and have better infrastructure and human resource, are integrated and are getting benefits of the emerging global economy. The other regions are left behind, without any impact of globalisation. Thus globalisation leads to a variation of development both among nations and regions within nations.

The last quarter of the 20th century has seen a wave of economic policy reform in the developing world, with one country after another taking the liberalisation cure,

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[55] Nayar, Baldev Raj (2001): *Globalisation and Nationalism: The Changing Balance in India's Economic Policy 1950-2000*, op. cit., Pg. 19-20.

[56] UNDP (1999): *Human Development Report 1999*, New York: Oxford University Press.

[57] Mahbub ul Haq Human Development Centre (2002): *Human Development in South Asia 2001: Globalisation and Human Development*, op. cit., Pg. 2-3.

often imposed by the international financial institutions. This wave of reform had been preceded by a quarter-century of state directed effort at economic development; during which the goals of economic self-reliance and import substitution, industrialisation were the hallmarks of the development strategies in the less developed countries. These goals seemed particularly justified, given the long experience of these countries with colonialism and the agricultural nature of these countries.[58]

Structural adjustment is the larger project, under which liberalisation takes place. Structural adjustment is a package of policies associated with loans to the Third World countries by the IMF and the World Bank. There are three elements to structural adjustment:

- *Stabilisation*: the control of inflation by restricting the rate of increase of the money supply via budget deficits;
- *Liberalisation*: a reduction in government intervention in product and factor markets in order to bring domestic prices more in line with world prices; and
- *Privatisation* of public sector institutions to improve the technical efficiency of production.

Structural adjustment policies have had negative distributive effects in the short run, because of high prices and raised unemployment, and variable effects in the long run. The opening up of an economy by trade liberalisation leads to a set of adjustment processes within the country. The experience shows that in the liberalisation process of an economy, there are some common features, which are observed in most countries, particularly affecting the country's social welfare. Some effects may be positive in the long run but most effects are negative in the short run.

1. *Currency devaluation and export promotion*: These measures increase the price/profit of tradable goods (especially of exports) relative to non-tradable goods and thus generally benefit the exporters and hurt the poor consumers. But the exact impact of currency devaluation and export promotion could be properly assessed only by estimating the effective real devaluation in the different sectors, after adjusting for corresponding increase in import costs.

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[58] Nayar, Baldev Raj (2001): *Globalisation and Nationalism: The Changing Balance in India's Economic Policy 1950-2000*, op. cit., Pg. 13.

2. *Liberalisation of prices and lifting of subsidy*: The impact of these measures on the poor is severe if the general subsidy on food, public transport, energy, water and other goods they consume disappears. Similarly, the removal of subsidies on farmer's inputs such as fertilisers hit the poor. The removal of other subsidies such as those on petroleum products will affect the non-poor more and poor less.
3. *Reduction of public sector staffing and cuts in public sector salaries*: In such a process, civil servants and employees of the public enterprises would find themselves out of work and income as a result of staffing cutbacks or liquidation of public enterprises.
4. *Cuts in public sector social services*: All income groups may be hit by such measures, especially the poor beneficiaries who lack the savings to pay for their health, education and other services.

It is observed that all countries which have a low per capita income and a large initial macro-economic imbalance at the starting point are likely to be more prone to take a longer period of structural adjustment to reach a higher growth and development level. By grouping those countries, which have opted for the World Bank's intensive adjustment programmes, we notice that the so-called turning point in the adjustment process has not been seen in many low-income countries. For example, in Zimbabwe, even after nearly a decade of economic liberalisation, there is no sign of GDP growth rate picking up. Inflation is still going up.

Economic liberalisation covers many aspects of policy, but the central issue at stake is the relative role of the state and market in the operation and management of the national economy. The contemporary movement in economic policy reform has involved the retreat of the state and the shedding of many of its economic functions in favour of the market, which has been accorded a wider and increasingly important role. An important question that has come up relates to what ought to be the appropriate relationship between the state and the market for purposes of effective economic performance.[59]

There has been a lot of debate whether the reform measures have adverse effects on poverty and employment. S.D.Tendulkar feels that reforms would benefit

[59] Nayar, Baldev Raj (2001): *Globalisation and Nationalism: The Changing Balance in India's Economic Policy 1950-2000*, op. cit., Pg. 13.

the poor in the long run, although they may have an adverse effect in the short run.[60] While Amit Bhaduri's views are quite contrary when he says that the reform package has internal contradictions and it might have adverse effect on the poor in both short and long term.[61] According to S Mahendra Dev, it is possible that reforms may not increase absolute poverty but it may have adverse impact on income distribution. The market-oriented reforms have different effects on different groups within an economy. There may be winners and losers even among the poor. In large developing economies, the reforms may have differential impact on different regions of the country. All the new investment (domestic and foreign) may be captured by the rich states with better physical infrastructure and human capital. The impact also depends on the initial conditions.[62]

The Report on Human Development in South Asia reads as follows, "The sequencing of reform measures in South Asia, such as reducing tariffs before expanding tax base and improving collection, or curtailing government borrowings from the banking system before restructuring the public sector expenditure, was not well tailored to achieve the desired results. Track and current account balances have remained negative in all countries of South Asia during the period of reforms. The Bretton Woods Institutions (IMF, World Bank, GATT/WTO) were created to serve as global institutions for maintaining financial stability and for promoting development and trade. But the impact of policy conditions of these institutions falls disproportionately on the poor".

Further it says, while the early policies of these institutions were designed in a spirit of building the capacity of the state, over time there has been a trend towards reducing the role of the state and moving towards liberalisation and privatisation. The IMF loans are useful as a certificate of credit worthiness for accusing other multilateral and bilateral loans and grants, but the conditions attached to these loans make it impossible for countries to get out of debt trap. It is generally feared that the structural adjustment programmes of subsidy elimination, removal of trade

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[60] Tendulkar, S D (1998): 'Indian Economic Policy Reforms and Poverty: An Assessment' in I J Ahluwalia and I M D Little edited *India's Economic Reforms and Development: Essays for Manmohan Singh*, New Delhi: Oxford University Press.

[61] Bhaduri, Amit (1996)'Employment, Labour Market Flexibility and Economic Liberalisation in India', *The Indian Journal of Labour Economics*, 39 (1)

[62] Dev, S Mahendra (2000): 'Economic Reforms, Poverty, Income Distribution and Employment', *Economic and Political Weekly*, March 4, Pg. 823-824.

restrictions on agricultural commodities, and on overall unification of local with global prices will leave the poor farmers most vulnerable. As tariff barriers have fallen in developing countries, the world has been further divided along income lines, separating the global rich from the global poor. Reforms must therefore continue with a human face as far as developing countries are concerned. The focus should be on improving management of resources, reducing corruption, cutting the non-merit subsidies and establishing the institutions to implement and monitor reforms.[63]

To sum up, liberalisation policies facilitate uneven regional development by introducing competition among different regions. Liberalisation policies focus on opening up of markets. By doing so, they create competition among regions to attract capital, predominantly private capital (both domestic and foreign). In the process, those who have better resources and infrastructure attract more capital investment and develop much faster, while the regions lacking these resources and infrastructures lag behind. Although the state ensures that the public capital should be distributed evenly among the regions, according to their needs, the public capital is not sufficient to fill the gap between regions. With the erosion of state regulation in the era of liberalisation, there is no control over the private capital. There is no mechanism to ensure that private capital is distributed evenly among the regions. Thus, liberalisation process contributes to widening of regional disparities.

6. Summing Up

It is thus essential to know here that the study of regional development is necessary because of human desire for equality. The chapter gives a very comprehensive picture of all the concepts associated with the study of regional disparities. It talks about the various segments in the society, which can be referred as regions. It is clear from the study that no country, whether developed or underdeveloped is free from the problem of regional disparities.

For the economic and political stability of the country it is essential to have balanced regional growth. However, it seems that with the increase in global trade and the opening up of the economy, the problem of regional imbalance is getting aggravated. The areas, which have a better placement as far as infrastructure, capital,

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[63] Mahbub ul Haq Human Development Centre (2002): *Human Development in South Asia 2001: Globalisation and Human Development*, 2002, op. cit., Pg. 5.

skilled labour are concerned have a better bargaining power compared to the areas lagging in them. Therefore, regional disparities seem to widen in this phase of liberalisation and globalisation. There are a number of causes, which form the basis for this increase in regional disparities, which can be referred as past heritage, topography, system of government, etc. The process of liberalisation has increased the competition among the countries and regions for grabbing the opportunities of development. It depends on the type of policies, governance, availability of capital etc, which determine the growth of a region under economic liberalisation and globalisation.

Divergent theoretical perspectives exist on the problem of uneven development and regionalism. The concerns revolve around explanation of the pattern of disparate development and the ways and means by which a more desirable pattern may be possible with or without state intervention. The mainstream theory of regional development, though beset with limitations like unrealistic assumptions and improper understanding of the process, has continued to remain in the forefront of the debate. Also, it has been able to reproduce ideas and solutions on a massive scale. For the neoclassical, Keynesian and non-left liberal (neo-populist) theorists, the space is just an ariel unit, where the only problem seems to be location of productive activity, with physical endowments, cost-distance and time as essential elements. Thus, they presume regions are pre-given and homogeneous entities, and hence, amenable to mechanical spacio-statistical analysis. Under these circumstances, in many developing countries state intervention continues to be the panacea for all the ills of uneven development and regionalism. National and/or regional planning, having shifted its emphasis from ariel to sectoral planning, which seems to have uncritically relied upon the standard strategy of modern sector development.

This has been so, primarily due to the equation of the notion of development with that of economic development. The dynamics of the relationship between space and societal change effecting uneven development has been grossly neglected in studies of this nature. In an alternative approach towards explaining interregional imbalances within given national administrative boundaries, a number of Marxist scholars of political economy have gone to the extent of replicating underdevelopment/dependency theory, originally conceptualised to understand differential growth between nations, in the analysis of intra-national imbalances.

Marxist geographers, however, have questioned this, as it involves the problem of shifting scales from a macro to a micro level without reference to the social, cultural and political distinctiveness of regions.

A significant contribution towards explicating the undercurrents of uneven development has been made in the field of modern or radical human geography. Making a clear distinction between geographical place and social space, they attribute regional differences to a complex interaction between spaces within the broader canvas of matured capitalism. They certainly provide incisive clues in understanding this issue. However, these studies have been growingly concerned about regional problems within advanced capitalistic or post-modernist societies.[64]

However, regional disparity is a matter of serious concern. As claimed by some scholars[65], in extreme case it may lead to disintegration. It poses a serious threat to national integration, particularly in federal states. Perhaps, for this reason, federal countries are doing well in reducing regional disparities. One important measure taken by federal states to reduce regional disparity is to have nationalised planning. Nationalised planning can contribute to equal regional development by a just allocation of resources among different regions and providing special assistance to underdeveloped regions. Russia was the first country to start nationalised Five Year Plans. The initial five-year plans were created to serve the rapid industrialisation of the Soviet Union, and thus focused on investing in heavy industries. Stalin had implemented the first five-year plan in USSR during 1928-32.

Its aim was to lay foundations for heavy industries like steel, automobile, hydroelectric plants, railways, etc. Though there was a need for vast capital for setting up such industries, however, the raw material for these industries was abundantly available in USSR. They needed high skilled foreign workers to work in these industries; these workers could be attracted from outside only by paying them high wages, which was expensive for USSR. It is against this background that the success or the failure of the plan has to be judged. These industries ultimately did not fulfil the people's immediate needs i.e., consumer goods. Since lot of attention was paid to industrial sector and the agriculture sector was neglected there was harvest failure.

[64] Das, Keshab (2004): 'Uneven development and Regionalism: A Critique of Received Theories', *Economic and Political Weekly*, 39(45), Pg. 4917-4919.

[65] Bagchi, Amaresh and N. J. Kurian (2005): 'Regional Inequalities in India-Pre and Post Reforms Trends and Challenges for Policies', art. cit., Pg. 322.

Learning from this mistake, the planners in USSR emphasised on capital as well as consumer goods production in the second and third five-year plan. It is in this way that by the end of Second World War, USSR had become largely a self-sufficient nation.

There is a large debate over the success of these five-year plans. However, these plans had contributed a lot towards the economic development of USSR. India under the able leadership of Jawaharlal Nehru borrowed the idea of five-year plans from USSR. Another important measure was to have public institutions to allocate resources among the sub-national units. The next chapter will focus on functioning of these public institutions in India and how far the five-year plans have contributed in reducing regional disparities in India.

Chapter 2

A Historical Overview of Regional Disparities

1. Introduction:

India is one of the oldest civilisations in the world with a kaleidoscopic variety and rich cultural heritage. It has achieved multi-faceted socio-economic progress during the last 59 years of its independence. It covers an area of 32,87,263 sq kms, extending from the snow covered Himalayas in the North to Kanyakumari in the South, Arabian Sea in the West to Bay of Bengal in the East. India stretches 3,214 kms from North to South and 2,933 kms from West to East. India is the seventh largest country in the world accounting for about 2.4 percent of the total world area, supporting a whooping 16.7 percent of the world population. Under varied natural conditions, people speaking different languages, following different religion and living in rural or urban areas, live amicably side-by-side. This diversity in fact, is the unfailing source of its real strength.[66]

Being situated in north of Equator, India lies in the Northern Hemisphere. The Tropic of Cancer divides the country in almost two equal parts. India occupies a South Central Peninsula of the Asian continent, which is not only the largest, but the most populous continent of the world. Such a location has its economic advantages. In ancient times its location helped in establishing cultural and commercial contacts with the Arab world, countries of South East Asia, Africa, and the Far East. India is favourably situated on the world highways of trade and commerce both in the East and the West. India's neighbours in the North are China, Nepal and Bhutan. To the Northwest, India shares its boundary mainly with Pakistan and to the East with Myanmar, while Bangladesh forms an enclave within India. In the South lies the Indian Ocean. In the South East the Gulf of Mannar and the Palk Strait separate India from Sri Lanka.

[66] Tirtha, Ranjit (2000): *Geography of India,* Jaipur: Rawat Publications, Pg. 4.

In developing countries, the developed regions are generally confined to urban centres and urban areas. This is mainly because physical geography controls economic growth in a greater degree in developing countries than in developed countries. For example, Japan and Switzerland have overcome the handicaps of mountain terrain but our Himalayan states of Northern Kashmir, Himachal Pradesh, the hill districts of U.P and Bihar and North East Frontier areas have remained under developed mainly because of inaccessibility. Climate too plays an important role in lowering the economic development of many regions in India as reflected in low agricultural output and absence of large-scale industries in these regions.

Some regions are preferred because of certain locational advantages. The location of iron and steel factories or oil refineries will have to be only in those technically defined areas which are optional from the stand points considered together. As the process of development gains momentum, they attract labour, capital, trade and the external economies offered by the developing regions.

There are certain states, which have coastline and are therefore prone to better trade and thus attract more investments, like, West Bengal, Orissa, Andhra Pradesh, Gujarat as compared to land locked states of Rajasthan, Madhya Pradesh, Uttar Pradesh, etc. New investments, more so, in the private sector have a tendency to concentrate in an already well-developed area, thus reaping the benefit of external economies. This is but natural from the private sector point of view, since well developed area offers private investors certain basic advantages, like, labour infrastructure facilities, transport and the market.

Despite its large industrial base and a vast reservoir of technically qualified manpower India is considered one of the poorest countries of the world. According to the World Bank's ranking of Gross National Product (GNP) Per Capita, the country's rank was found to be 147th in the world.[67] Similarly, in the Human Development Index of 173 countries prepared by the United Nations Development Programme in their Human Development Report 1994, the rank of India was 135 as against 90 for Sri Lanka, 130 for Myanmar and 132 for Pakistan.[68] In fact, studies have shown that

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[67] World Bank (1994): *World Development Report 1994 – Infrastructure for Development*, New York: Oxford University Press, Pg. 3.

[68] UNDP (1990): *Human Development Report 1990*, New Delhi: Oxford University Press.

the relative position of India in the world economy has declined as compared to what it was at about the turn of the century.

2. Evolution of Regional Disparities in Pre-colonial and Colonial Period:

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 world's major religions trace their origin to India. We have produced great men who have 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.[69] The genesis of uneven development between the states of the Indian Union dates back to the advent of Mughals in the country.

2.1 Mughal Period:

India during Akbar's time was considered as a prosperous country, 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 in India was village based. Though India was under Muslim Rule for 500 years, the society was organised according to the Hindu traditions. Caste system was intact, so the social disparity often added another dimension to economic exploitation. While the Jajmani system ensured social security, the caste system ensured social mobility. 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 the surplus goods left after fulfilling the needs of the community.

There is historical evidence to indicate that there were food surplus in certain regions and deficit food in certain other regions as there was trade in food grains within India. For example, rice was being purchased from Konkan coast to be transported through the sea to Kerala. Similarly, Bengal rice was sent up the Ganges to Agra via Patna. The best mangoes in Delhi's Mughal court came from Bengal, Golconda and Goa. Salt to Bengal was imported from Rajputana. This contradicts the postulate that a uniform pattern of self-sufficiency existed for the entire subcontinent existed.

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[69] Kumar, Dharama and Tapan Ray Caudhuri (1991): *The Cambridge Economic History of India*, Vol-I and Vol-II, New Delhi: Orient Longman.

A fairly developed road network facilitated domestic trade. The Indian merchant lived in a keenly competitive world but he accepted important social limits to competition.[70] Foreign travellers who visited India during the 16^{th} and 17^{th} centuries presented a picture of a small group of ruling class, living in great luxury, in sharp contrast to the miserable condition of the masses. However such sharp inequalities in the 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 farmland, though there was plenty of cultivable wasteland available, which could be brought under plough if capital, labour and organisation were forthcoming. The share of produce retained by different classes of peasants varied. The precise share depended on various factors like, nature of the soil, relationship of the peasant with the landlord, traditions of the society, caste, etc. It is because of these factors, one would expect considerable inequality within the village.

In general, many European traders and travellers who came to India left accounts about the social and economic conditions of the country. They have emphasised on one hand, the wealth and prosperity of India and the ostentatious life style of the ruling classes, and on the other the grinding poverty of the ordinary people, that is the peasants, the artisans and the labourers. 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.

2.2 British Period:

As Baidyanath Misra has put it, "The genesis of uneven development between the states of India unfortunately is not solely due to any major geo-climatic or resource endowment between the various regions. Although the modernisation process for the Indian economy and society started during the British rule, the development more or less remained confined to a few pockets, which could mostly serve the European trade interest".[71]

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[70] Agra during Akbar and Delhi during the reign of Shahjahan were no lesser cities that London and Paris of those days.

[71] Misra, Baidyanath and Rajkishor Meher, ed. (2000): *Economic Liberalisation and Regional Disparities in India*, New Delhi: A P H Publishing Corporation, Pg. xi.

Dadabhai Naoroji was the first one to make an attempt to estimate national and per capita income in India. He placed the per capita income of India at Rs.30 in 1870 compared to that of England of Rs.450. however, since necessities in India cost about one-third as compared to England at that time, the real difference in terms of purchasing power was not fifteen times but only five times. In 1901, there were 2093 towns in the Indian sub-continent and about 10 percent of the population was urban. There was considerable variation in the level of urbanisation across the country; it varied from 18.8 percent in Bombay Presidency to 5 percent in Bengal Presidency, including Bihar and Orissa.

The dependence on agriculture for livelihood varied considerably across the regions. Industrialisation in India, from the very 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 Indian markets. Thus jute, tea, etc. were mainly in European hands whereas textile, sugar, etc. were mainly Indian. Apart from various other factors, one main reason for this 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 reached mainly northern, western and southern provinces during British period. Central and eastern India was relatively neglected. The uneven investment in irrigation during the British period helped some areas become prosperous under the British rule while others lagged behind. This had its serious implications in the post-independence period. While the former areas were capable to benefit from the Green Revolution package, the latter could not.

From its beginning in 1853, India's railway system expanded rapidly. By 1910, it was 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 specialisation and expansion of trade. For attracting private investors into the railways, Government of British India assured guaranteed return.

The fiscal system during the British rule gradually evolved into a federal system from a highly centralised 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 equalise provincial levels of public services, or the tax incidence and standards of public services in the beginning, and these differences were perpetuated since precedent was followed rather than any principle.

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 too 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.

As Baidyanath Misra has said, "The British helped in the development of only those regions, which possessed facilities for prosperous manufacturing and trading activities. Maharashtra and West Bengal were the states preferred by the British industrialists. The three metropolitan cities - Calcutta, Bombay and Madras - attracted all the industries and the rest of the country was neglected and remained backward. So, it is needless to say that when India got its independence, the Indian economy was almost shattered and truncated due to the long years of exploitative colonial rule".[72]

As Baidyanath Misra opines, "Under the land revenue system of the British, the rural areas were continuously pauperised and the farmers remained the most oppressed class; the Zamindars and the moneylenders were the only prosperous people in the rural scene. The absence of effective land reforms allowed the structure in most of rural India to remain inimical to economic growth".[73]

Many critics have argued that the system did not 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

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[72] Misra, Baidyanath and Rajkishor Meher, ed., (2000): *Economic Liberalisation and Regional Disparities in India*, op. cit., Pg. xi.

[73]Misra, Baidyanath and Rajkishor Meher ed. (2000): *Economic Liberalisation and Regional Disparities in India*, op. cit., Pg. xiii.

incentive to try and raise their tax revenues. A more or less similar situation exists in India even today when the Finance Commission assess the revenue gaps of the states and try to fill such gaps by increased transfers.

3. Planned Development Legacies:

As M N Srinivas has rightly pointed out, "New nations are beset with the problem of maintaining their political stability, which requires, among other things, that their economic development be fast enough to more than neutralise the effect of rapid population growth, and that existing inequalities between different sections of the population, and different regions, are rapidly reduced. A pattern of development that sharpens inequalities between groups and regions is bound to be politically explosive sooner or later".[74]

India's efforts at nation building may be regarded as one of the more successful attempts by a new nation, particularly in the context of the size and diversity of the country, and the fact that she inherited a host of problems from colonial rule, including the riots which followed its withdrawal and creation of the two sovereign states of India and Pakistan in the sub-continent.[75]

Bimal Jalan went on to say that, "In the period just after Independence the savings and incomes were low, it seemed natural for the Government to take on the task of mobilising incremental savings through taxation and market borrowings. The base of entrepreneurship, as in many other developing countries, was small, and concentrated in some regions of the country. Large investments required in the steel and machine-building sectors could only be undertaken directly by the government in view of the underdeveloped financial sector. By the end of sixties, the concentration of economic power in a few business houses became a major political and economic issue; this further strengthened the role of the state in the industrial sphere. Banks were nationalised in order to break the nexus between private industry and finance, and to make available credit to traditionally less funded sectors, such as agriculture and small-scale industry".[76]

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[74] Srinivas, M N (1976): *Nation Building in Independent India*, New Delhi: Oxford University Press, Pg. 10.

[75] Srinivas, M N (1976): *Nation Building in Independent India,* op. cit., Pg. 11.

[76]Jalan, Bimal (1993): *India's Economic Policy: Preparing for The Twenty-First Century,* New Delhi: Penguin Books, Pg. 3-4.

However, after independence India adopted a federal democratic system of government, to accommodate a number of princely states. As India is a 'holding together federalism', bargaining could not be possible while adopting the federal constitution leading to a centralised federation. In the next section, I will discuss how the federal and democratic model works in India.

3.1 Federalism

Federalism is a comparatively modern concept. Its theory and practice in modern times is not older than the coming up of the American Federation in 1787. The federal idea – the plan of government of a number of contiguous territories in association and neither separated nor combined in one – is very old and had been practised in ancient Greece, but it has been employed on a larger scale only in the last two centuries.

Federalism is the result of historical revolution. It springs from the necessity for the Union of a number of independent states which are not strong enough individually to protect themselves from outside danger, and whose union is requisite for their safety and for the promotion of their economic interests, but which are not prepared to surrender their independence completely. The impulses that lead to the formation of the federation are usually the idea of national unity, the desire to promote common economic interest, the amicable resolutions of common problems and considerations of defence and international prestige.

One can approach federalism from two directions, depending on the initial conditions. One of the most influential political scientists to write about federalism in the last half century is late William H. Riker, who stressed the three factors present in the U.S. form of federalism, which was true for federalism in general. First, Riker assumes that every long standing federation, democratic or not is a result of a bargain whereby previously sovereign polities agree to give up part of their sovereignty in order to pull their resources to increase their collective security and to achieve other goals including economic ones. This type of federalism is called coming together federalism. Second, Riker assumed that one of the goals of federalism is to protect individual rights against encroachment on the part of the central government by a number of institutional devices. In addition, many competencies are permanently granted to the sub units instead of the centre. Though democratic, these devices are demo constraining. Third, as a result of the federal bargain, that created the United States, each of the states was accorded the same constitutional competencies. By contrast, asymmetrical arrangements that grant different competencies and group specific rights to some states, which are not part of U.S model of federalism now, are seen as incompatible with the principled equality of the states and with equality of citizen's rights.[77]

The political case for a federal structure in an existing nation can be made on the basis of enhancing freedom and representating the constituents in their government. This is a possible argument for India in the present, or for a currently democratizing Russia. On the other hand, starting with smaller independent entities, the political goals of stability and security may be better achieved through a federation. For example, the original thirteen states which constituted the US.[78]

Federalism in India is both a colonial and a nationalist legacy in the institutional sense of the term. The British unitary model of governance proved relatively ineffective for a vast and diverse country like India. The relative failure of this model led them to introduce, since the 1920s, doses of devolution and federalism in India in which the Government of India Act, 1935 was the major institutional step.[79] India at independence also faced the issue of combining smaller entities, namely the Princely States, and many of them chose to enter the Indian union based on the political realities of security and survival.[80]

The federal provisions of the American, Canadian and Australian federations have influenced the founding fathers of the Indian Constitution. However, nowhere in the Indian constitution has the term 'federation' been used. 'Article 1' of the Indian constitution only refers India as a 'Union of States'. The most remarkable achievement of the Indian Constitution is to confer upon a federal system the strength of a unitary government. Though the system of government in India is federal in

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[77] Stepan, Alfred (1999): 'Toward a New Comparative Analysis of Democracy and Federalism: Demos Constraining and Demos Enabling Federations', art. cit., Pg. 4-6.

[78] Rao, M Govind and Nirvikar Singh (2005): *Political Economy of Federalism in India*, New Delhi: Oxford University press, Pg. 14.

[79] Bhattacharyya, Harihar (2005):'Federalism and Regionalism in India: Institutional Strategies and Political Accommodation of Identity', *Heidelberg Papers in South Asian and Comparative Politics*, Working Paper No. 27, May, Pg. 3.

[80] Bardhan, Pranab (2002):'Decentralisation of Governance and Development', *Journal of Economic Perspectives*, 16 (4), Pg. 194-195.

normal situations but the constitution enables the federation to transform into a unitary state. Therefore, many scholars refer Indian federation as a quasi-federation.

The constitution of India establishes a federal polity, which has been created by dividing the country into states, and allocating them functions as specified in the constitution. Like all other federations India has a written constitution, which is rigid to a large extent. There is a dual polity and division of power between the centre and the states. These characteristics of the federal set up not withstanding; the Indian constitution has a unitary bias. For instance, after distributing the legislative powers in three lists, residual subjects are left to the union. Unlike other federations Parliament in India has the right to change the boundaries of the states. The heads of the states are appointed by the President and are his agents in the states. The Centre can, at any time, declare emergency in the states and with that declaration can take over the administration of the state in its own control.

There have been some important changes in the domestic economic and political situation in India. Economically, because of fiscal profligacy, the state has become financially weak with little command over resources for investment in capital formation or programmes for the poor. Politically as governments have become overextended, there are signs of a decline, which is referred to as the 'authority' of the state.[81] From the economic point of view, there is enough evidence to suggest that over-centralisation is an important cause of inefficiency and the diversion of resources from production to administration. Politically, with the emergence of strong regional parties, and with several different parties in power at the centre and in the states, decentralisation of economic power is essential.

In the context of federal relations in India, the focus has been primarily on federal transfers from the Centre to the States, channelled principally through the Planning Commission and the Finance Commission. The distribution of Central investment has a much more immediate impact on regional growth than transfers, which may or may not be utilised by the states for investment. The pattern of distribution of public investment has implications for regional growth by influencing it in a number of ways. Regional allocation of public investment is the most obvious

[81] Kohli, Atul (1991): *Democracy and discontent: India's Growing Crisis of Governability*, Cambridge: Cambridge University Press.

way by which economic policy affects the rates of growth of regions.[82] As the Governments own need for resources for investment increased, it became necessary to curb or control the private sectors demand for resources through the rationing of foreign exchange, credit controls and industrial licensing.

India is meant to be a Federation of States. However, to facilitate planning, the power to regulate, direct and undertake economic activities came to be centralised in the Union Government. Overtime there has been a vast expansion of Central Government employees. At the same time the State Governments continue to have the primary responsibility for development activities in all sectors including infrastructure, industry, social sectors, agriculture and poverty alleviation.[83]

3.2 Democracy

The constitution provides for a parliamentary system of government under which the real executive power vests with the Council of Ministers and the President is only a nominal ruler. The Council of Ministers stay in office as long as they enjoy the confidence of the Parliament. The framers of the Constitution decided to adopt a Parliamentary System of Government for several reasons. Firstly, the system was already in existence in India and people were well acquainted with its working. Secondly, the vast size of the country and the diversity of its culture necessitated the adoption of a Parliamentary form of Government. Thirdly, the desire to avoid conflicts between the executives and the legislature, which was a common feature in America, also induced the members of the Constituent Assembly to opt for a Parliamentary form of government.

The Indian polity can best be described as Parliamentary Democracy. Parliament occupies the centre stage in the Indian political system. Parliament of India, representing as it does all constitutionally organised shades of public opinion at the national level, occupies a pre-eminent position in Indian polity. The Preamble of the Constitution makes it abundantly clear that the ultimate source of all power is the

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[82] Kumar, T Ravi (2000): Public Investment and Regional Disparities, *Economic and Political Weekly*, Vol - XXXV, No-41, October 7, Pg. 3684.

[83] Jalan, Bimal (1993): *India's Economic Policy: Preparing for the Twenty-First Century*, op. cit., Pg. 2.

people of India in whom the sovereignty vests. Therefore, Indian polity can best be described as representative parliamentary democracy.[84]

The constitutional goal of attainment of an egalitarian socio-economic order in a democratic set up of the country is yet to be achieved as the persistence of disparity in various forms at the inter-state, inter-district and also at intra-district levels counteracts the planned process of economic development in India. It is since five decades that backward areas backed up by a system of incentives and check on the private sector investment have failed to prevent 'enclave type' development.[85]

Many democratic federations, however, emerge from completely different historical and political logic, which is referred as holding together federalism. India in 1948 and Belgium in 1969 were all political systems with strong unitary features. Nevertheless, political leaders in these countries came to the decision that the best way – indeed, the only way- to hold together in a democracy would be to develop power constitutionally and turn their threatened polities into federations.[86]

4. Indian Development Model:

India achieved her Independence on 15th August 1947. At the time of her independence, following several decades of economic stagnation (if not decay) under British rule, India was one of the poorest countries of the world. It was therefore a great hope for the founding fathers of the Indian Republic to relieve this crushing burden of poverty.[87] Therefore they thought of having plan documents for the rapid economic development of India.

The post-independence consensus was then shaped by the colonial experience and the pre-war realities of trading and investment relationships between industrial and non-industrial countries. Both these factors- the colonial experience and the pre-war trade factors- strongly favoured an inward looking and state dominated strategy of development. Since then the world has changed, India has changed and the British have long gone. But our thinking about what is right and what is wrong has been slow

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[84] Austin, Granville (2003): *The Indian Constitution: Cornerstone of a Nation*, New Delhi: Oxford University Press, Pg. 11-16.

[85] Meher, Raj Kishor (1999): *Development Disparities in a Backward Region-A District Level Analysis*, New Delhi: APH Publishing Corporation, Pg. 2.

[86] Stepan, Alfred (1999): 'Federalism and Democracy: Beyond the US Model', art. cit., Pg. 2.

[87] Bardhan, Pranab (2005): *The Political Economy of Development in India*, New Delhi: Oxford University Press, Pg. 1.

to change. The old and cherished values of 'Swadeshi', 'Self-reliance', 'Commanding Heights', 'Indigenous Industry', 'Freedom from Foreigners' continued to dominate the political debate for a long time.

Even after fifty-nine years of planning, India still remains a poor country. It is near the bottom of the league table of nations in terms of income per capita. It is also near the bottom in terms of most other indicators of human or social development. Nearly half of its population is illiterate and almost the same numbers do not have enough to eat. Over the last fifty years of independence, there has, of course, been some improvement in the poverty ratio as well as other indicators of human development. But overall, India is still abysmally poor. In some respects, the situation has in fact worsened over the years.[88]

The two pillars of our old economic policies were 'protection' and 'public sector'. Protection for domestic industry was expected to generate high industrial growth and expanding public ownership of means of production, was expected to provide the state with control of profits, which could be used for further investment. After some initial success both assumptions have proved to be wrong. Despite exceptionally high levels of domestic protection, India's rate of growth of industrial production was less than half that of China or East Asia.[89]

As the governments own need for resources for investment increased, it became necessary to curb or control the private sectors demand for resources through the rationing of foreign exchange, credit controls and industrial licensing.

During the colonial period the process of economic development had been greatly neglected. Therefore for a long time even after planning was adopted the outcome was not fabulous. The industrial growth in the 50s and 60s was close to 8 percent per annum.[90] The growth of overall national income during this period was about 3.5 percent per annum, which was much lower than expected, but still considerably higher than that registered by the country during the British rule.

Between 1965 and 1980, industrial growth had slowed down to a considerable extent; there had been a shortage of foreign exchange in the country. Instead of

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[88] Jalan, Bimal (1993): *India's Economic Policy: Preparing for the Twenty-First Century*, op. cit., Pg. xi-xii.

[89] Jalan, Bimal (1993): *India's Economic Policy: Preparing for the Twenty-First Century*, op. cit., Pg. xii.

[90] Jalan, Bimal (1993): *India's Economic Policy: Preparing for the Twenty-First Century*, op. cit., Pg. 4.

contributing to the growth of the economy, the public sector had become a source for drain of resources. The health and education sector had also not performed as expected by the planners. Thus it is clear from here that the 'command-type' planning,[91] as developed in Soviet Union, could not work effectively for long in an economy which was substantially privately run and where producers and consumers had freedom of choice in respect of economic decisions.

According to Bimal Jalan, there are a number of factors, which led to the growth of developing nations as major producers and exporters of manufactured products. First, the end of colonial rule and participation of these countries in the various trade negotiations after the Second World War gave these countries a platform to reach the world level. Second is the cost-reducing technological change in the post independence period. Finally, the sharp decline in costs of communication and transport has made geography and proximity to markets less relevant in influencing the choice of location for manufacturing.[92]

The extent to which different countries and regions have benefited from these trends has, of course, depended on country's own policies and their overall economic performance. Initial endowments and initial conditions have played a role, but these too were amenable to change.

Jawaharlal Nehru, whose keenness for planned development antedated Independence by several years, set up in March, 1950, a National Planning Commission with himself as the Chairman, the idea underlying planning being that in a country as poor as India, resources had to be used carefully, and that the money invested in various aspects of development should be on the basis of established national priorities. The Planning Commission had to assess the country's needs of material capital and human resources and to formulate economic plans for their more balanced and effective utilisation. The First Five- Year Plan commenced in 1950-51, and it was followed by a series of Five- Year plans.[93]

In his eagerness to modernise the country as soon as possible, Nehru favoured large investment in irrigation, hydro electric power, and basic industries like steel, machine tools, heavy engineering, heavy chemicals, fertiliser, etc. In addition, India

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[91] Jalan, Bimal (1993): *India's Economic Policy: Preparing for the Twenty-First Century*, op. cit., Pg. 5.
[92] Jalan, Bimal (1993): *India's Economic Policy: Preparing for the Twenty-First Century*, op. cit., Pg. 8.
[93] Srinivas, M N (1976): *Nation Building in Independent India*, op. cit., Pg. 12.

went on for oil exploration, the need to achieve self-sufficiency in oil being as much a political as an economic necessity.[94]

The Bombay Plan[95] was attributed to the labour of the National Planning Committee; it laid objectives to be kept in mind for economic planning in India. The Plan assumed that the maintenance of economic unity of India is an essential condition of any effective planning. The purpose of the Plan was that the future Government of India will be constituted on a federal basis and that the jurisdiction of the Central Government in economic matters will extend over the whole of India. The actual execution of the plans will be the function of Supreme Economic Council working alongside the National Planning Committee under the authority of the Central Government.

The principle objective of the Plan was to double the per-capita income of 1940's within a period of fifteen years from the time that the Plan would come into operation. For this they emphasised on doubling the net output of agriculture and raise the net output of industry by five times. As far as industrial development was concerned, they suggested that in the initial stages, production of power and capital goods should be emphasised. This would not only quicken our pace of development but also reduce our dependence on foreign countries for the plant and machinery required by us and also reduces our requirement of external finance. As far as finance was concerned, the real capital of the country consisted of its resources in materials and manpower.

The modest aim of the Plan was to secure a general standard of living, which would leave a reasonable margin over the minimum requirements of human life. These include, besides the psychological necessities of life like food, clothing and shelter, also some provision for medical relief and education.

In spite of India being an agricultural economy, majority of the population did not get food to eat, and those who got was not the balanced diet. The Plan thus aimed at a three-fold increase in the total national dividend. This three-fold increase was to

[94] Srinivas, M N (1976): *Nation Building in Independent India*, op. cit., Pg. 13.

[95] Eight leading industrialists of India conceived "A Plan of Economic Development for India" which was popularly known as the Bombay plan for the development of India. Thakurdas, Purushottamdas, J.R.D Tata, G.D Birla, Sir Ardeshir Dalal, Sir Shri Ram, Kasturbhai Lalbhai, A.D. Shroff and John Matthai (1944): *A Plan of Economic Development for India*, Bomaby, Pg. 1-55.

be brought in such a way that the overwhelming dependence on agriculture would reduce and a more balanced economy would be established.

The industries which an economic plan for India would seek to develop was classified into: a) basic industries which included - power, iron and steel, aluminium, manganese, heavy chemicals, machine tools, fertilisers, dyes, plastics, pharmaceuticals, railways, engines and wagons, ship building, automobile, aircraft etc. b) consumption goods industries - textiles, glass, leather, paper, tobacco, oil, etc. It was essential to have basic industries because the whole economic development of the country depended on these. Along with large-scale industries it was essential to have small scale and cottage industries. The main aim for agriculture was to increase the production necessary to feed the population and not for exports. For this land reforms were essential, as this would allow them to have intensive cultivation.

For the economic development as per the Plan it was essential to have capital. The Plan gives emphasis on borrowing from foreign countries especially America as long as the borrowing is not accompanied by any political influence or interference of foreign vested interests.

The Plan outlined in the memorandum was further subdivided into three plans, each covering a period of three years. In the First Plan total amount to be spent was deliberately kept low. With the development of the Plan both material resources and personnel would become available in rapidly increasing proportions and thus the tempo of progress would be accelerated.

5. Assessment of India's Development (1951-1981):

The Indian economy was not only economically backward but was also characterised by many regional imbalances on the eve of Independence. Economic planning was launched in 1951 to raise the standard of living of the people and to promote social and economic justice. Since the inception of planning, therefore, the objective of balanced regional development, among others, has been duly emphasised, especially because of compelling considerations of equity and national cohesion in a federal set up. In pursuance of this objective, plan outlays had been allocated, and programmes and targets laid down, in terms of states.[96]

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[96] Mahajan, O P (1982): '*Balance Regional Development: An Evaluation of Planning Strategy in India in Regional Inequalities in India*', Aruna Printing Press, New Delhi, Pg. 1-2.

The Constitution of India actually makes it incumbent upon the Government at the Centre to appoint a Finance Commission once at least in every five years to examine the problems arising out of the gaps between the needs for expenditure and the availability of revenue of the different states of India and other related and similar issues[97]. There have been so far Twelve Finance Commissions.[98]

As discussed by K R G Nair, "The different Finance Commissions have been asked to keep in mind different factors like the fiscal discipline of the States, the availability of funds at the Centre, the need to tone up the level of administration of the States and the transfer of funds from the Centre to the States through other means. But never has any Finance Commission been required to bear in mind the reduction of inter- state disparities in the levels of living as one of the goals while making its recommendation. In relation to the constitutional provisions regarding the Finance Commission, there appear to be no constraints on the type of expenditure to be borne in mind while estimating the expenditure needs of the state governments. Therefore the Finance Commission could have easily stretched the meaning of the expenditure needs of the State Governments to include the expenditure for pulling up the backward states without doing any constitutional wrong. But instead of taking such a positive attitude towards this problem, the Finance Commissions have chosen to circumscribe their powers in this regard".[99]

The two relevant criteria under which the Planning Commission and the Finance Commission redistribute Central investment to the States are: a) Per Capita Net State Domestic Product b) Population of the State. This is reflected in the choice of criteria for the horizontal distribution of Finance Commission and Planning Commission transfers to states where these two variables used directly or indirectly

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[97] The exact provision is Article 280 Section 3 which states that the Commission is to make recommendations regarding "the distribution between the Union and the States of the net proceeds of taxes which are to be or may be divided between them... and the allocation between the States of the respective share proceeds, the principles which should govern the grants-in-aid of revenues of the states... and any other matter referred to... in the interest of sound finance." It is interesting to note that no other country in the world has a constitutional provision for the appointment of such a Commission.

[98] The Planning Commission of India is a non-statutory permanent body and the members are like full time Government employees holding their positions subject to the pleasure of the Government whereas the Finance Commission is a statutory body appointed by presidential proclamation once in every five years. The Finance Commission helps to transfer non-plan resources from the centre to the states, while the Planning Commission has the discretion to transfer plan resources from the centre to the states. The Finance Commissions recommendations are in the form of awards and the Central Government is bound to accept them. On the other hand, the Planning Commissions transfer of funds is only discretionary; Planning Commission is only an instrument of the Centre. The Finance Commission gets its authority from the Constitution but it is not the instrument of the Central Government.

[99] Nair, K.R.G (1981): *Regional Disparities in India*, New Delhi: Agricole Publishing Academy, Pg.67-79.

accounted for three-fourths or more of the total weightage for tax shares in case of all the Finance Commissions and between 70 and 80 percent of the total weightage in case of all plan transfers using different modifications of the Gadgil Formula.

The important question that emerges as we go on to look at the various Five Year Plans is, how important was the objective of balanced regional development in Indian Planning and what was the role allocated to the regional location of public enterprises as a policy tool for achieving it?

Serious regional imbalances resulted during the period of Planned Economic Development since 1950-51. The planning mechanism has itself accentuated the disparity between the states by having a strong bias in favour of the developed states and neglecting the less developed states. Punjab and Haryana had always got the highest per-capita plan outlays from the First Plan to the Eight Plan. At the same time the poorer states of Bihar, Orissa, Uttar Pradesh and Rajasthan have received the smallest allocation of per-capita plan allocations. As such, the disparity between the states in India has been widening.

The adoption of new technology in agriculture in the 1960s aggravated the problem of regional disparity. In order to make maximum use of the scarce resources to produce more food grains, the Government concentrated its resources on farmers of heavily irrigated tracts in different parts of the country. These farmers were already better off and they were made still better off. On the other hand, the dry-land farmers and non-farming population of the countryside were left out. This has led to the widening of disparities.

The Government did make an attempt towards decentralisation and development of backward regions through public sector investment programmes in areas like Rourkela, Bhilai, Barauni, etc. but as the ancillary industries did not come up fast enough these areas have continued to remain backward.

Various Planning Commission's of India have said differently about the issue of regional disparities. The First Five-Year Plan made no explicit reference of the need to correct regional disparities. The Second Five-Year Plan, however, stated that the "pattern of investment should be so devised as to lead to balanced regional development". The Third Five-Year Plan went ahead to qualify the statement in the Second Plan, "while in the selection of sites for basic capital and producer good industries, proximity to raw materials and other economic considerations have naturally been important, it was felt that in a wide range of consumer goods and processing industries it was possible to foster regional patterns of development. The emphasis of the development strategies in the Fourth and Fifth Five-Year Plan shifted to programmes based on 'Area Development' and 'Target Group' approaches and this has been essentially the strategy since. The Sixth Five-Year Plan commented adversely on the strategy of industrial location of public enterprises "the evidence suggests that the capital intensive industry is not by itself the sort of growth catalyst that backward area needs". This can be considered to be a reiteration of the position in the Third Five-Year Plan that, for location of certain categories of public enterprises, factors other than the need to reduce regional inequalities should be considered paramount. The Ninth Five-Year Plan acknowledged that, "growth has not been as regionally balanced as it should have been" and stated that planned intervention was needed to ensure that large regional imbalances do not occur. The pattern of distribution of public capital in the last five decades shows a bias towards the higher income states and away from the poorer group of states. The Ninth Plan diluted its commitment to public investment in industry as a tool to reduce regional disparities by stating, that reduction in regional disparities, particularly in average standards of living may be achieved through greater focus on agricultural and other rural activities.[100] The Tenth Five-Year Plan had recognised that the concept of regional disparities would need to go beyond economic indicators and encompass social dimensions as well. Furthermore, the focus on inter-state disparities masked the incidence of intra state disparities. The Tenth Plan had accordingly advocated a multi-pronged approach to provide additional funding to backward regions in each state, coupled with governance and institutional reforms.[101] Therefore in the absence of compensatory policies in other areas of federal relations, a far larger burden of catching up seems to have been shifted on to the poorer states themselves.

The Planning Commission should be the bridge between the Centre and the States that its present role enables it to be. This is necessary because the Planning Commission is the only agency that directly supports the development plans of states

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[100] Planning Commission of India, *First Five-Year Plan, Second Five-Year Plan, Third Five-Year Plan, Fourth Five-Year Plan, Fifth Five-Year Plan, Sixth Five-Year Plan, Seventh Five-Year Plan. Eighth Five-Year Plan, Ninth Five-Year Plan,* and *Tenth Five-Year Plan*, New Delhi: Planning Commission.

[101] Government of India (2005): *Mid-Term Appraisal of 10th Five-Year Plan, 2002-2007*, New Delhi: Planning Commission of India.

and is engaged in a regular development dialogue with them. This means that the Commission must see itself in a more proactive role in championing the cause of the states with central ministries in key policy issues that have strong equity and regional balance dimensions. The State Plan allocation and dialogue process should be reoriented to focus more on macro-policy issues, equity and regional balance concerns, and promotion of decentralised planning structures. In line with the original mandate, the Commission's role and influence must be leveraged more effectively with both the states and the Central Government for bringing about greater inter-state and intra-state regional balance.[102]

The Planning Commission of India has sought to tackle the problem of regional disparity in three ways. Firstly, to recognise backwardness as a factor to be taken into account in the transfer of financial resources from the centre to the states; secondly, Special Area Development Programmes directed at development of backward areas; and thirdly, measures to promote private investment in backward areas.

The Finance Commission of India has used backwardness of a state as one of the criteria for transfer of funds from the central pool to the states. The resource transfers relate to central assistance for state plans, transfers effected under the recommendations of the Finance Commission, ad hoc transfers from the Centre to the states, the distribution of assistance for centrally sponsored schemes, the distribution of long term and short term credit from financial institutions 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 central plan assistance has been gradually declining to 50 percent in the Fifth Plan, 36 percent in the Sixth Plan and 37 percent in the Eighth Plan. The Tenth Plan has a further decline to 36 percent.

Many states demanded that the proportion of central assistance allotted to special projects should be raised from 10 percent under Gadgil Formula[103] to 25 percent so as to benefit the backward states. Even the revised formula for central assistance could not tilt the balance in favour of backward states as was intended.

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[102] Government of India (2005): *Mid-Term Appraisal of 10th Five Year Plan, 2002-2007*, New Delhi: Planning Commission of India.

[103] The formula for resource distribution among states was proposed by D R Gadgil and adopted in 1969.

The Eleventh Finance Commission did not make backwardness a criterion for resource transfer, but in the formula for resource transfer, among the different criterias, the relative distance of the per capita income and the index of infrastructure development were indirectly used to include backwardness. On the basis of the new formula, six backward states, Madhya Pradesh, Assam, Uttar Pradesh, Rajasthan, Orissa and Bihar would get a share of 57 percent in resource transfer. Special Category States, Arunachal Pradesh, Himachal Pradesh, Sikkim, Nagaland, Manipur, Meghalaya, Goa, Tripura, Mizoram and Jammu and Kashmir would get 4.2 percent of the total resource transfer.

There is a serious complain from some of the states like Kerala, Uttar Pradesh, Bihar, etc., that the Centre has not used its fiscal dominance over states to correct regional imbalances. Nor has the Centre used other instruments at its disposal to narrow down the unevenness in regional development. In the absence of integrated approach to the development of the backward regions, location of the central sector projects and even the location of private industries through licensing policy have not created much an impression on the problem of regional imbalances. In fact, regional disparities have worsened during the plans.

When the Planning Commission was set up, it was thought that it would bring about a closer economic integration of the country through rapid increase in national income, higher standard of living of the masses, reduction of inequalities across regions, expansion of agriculture, industry, power and transport. While some degree of economic development has been achieved in every direction, yet from the point of view of balanced development, planning may be said as a dismal failure.

With the acceleration of the planning process the responsibilities and commitments of the states, has increased much more than their financial resources. The result was a kind of centralisation at the federal level bringing the economic functioning of the State Governments under central directive and control through the mechanism of grants and loans. The financial powers of the states are far too meagre in relation to their clearly defined responsibilities. It was really unfortunate that the framers of the Indian constitution could not visualise the financial implications of large-scale programmes of planned development

Within such a state of poverty and under development of the economy, the states of the Indian Union are found to be unevenly developed at a very high level. There are certain states like Punjab, Haryana, Gujarat, and Maharashtra where the level of economic development is found to be much higher than the poor and backward states like Assam, Orissa, Bihar, and Madhya Pradesh. Although the Government of India has aimed at reducing regional disparity through Five Year Plans by deliberately investing more for the agricultural and industrial development of backward regions, such efforts have become elusive.[104]

Observing the public sector investment in the backward regions, as rightly mentioned in Kundu's work that, "while the governmental expenditure in the backward states went to the development of the basic industries and economic infrastructure, the institutional finance resulted in the multiplier effects leaking out of these states. Most of the industrial units technologically intertwined with the basic public sector units did not come up within the region but got located in and around a few large cities in the developed states. This resulted in the truncation of production complex- remained in the backward states while the final processing activities with a high component of value added moved into the developed states".[105]

It may be further added that the freight equalisation policy of the government which was followed till early nineties in the case of basic and intermediate goods like pig iron and steel helped in concentration of modern engineering goods and sophisticated consumer goods industries in the developed states of the country such as Punjab, Haryana, Gujarat, Maharashtra, Tamil Nadu, West Bengal and the like. The setting up of iron and steel industry of gigantic nature in the mineral rich backward regions, failed to generate adequate forward linkage effects within their peripheries to accelerate the pace of economic development. The enclave nature of development in backward areas, although generates its spread effects throughout the length and breadth of the country, such effects are found to be of trivial nature in the project periphery and in many cases those are often outweighed by the backwash effects.

In the early years of planning, the scarcity of resources, techno-economic feasibility of the project and efficiency of investment made it imperative for the

[104] Meher, Rajkishor (1999): *Development Disparities in a Backward Region: A District Level Analysis*, op.cit, Pg. 1.

[105] Kundu, Amitabh (1986): ' Migration, Urbanisation and Inter Regional Inequality: The Emerging Socio Political Challenge', *Economic and Political Weekly*, 21(46), Pg. 2006.

planners to concentrate developmental activities in those parts of the economy and regions where the internal rate of returns were anticipated to be comparatively high. However, noticing the trend of widening regional disparities in the country, the fourth five-year plan started paying special attention towards balanced development of regions. Since then special efforts have been made for higher allocation of central assistance to backward regions.[106]

India has accumulated a plethora of economic and social legislation for regulating human behaviour. The complex web of laws and regulations are not enforced in practice; the worst thing about them is that they cannot be enforced even under the best of circumstances. Non-enforcement of existing laws has some important economic consequences. It makes non-compliance and illegal activity more profitable than legal activity.[107]

As viewed by Atul Kohli, "There have been some important changes in the domestic economic and political situation in India. Economically, because of fiscal profligacy, the state has become financially weak with little command over resources for investment in capital formation or programmes for the poor. Politically as governments have become overextended, there are signs of a decline, which is referred to as the 'authority' of the state. From the economic point of view, there is enough evidence to suggest that over-centralisation is an important cause of inefficiency and the diversion of resources from production to administration. Politically, with the emergence of strong regional parties, and with several different parties in power at the centre and in the states, decentralisation of economic power is essential." [108]

The industries which any economic plan for India would seek to develop was classified into: a) basic industries which included - power, iron and steel, aluminium, manganese, heavy chemicals, machine tools, fertilisers, dyes, plastics, pharmaceuticals, railways, engines and wagons, ship building, automobile, aircraft etc. b) consumption goods industries - textiles, glass, leather, paper, tobacco, oil, etc. It was essential to have basic industries because the economic development of the

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[106] Meher, Rajkishor (1999): *Development Disparities in a Backward Region -A District Level Analysis,* 1999, op. cit., Pg. 3-4.

[107] Bhagwati, Jagdish (1982): 'Directly Unproductive Profit Seeking (DUP) Activities', *Journal of Political Economy*, 90.

[108] Kohli, Atul (1991): *Democracy and Discontent: India's Growing Crisis of Governability*, op. cit.

entire country depends on these. Along with large-scale industries it was essential to have small scale and cottage industries. The main aim for agriculture is to increase the production necessary to feed the population and not for exports. For this land reforms were essential, as this would allow them to have intensive cultivation.

The Plan outlined in the memorandum was further subdivided into three plans, each covering a period of three years. In the First Plan total amount to be spent was deliberately kept low. With the development of the Plan both material resources and personnel would become available in rapidly increasing proportions and thus the tempo of progress would be accelerated.[109]

6. Summing Up:

It is observed that all these programmes and approaches of the governmental machinery to tackle the problems of inequality among the regions and people of the country in general have so far generated very limited effects. Low level of economic growth coupled with unequal distribution of the economic gains between the various regions and ethnic groups perpetuate the trend of high inequalities all over the country. More so, the spread of modern education and rapid advancement of modern transport and communication system in a unequal socio-economic set up exacerbates the sense of relative deprivation between the people of various regions, caste and ethnic groups. This leads to frequent eruption of nativistic tendency, "Sons of the Soil Movement", regional and ethnic group consciousness in different parts of the country.[110]

Imbalanced growth of the regions coupled with sectoral imbalances of the economy in a developing country like India on the eve of independence, generates the feeling of animosity and narrow ethnicisation among the people of similar socio-linguistic origin. Besides inter state disparity, people often raise the issues of inter-district and intra- district disparities at different spatial and contextual levels.[111]

As certain regions and states in India got more importance on the ground of geo-political, socio-religious and economic consideration of the colonial government,

[109] Thakurdas, Purushottam Das, J.R.D Tata, G.D Birla, Sir Ardeshir Dalal, Sir Shri Ram, Kasturbhai Lalbhai, A.D. Shroff and John Matthai (1944): *A Plan of Economic Development for India*, op. cit., Pg. 25.

[110] Thought put forward by Myron Weiner. See Weiner, Myron (1978): *Sons of the Soil*, Oxford University Press, New Delhi.

[111] Meher, Rajkishor (1999): *Development Disparities in a Backward Region (A District Level Analysis)*, op. cit., Pg. 4.

at the time of independence, the country depicted a scenario of totally imbalanced and backward economy with few pockets of relatively developed urban centres in certain specific regions. So, after independence, when the country wanted to accelerate the process of economic development through its five year plans in a mixed economy set up under the representative, democratic system of government, the political pulls and pressures of elected representatives distorted the concept of balanced growth of regions. On the contrary, they helped the growth of such regions, which were found to be infrastructurally, better developed during the colonial days. As a result, not withstanding the implementation of many area specific and target group oriented plans and programmes since 1970, the country is yet to achieve the goal of balanced regional development of different states in the Indian Union.

Balanced regional development of all regions has been a long-term objective of planning in India. State government has the primary responsibility to formulate detailed plans and schemes for development of the state and particularly, develop the backward states within it while the Planning Commission helps the state in this effort through transfer of resources to implement annual plans. Funds so transferred include normal central assistance, open market borrowings, negotiated loans from financial institutions and additional central assistance for extremely aided projects. For states that have faced severe financial difficulties on account of disturbed conditions, special plan loans are envisaged.

However, the failure of Indian planned legacies has resulted in persisting disparity among states and also within states. One of the major reasons for this persisting disparity is less focus on agricultural development. Agricultural sector in India accommodates majority of people and thus needs to be developed. However, during the plan period, the central focus of several five-year plans and annual plans was industrial development, neglecting the agricultural sector. This was the problem with USSR model, which India could not correct. Although there was a little attention given to the agricultural sector during 1960s in the form of 'Green Revolution', how ever, it was limited only to a few states. Those states that got the benefits of green revolution, like Punjab and Haryana, are relatively developed and those did not get the benefit, like Orissa, Bihar, etc are less developed.

Section-B

Chapter 3

The Advent of Liberalisation: Context and Characteristics (1981-91)

1. Introduction:

It was exactly fifteen years ago that India's journey of economic reforms began on an ominous note. By the end of June 1991, foreign currency reserves had dwindled down to US$ 975 million, hardly enough to pay for two weeks of imports. India had to ship part of her gold reserves and pledge it as collateral, to be able to access the international overnight market and avoid a loan default. Export growth had turned negative and foreign commercial lenders had shut their door to India. Industrial growth was negative, that is, 1.3 per cent and inflation was soaring at a high rate of above 16 per cent. GDP growth for FY92[112] was less than 1 per cent. The predicament in which, India found herself during the summer of 1991 was the culmination of fiscal profligacy during the 1980s, and the legacy of inward looking and high cost import substitution policies combined with excessive controls that had been followed in the past. The immediate trigger for the balance of payment crisis in 1991 was the oil price shock and sudden drying up of remittances from the Middle East caused by the Gulf War. The situation was compounded by a quick succession of changing governments or political instability.

In response to the crisis, the minority government of the Congress (I) and its allies led by P.V.Narasimha Rao initiated the process of full-fledged reforms in the Indian Economic Policy. In an urgent and unprecedented move to meet the grave foreign exchange crisis Dr. Manmohan Singh was sworn in as the Finance Minister in Narasimha Rao's government without waiting for the formation of full-fledged Cabinet, and thus they introduced the economic policy reforms.

The process of economic liberalisation had begun during the period of Indira Gandhi as the Prime Minister, after her return to power in 1980. However, it was very slow and its scope was very limited. Within no time she left the reform measures and returned to her populist policies. Again Rajiv Gandhi's tenure in the second half of 1980s saw few steps towards economic reforms, though this was also short-lived. It was launched in the budget of 1985-86 and lasted by most accounts until some time in 1987 when the reform was effectively abandoned.[113]

However, this chapter focuses on the pre-1991 reforms in India, particularly the reforms undertaken during the tenure of Rajiv Gandhi as the Prime Minister. It will assess the political economic conditions of India during this period and will address the following questions: why liberalisation was introduced in 1985? What was the nature of reforms then? What were the major components of liberalisation in this period? What were the impacts of liberalisation on the economy? And finally, how has the liberalisation process in this period contributed to inter-state disparities in India? Has it affected disparities at all? And if yes, then how?

1.1 Economic Liberalisation: Some Preliminaries

Before presenting political analysis of India's changing economic policies, it is important to provide some preliminary information. As Atul Kohli argues, "The term economic liberalisation is no more than a grab bag for numerous policy measures that governments may undertake selectively." According to Kohli, "In the Indian case, it does not really refer to an opening up of the economy to the outside world in terms of freer movement of capital, goods or money. Privatisation of the domestic public sector is also not a policy priority in India. What liberalisation, therefore, really refers to is 'a set of policy measures aimed at loosening governmental controls on the functioning of the private economy'. Even within this limited scope, it is important to further recognise that the attempted decontrols influence only the industrial and service sectors directly and the agricultural sector indirectly" [114].

As discussed by Kohli Within India's international context, a number of factors loom large that have inclined its leaders towards liberalising the controlled economy. The success of the newly industrialised countries, especially of Asian countries like South Korea, China, Indonesia, Malaysia has created a sharp sense of

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[112] The fiscal year begins on April 1. FY92 refers to the period from April 1991 to March 1992.

[113] Jenkins, Rob (1999): *Democratic Politics and Economic reform in India*, Cambridge: Cambridge University Press, Pg. 28-29.

[114] Kohli, Atul (1989): 'Politics of Economic Liberalisation in India', *World Development*, 17(3), Pg. 306.

having been left behind. However, in the past this sense of being left behind was often associated with colonialism, a new generation of leaders is now forced to ask if the country's emphasis on socialism and import substitution was a mistake from the very beginning. Additionally, the fact that major communist countries like the USSR and China started embracing the market is of considerable significance. Then there were few exemplary models left in the world that could help sustain anti-market arguments. Finally, a fair degree of consensus prevailed in the international development institutions on the issue of what is an appropriate development strategy. This consensus, in turn, became a significant force propelling policy movement towards liberalisation.[115]

As Kohli has suggests, On the other hand, within India's national context there had been certain important changes that were important background variables. For example, there was a growing consensus within India that the public sector is grossly inefficient. Along with this, virtually no one would disagree that India's redistributive efforts, such as land reforms, have not been very successful. This sense of the failure of socialism serves as a major boost for a new beginning. A sense of past failure of socialism was part of the contemporary India's political consciousness. Additionally, over time, the anti-colonial and nationalist sentiments have declined. While again there is no consensus on this issue, many new leaders are more willing to open the economy to the west and learn from them, compared to the leaders of the post-independence generation. This general decline in a commitment to socialism and nationalism has, in turn, created new political and economic possibilities.[116]

2. Political Economy: Context and Trends

Two developments of significance for macroeconomic policy took place during this period that invites a 'political economy' explanation. There was an erosion of fiscal conservatism; and there was a gradual piecemeal liberalisation of controls, but without any fundamental reform of the system.

The dilution of fiscal conservatism was clearly manifested in the upward creep in fiscal deficits after the mid-1970s, which heightened in early 1980s. But we should note that it did not lead to more than a small increase in inflation or inflation-

[115] Kohli, Atul (1989): 'Politics of Economic Liberalisation in India', art. cit., Pg. 307.
[116] Kohli, Atul (1989): 'Politics of Economic Liberalisation in India', art. cit., Pg. 307-308.

tolerance. Fiscal and monetary policies continued to react vigorously to overt inflation. Governments could not afford to be complacent about inflation in a functioning democracy with periodic elections. Though the rate of inflation did not increase much, fiscal deterioration was unmistakable. The consolidated government's fiscal deficit, which was about 5 percent of GDP in the mid-1970s, rose persistently to reach about 10 percent of GDP at the end of the 1980s. At that level it clearly threatened to explode into high inflation or balance of payments crisis.[117]

As Frankel has put it, "The deterioration resulted largely from the self-seeking actions of political leaders themselves. The organisation of the Congress Party had been almost destroyed by Mrs. Gandhi. She undertook a process of centralisation of power after she returned to power as the Prime Minister in 1971. She bypassed the democratic procedure of the party and abandoned intra-party elections. Chief Ministers, Cabinet Ministers of States, and local party leaders were appointed by her or by her nominees. The process gathered momentum during the period of emergency when personal loyalty to Mrs. Gandhi and Sanjay Gandhi had became the passport to power. It continued again right through the 80s under Mrs. Gandhi and Rajiv Gandhi, not withstanding the latter's announced intention to reintroduce intra-party elections. A similar story can be told with regard to the bureaucracy. Mrs. Gandhi wanted a 'committed bureaucracy', loyal to her personally, and used summary transfers and other such devices to achieve this end. This tendency began during the emergency and continued thereafter even during the Janata interregnum".[118]

In the words of Singh, "The fiscal effect of awakening and decay was that the increasingly insistent claims of various politicised groups could not be contained. The lack of party organisations prevented political settlement of the various claims outside the budgetary process. Instead, handouts, measures that increased government expenditures or reduced tax and non-tax receipts, managed them. In addition, having weakened party organisations, leaders at both central and state levels had to resort to populist promises in order to win electoral support. There had been a transformation of Indian politics from one-party dominance to multi-party system of government in

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[117] Joshi, Vijay and I M D Little (1994): *India: Macroeconomics and Political Economy 1964-1991*, Delhi: Oxford University Press, Pg. 68.

[118] Frankel, Francine R. (2005): *India's Political Economy 1947-2004*, New Delhi: Oxford University Press, Pg. 580-586.

the 80s. This phase is very often referred in politics as 'paradigm shift".[119] It was this paradigm shift, which had created a kind of political turmoil in the country. These changes acted slowly and were sometimes interrupted by fiscal retrenchment in response to inflation. But the general trends in the 70s and 80s were unmistakable.

In the view of Joshi and Little, "At one move, fiscal deterioration also resulted from India's pervasive controls, which encouraged kickbacks and generated 'black incomes' that escaped the tax net. But the persistence of the control system was in turn another manifestation of the socio-political pressures".[120]

As argued by Sinha, 'It has long been clear that India's economy has been stifled by controls. So the interesting question is not why there was some liberalisation but why the controls in India, as in many developing countries, were the product of an interventionist ideology. Once established, they grew ever more elaborate. This was because dominant groups were able to manipulate them to their own advantage. Controls generated rents; the recipients of the rents had a vested interest in keeping the system going. The business classes in India have always had a pragmatic attitude to controls. Controls can be an irritant; but, if successfully manipulated, they can also provide large profit-making opportunities'.[121]

In the 1970s some liberalisation occurred. This was largely a 'top-down' affair led by some bureaucrats who had begun to appreciate the inefficiencies of controls. One obvious example is the greater flexibility in the use of exchange rate. This came in stealthily, first under the cover of a sterling peg, later under the guise of a multicurrency basket. More liberalisation occurred after Mrs. Gandhi's return to power in 1980. It has been alleged that her motive was to cultivate new sources of support, and the business community was one such source.[122] This seems plausible because liberalisation was of the kind that brought very little pain. It was mainly concerned with deregulation of industrial licensing and softening of the restrictions on monopolies. Both these measures had big business support because they were not accompanied by any serious trade liberalisation. At the same time, Mrs. Gandhi gave

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[119] Singh, Mahendra P (1994): 'Political Parties and Political Economy of Federalism: A Paradigm Shift in Indian Politics', *Indian Journal of Social Science*, No-7, p-159.

[120] Joshi, Vijay and I M D Little (1994): *India: Macroeconomics and Political Economy 1964-1991*, op. cit., Pg. 69.

[121] Sinha, Aseema (2005): 'Understanding the rise and Transformation of Business Collective Action in India', *Business and Politics*, 7(2), Pg. 3-35.

[122] Kohli, Atul (1989): 'Politics of Economic Liberalisation in India', art. cit., 311-312.

several sweeteners to small-scale industry, notably with regard to expanding the scope of reservations.

The same story continued, broadly speaking, with Rajiv Gandhi. In the initial honeymoon period, the pace of industrial deregulation was much faster. But again very little was done to open up Indian industry to foreign competition. The import liberalisation related mainly to inputs and components and thus increased the effective protection of final products. In summary, liberalisation in the period consisted of little more than the piecemeal deregulation of industrial licensing and the introduction of a measure of exchange rate flexibility. These changes were not trivial and did improve economic performance. But ideology and vested interests prevented any significant action in the more difficult areas such as trade liberalisation, financial liberalisation, and reform of the labour markets and public sector enterprises.[123] The next section of the chapter will focus on the formulation of liberalisation policies.

3. Formulation of Liberalisation Policies:

The trend towards the opening up of the economy was initiated, not by Rajiv Gandhi, but by his mother and predecessor, Indira Gandhi. This fact has not received as much attention as it deserves. An understanding of why Indira Gandhi initiated such policies after coming back to power in 1980 helps us to put in perspective what was really new under Rajiv Gandhi's tenure. This background is also important for understanding why Rajiv Gandhi's attempts to liberalise have evoked considerable reaction, including negative political reaction, whereas Indira Gandhi's attempts went relatively unnoticed. That is why; I will discuss liberalisation attempts during Indira Gandhi's Tenure and Rajiv Gandhi's tenure in two separate sub-sections.

3.1 Liberalisation during Indira Gandhi's Tenure:

The Indira Gandhi that returned to power in 1980- after a brief interlude of 3 years by the Janata Dal was not the firebrand Indira Gandhi of '*garibi hatao'*, now even the rhetoric altered.[124] Critical observers have suggested that after 1980, Indira Gandhi moved 'rightwards'.[125] She was more pragmatic or by implication, less

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[123] Joshi, Vijay and I M D Little (1994): *India: Macroeconomics and Political Economy 1964-1991*, op. cit.

[124] Kohli, Atul (1989): 'Politics of Economic Liberalisation in India', art. cit., Pg. 308; Kohli, Atul (2006): 'Politics of Economic Growth in India 1980-2005: Part I: The 1980s', *Economic and Political Weekly*, April 1, Pg. 1252.

[125] Kohli, Atul (2004): *State Directed Development: Political Power and Industrialisation in the Global Periphery*, New York: Cambridge University Press, Pg. 285.

ideological. Whether labelled rightward or pragmatic, what is clear is that Indira Gandhi's political and policy orientation during this phase- compared to her pre-emergency orientation- was distinct.

Among the short term changes that were made by Indira Gandhi within her party, it must have been clear to her by the 1980s that the politics of *Garibi Hatao* was running out of steam; anti-poverty policies like land reforms had proven difficult to implement; ineffective socialism had hurt economic growth; and by contrast, putting the weight of the state behind private producers had helped in agricultural production, leading to the Green Revolution in 1960s. The economic lessons were hard to ignore. Politically too, Indira Gandhi and her advisors might have calculated that a realignment with big capital may not be too costly, in part because the poor were already loyal to her, but also because state support of business may lead to higher growth and thus lower inflation, an outcome that India's largely poor electorate may actually appreciate.[126]

The changing political orientation was evident in a number of policy areas. There was also a change of attitude towards international institutions, such as the IMF; negotiations for the largest loan ever granted by the IMF were completed during this phase. Finally, many of the economic policies adopted tended to move in the liberalising direction. After completing the loan agreement of SDR 5 billion with the IMF, Indira Gandhi took some important economic policy decisions during 1980-81; steel and cement prices were decontrolled; manufactured imports were liberalised; and controls on both entry and expansion by national firms were relaxed. During 1981, the government sanctioned four times as many applications for expansion and new undertakings as in any of the five preceding years. Over the next two years, as the perspective on the seventh plan developed, it became clear that the new emphasis would be on efficiency of investment and that this would be accompanied by a general move away from administrative to financial controls. Soon thereafter, following the recommendations of the L. K. Jha Commission on Economic and Administrative reforms, the government placed 20 important industries under 'automatic licensing'. In practice, this meant virtual decontrol by the government on expansion and new production in these industries.[127]

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[126] Kohli, Atul (2006): 'Politics of Economic Growth in India 1980-2005: Part I: The 1980s', art. cit., Pg. 1252.
[127] Kohli, Atul (1989): 'Politics of Economic Liberalisation in India', art. cit., Pg. 308-311.

Why did Mrs. Gandhi adopt these policy changes and with what political consequence? As to the reasons for the policy shift, the new economic direction has to be seen as part and parcel of the overall political shift that Mrs. Gandhi adopted. This involved a move away from India's left or populist values of secularism and socialism, and towards the package hitherto offered primarily by the right-wing parties, namely, Hindu chauvinism and pro-business. It is important to underline right away that there is no inherent reason why Hindu chauvinism has to go hand in hand with a preference for business or why liberalising policies, aimed at enhancing market competitiveness, should be pro-business policies. In India's political culture, however, the two packages of secularism and socialism, and Hindu chauvinism and pro-business have tended to offer two alternative legitimacy formulae for mobilising political support.

Kohli viewed, "It must have been clear to Mrs. Gandhi by then that her socialism was not working. Anti-poverty programmes had simply not been very successful. The support she was getting from the poor, therefore, was not based so much on concrete rewards, but primarily on her ideological and rhetoric appeal. This rhetoric she knew she could maintain, while watering down the overall socialist programme. Further socialist rhetoric would not have brought her much more political capital in any case; the limits of rhetorical socialism had been reached. A movement toward liberalising the economy, while maintaining the some rhetoric of socialism and some of anti-poverty programmes, she must have calculated, was likely to strengthen her politically".[128]

Besides such overtly political considerations, other factors probably also played some part in pushing India towards economic liberalisation. The extent to which the IMF conditionalities influenced policy changes is hard to judge. The World Bank has also periodically kept up the pressure on the Indian government to decontrol and open up the economy. In a large and relatively well-established polity like India, one has to maintain that organisations such as the IMF and the World Bank can never be decisive. Even the decision to enter agreement with the IMF, and all that involves policy changes, must be viewed as a prior political decision by the Indian government. Though, once the government chose to enter this arrangement with the

[128] Kohli, Atul (1989): 'Politics of Economic Liberalisation in India', art. cit., Pg. 308-311.

IMF, it was clear that this must have created pressures to 'get the prices' right in the economy.

Again he said that on the other hand, within the government, reports after reports put together by bureaucrats and specialists since the 1970s had recommended liberalisation of one aspect of the economy or another. The influence of these on real policy changes can easily be overestimated. The decision to set up commissions is a political decision. The leaders of the party appoint the members of any Commission and the policy preferences of these members are generally well known to these leaders. Most important, whether the government chooses to act on the report is again a political decision.[129]

Another factor that is worth considering here is the changing economic situation itself. Industrial growth had been sluggish for quite some time. 1979, particularly was an extremely bad year. The Janata Dal government had taken some economic measures around that time that could be interpreted as liberalising measures. Industrial growth had jumped back to over 8 percent in 1980. The extent to which this success created momentum for further liberalisation is hard to judge; the timing for the adoption of such a new political program seems, however, to have been more than just a coincidence. The issue of a sluggish industrial performance was, in any case, at the forefront. New policies were needed. Various alternative policy measures were on air. Whatever their economic merits, some alternatives clearly suited Indira Gandhi's political design better than others.[130]

Indira Gandhi's attempts to liberalise the Indian economy did not draw sharp political reaction. This was result of a number of factors: the scale of change; the conscious attempt to maintain an image of continuity as well as depoliticise economic decisions; and, of course, other pressing political circumstances that drew attention away from the economy. The tension between the pursuit of economic rationality and the rationality of democracy during Indira Gandhi's last few years was kept within manageable bounds.

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[129] Kohli, Atul (1989): 'Politics of Economic Liberalisation in India', art. cit., Pg. 308-311.

[130] Kohli, Atul (1989): 'Politics of Economic Liberalisation in India', art. cit., Pg. 308-311.

3.2 Liberalisation during Rajiv Gandhi's Tenure:

Kohli argues that in the four years when Rajiv Gandhi had been in power, economic policy has gone through three phases. During the first six months of his rule, there was a genuine attempt for a new beginning; an attempt was made to make a decisive shift from the state controlled and import substitution model to a liberal model of development. When this attempt ran into political obstacles, the pace of change slowed. The next two years are best characterised as two steps forward towards and one step backward from the defined agenda. With Rajiv's political popularity continuing to decline, and the loss of Haryana elections in May 1987 marked the beginning of the third phase. This was the return to India's 'muddle through' model of economic policy making. Within this model, the policy makers remain committed to economic liberalisation. While the general trend is still in this direction, political considerations had necessitated the renewal of populism. The scene that there was to be a new economic beginning in India has thus been quickly lost. These three phases of economic policy making- attempt at a new beginning, two steps forward and one step backward, and back to muddling through- are intimately linked to the overall political situation, both as a cause and as a consequence.[131]

Rajiv's rise to power was largely circumstantial. There is no doubt that prior to Indira Gandhi's assassination, Rajiv had already been be groomed as the apparent heir. His grooming, however, was no more than two or three years in process when Indira Gandhi's assassination suddenly brought him to power. He was a natural heir in the sense that Indira Gandhi had put him into that role and he was more or less accepted as such by Indira Gandhi's loyal second tier. As Rajiv was thrown in to fill the power vacuum created by Mrs. Gandhi's assassination, only a handful of Indians must have known, and the rest probably did not care to know in the post-assassination mood of trauma and crisis, what type of economic policies the new government would pursue.

Kohli found that the government promised new economic policies. Shortly after winning a massive election, Rajiv Gandhi summed up his government's economic approach as involving a judicious combination of deregulation, import liberalisation and easier access to foreign technology. This involved a fairly sharp

[131] Kohli, Atul (1989): 'Politics of Economic Liberalisation in India', art. cit., Pg. 311-316.

break from Nehru and Indira Gandhi's rhetorical emphasis on socialism, planning and self-reliance. As if to underline the break from the past, Rajiv Gandhi surrounded himself with a new breed of politicians and advisors. Confidants like Arun Nehru and Arun Singh had backgrounds as executives of Multi-National Corporations. Economic advisors included individuals such as Montek Singh Ahluwalia, Abid Hussain, Bimal Jalan and Manmohan Singh. While clearly a competent group of managers, economists and bureaucrats, they were all marked as technocratic image rather than as political image. Some of them had World Bank backgrounds; most of them were well known for their decontrol and pro-liberalisation proclivities. If one contrasts Rajiv and this group of India's new elite, with Nehru and his band of seasoned left-leaning nationalist leaders and advisors, then the image of a sharp break with the past is unmistakable.[132]

The image and the real attempt to make a sharp break with the past were probably responsible for Rajiv's early popularity and may well also prove to be his undoing. The issue that presents itself, therefore, is what helps explain the government's emphasis on change over continuity. The question is especially salient because the economic changes that Indira Gandhi had already introduced and those that Rajiv Gandhi's government has actually pursued since then, could have easily been accommodated within an image of continuity. Why, then, the need to emphasise a sharp break?

An important part of this answer has to be that Rajiv Gandhi and his advisors initially intended the changes to go much further than they had actually gone. This, in turn, must have seemed feasible due to Rajiv's unusual rise to power. His massive electoral victory was based on sympathy and fear on the part of the electorate. This victory freed Rajiv Gandhi- although momentarily and artificially- from coalitional entanglements and interest group pressures. This freedom from politics as usual must have heightened the illusion that a sharp new beginning is possible, even in a polity like the Indian one. The politically inexperienced cronies and advisors that surrounded Rajiv Gandhi did not help much in dispelling such illusions.

The illusion of autonomy and, with it, the euphoria of a new beginning lasted about six months. The first major product of this new beginning was the 1985-86

[132] Kohli, Atul (1989): 'Politics of Economic Liberalisation in India', art. cit., Pg. 311-316.

budget, presented by the new government in March 1985, less than three months after coming to power. The budget created many ripples. The word socialism was not mentioned even once in the budget speech. Substantial tax concessions were offered to both the corporate and the urban upper-middle classes. Imports were liberalised in certain sectors, especially the sector favoured personally by Rajiv Gandhi, namely, electronics. Most important, licensing regulations for domestic industries were relaxed drastically and the limit on the size of a firm that qualifies it as a monopoly were raised substantially.[133]

Since the parliament was totally dominated by individuals beholden to Rajiv Gandhi for their position, there was no question at this early date of any substantial opposition from this group. The left and the other opposition groups reacted sharply; they characterised the budget as a pro-rich budget and the government as a pro-rich government. In the middle of 1985, however, there were voices in the wilderness. They were drowned, at least momentarily, in the euphoria of a new beginning. But gradually, Rajiv ran into considerable and unexpected opposition from the rank and file of his party members. The resolution he wanted to be ratified represented an attempt to get his party formally behind the new economic beginning that he had already begun with the budget. The resolution that was eventually ratified, however, recommitted Rajiv and the Congress party to socialism.[134]

The confrontation with Rajiv Gandhi's own party, marks the beginning of the second phase in economic policy making. From here on, until very recently, the government continued to push piecemeal liberalising reforms. Most of these were carried out while re-emphasising the government's commitment to socialism. We will never know what was never attempted because the advisors concluded that it would be hard to justify, even by Congress' standards of socialism. What we do know is that, in spite of these constraints, the government had succeeded in pushing through some important reforms. Others, however, had to be modified or reversed so as to fit them to the socialist commitment.

The rhetoric on economic policy increasingly became quite confusing. While celebrating Congress' centenary the day after the confrontation with the working committee over the economic resolution, Rajiv reaffirmed that Congress' goal, now as

[133] Kohli, Atul (1989): 'Politics of Economic Liberalisation in India', art. cit., Pg. 311-316.
[134] Kohli, Atul (1989): 'Politics of Economic Liberalisation in India', art. cit., Pg. 311-316.

ever, was socialism. Over the next few months, economic policy changes involved several liberalising measures. These are further discussed below. When presenting the Seventh Plan to the National Development Council in November, Rajiv Gandhi once again argued that the "industrial policy remains unchanged". Shortly thereafter, in the same month, Rajiv argued that, "when and where import substitutes not to be underestimated. Many in India are not so cost-effective", India should opt for 'imports, especially of technology'. This was followed by the release of the Abid Hussain's report that emphasised the need for boosting exports and for an outward looking industrialisation strategy. Lest the observers nail down the government's real policy, two days later government spokesmen reiterated that, whatever liberalisation might take place; the public sector will continue to maintain the "commanding heights" of the economy. The Prime Minister himself went on to argue for top priority to the public sector and to re-emphasise that there was no shift from socialism. The main thrust of the Seventh Plan, it was further suggested, would be 'eradication of poverty, self-reliance and growth with social justice'. Finally, several months later, the government made it known that privatisation of the public sector was not on the agenda, and that the mixed economy model would stay.

Other important policy changes followed. The role of the Planning Commission was decisively diminished again without any pronouncements by the creation of a new Ministry of Programme Implementation. The "New Fiscal Policy" announced in November 1985 was very significant; it replaced import quotas with tariffs and laid out long-term patterns of taxation, assuring the corporate sector that no negative surprises were looming on the horizon. In spite of the worsening balance of payments, the government did not reverse the liberalised import policy, even in the capital goods sector, which had been hurt quite badly. Companies restricted under the monopoly act were, moreover, given further concessions" and the budget of 1986-87 brought some further excise and customs relief to national firms.

There was a growing sense in the aftermath of the Haryana elections that a major policy reversal might be in the making. This had not come to pass. It is fair to suggest that Rajiv Gandhi and his key advisors remained committed to liberalising India's economic policy regime. The opportunities to do so, however, had narrowed. As Rajiv's popularity had declined, the opposition had adopted a relatively left-leaning position that criticised Rajiv for the neglect of farmers and the poor. This challenge, led by V. P. Singh in the Hindi heartland and by others like Jyoti Basu of the Communist Party of India, Marxist, known as CPI (M) in West Bengal and N. T. Rama Rao in Andhra Pradesh, had exposed Rajiv's electoral vulnerability in the popular sectors. As this challenge had grown, the drive towards economic liberalisation had slowed. The increased allocation to pro-farmer and anti-poverty programs in the new proposed budget for 1988-89 only highlighted the fact that electoral pressures had pushed issues of liberalising the economy to the sidelines. Some important liberalising measures were still being pursued. They may also had been put back on the agenda if Rajiv reconsolidated his power and popularity after the next elections. For now, pressed politically, Rajiv had slowed down any attempts to change India's economic policies.

4. Major Components of Liberalisation:

The liberalising measures of the Rajiv Gandhi government from 1985-86 to 1989-90 can be summed up as follows. Many of them were undertaken early in the life of the government, that is between 1985-86; from the middle of 1986-87 resistance to the program began and its pace therefore slowed down considerably. After that there was no reversal but only minor advances.[135]

Industrial Deregulation- There was some dilution of licensing requirement as regards entry and expansion of capacity. The list of industries open to large firms was extended. The asset threshold above which firms were subject to monopoly regulation was raised.

Import Deregulation- Restrictions on imports of capital goods were somewhat eased to encourage technological modernisation. There was some replacement of quantitative import restrictions by tariffs, primarily in cases where there were no competing domestic production.

Export Incentives- These were substantially increased. Cash assistance and duty drawbacks went up. There was a widening coverage of products available to exporters against import replenishment licenses. Very substantial income tax concessions were given to business profits attributable to exports.

Exchange Rate Policy- From 1986 there was a policy of active exchange rate depreciation.

Financial Liberalisation- The yield on long-term government securities was raised a little, in the direction of market rates. There were some moves to develop the money market.

Taxation- Rates of direct taxation were lowered to increase incentives and reduce evasion. The excise tax structure was modified to some extent in the direction of value added taxation in order to reduce inefficiencies resulting from the erstwhile cascading system that provided tax offsets for only a limited range of products. The import tariff structure was somewhat simplified.[136]

The above liberalisation was not all that bold, when looked at from the vantage point of the 1990s, but it was certainly faster than the funeral pace of liberalisation in 1975-76 to 1984-85. While it can be criticised as being lopsided in some aspects, it was largely pointed in the right direction from the point of view of efficiency and growth. But a stabilisation programme was also required since the underlying macroeconomic position was unsound. Both fiscal deficits and current account deficits needed correction. In this respect the government's performance in 1985-86 and 1986-87 was extremely poor. Admittedly the government was not lucky with the rains. Food grain output fell by 5 percent in 1986-87. But GDP grew by 4 percent, thanks to rapid growth in industry and services. There was a large increase in central and consolidated government deficits as proportion of GDP, and outcome mainly to be attributed to the growth of current expenditure driven by the familiar troika of defence, interest and subsidies, but also by higher wages following the report of the 4th Pay Commission. The current account deficit also worsened sharply; compared to 1984-85, in spite of falling oil prices and fast export growth in 1986-87. But the reserves did not fall as the inflow of non-resident deposits continued; there was resort to more external commercial borrowing, both long and short run.

5. Liberalisation, Development and Inequality:

Indira and Rajiv Gandhi dominated Indian political economy during the 1980s. This was also the decade, in which India's economy made a breakthrough, moving beyond the 'Hindu growth rate'[137] to a more rapidly growing economy. This

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[135] Joshi, Vijay and I M D Little (1994): *India: Macroeconomics and Political Economy 1964-1991*, op. cit.

[136] Joshi, Vijay and I M D Little (1994): *India: Macroeconomics and Political Economy 1964-1991*, op. cit.

[137] Hindu Growth Rate- Between 1950 and 1980 economic growth picked up to 3.5%, but so did the growth in Population (2.2%). Hence the net effect on income was 1.3% per capita. That is what mournfully known as the Hindu rate of growth. Das, Gurcharan (2002): *India Unbound*, New Delhi: Penguin Books, Pg. 364.

shift in economic performance was triggered by the pro-business policy shift engineered by the two Gandhis. Prior to this period, during the 1970s, Indira Gandhi accentuated the democratic socialist content of Nehru's statist model of development. Given the organisational and the class characteristics of the Indian state, Indira Gandhi's efforts at redistribution failed and the democratic socialist tilt evolved into anti-capitalist populism, hurting economic growth after returning to power in 1980, Indira Gandhi essentially abandoned the redistributive thrust of her policies, prioritised economic growth as the state's main goal, and sought to slowly but surely reorder economic policies to achieve this goal. The story of economic policy changes during the 1980s just recounted is mainly the story of the making of a new pro-business growth oriented model of development in India.[138]

Two months after Rajiv Gandhi government's formation, in February 1985, Finance Minister V P Singh presented his budgetary proposals for 1985-86. The budget included easing of state control on such activities of national forms as entry into production (de-licensing)[139], production decisions and expansion in size[140]; lowering of personal and corporate income taxes; a long term fiscal policy that substitutes tariffs for import restrictions and assures business groups of future patterns of taxation; some devaluation; and lowering of import barriers on selected items.[141]

Rodrik and Subramaniam suggest that there is a commonly held view that the change in India's economic growth started from the economic reforms of 1991 under the admittedly brilliant leadership of Dr. Manmohan Singh. Although these reforms played an important role, the turnaround actually started a decade earlier during Indira and Rajiv Gandhi's period.[142] Venkitaraman views that the turnaround resulted in India's rate of growth of per capita income rise from 1.7 percent in 1950-80 to 3.8 percent in the period 1980-2000.

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[138] Kohli, Atul (2006): 'Politics of Economic Growth in India, 1980 – 2005: Part I: The 1980s', art. cit., Pg. 1258.

[139] The de-licensed industries included special alloys, 'steel structurals', electrical equipment, electronic components, automotive ancillaries, bicycles, industrial machineries, machine tools, and agricultural equipments.

[140] To avoid the formation of monopolies, investment ceilings were imposed by the Monopolies and Restrictive Trade Practices Act, 1969. It had the perverse effect over time of disallowing increases in plant capacity, even if technological changes and cost reduction required it.

[141] Sachs, Jeffrey D, Ashutosh Varshney and Nirupam Bajpai ed. (1999): *India in the Era of Economic Reforms*, New Delhi: Oxford University Press, Pg. 3-4; Kohli, Atul (1989): 'Politics of Economic Liberalisation in India', art. cit., Pg. 306.

[142] Rodrik, Dani and Arvind Subramanian (2004): 'From 'Hindu Growth' to Productivity Spurge: The Mystery of the Indian Growth Transition', *IMF Working Paper*, No. WP/04/77, International Monetary Fund, Pg. 1-43.

Apart from the vast investments in the backward regions in the planning period, 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 disproportionately low. Considerable levels of regional disparities were there by the end of 1970s. The economic growth of the country accelerated in the early 1980s but this growth seems to have accelerated the problem of regional disparities.

Along with faster economic growth[143] and reduction in poverty due to the large number of anti-poverty measures undertaken in the 1980s, there has been an improvement in various indicators of development. The period of 1980 had seen the introduction or expansion of several anti-poverty programmes and public intervention policies in favour of the poor including public distribution of subsidised food grains.

As put forward by Panda, "While the higher average growth rate of the 1980s was commendable, it was accompanied by large macroeconomic imbalances as reflected in fiscal deficit, current account deficit, foreign debt, and debt service ratio. The unsustainable growth of this period is evident from the 1991 crisis when it could not meet the oil price rise and other shocks arising from the Gulf War. The reform process of the 1980s took place under a protected environment and neglected micro economic efficiency. In the 1980s, the manufacturing sector was the major driver of growth compared to the 1990s when the service sector is the major driver of growth. Revival of industry was the key to higher economic growth in the 1980s".[144]

However, the liberalisation in 1980s was limited to industrial and service sector only leading to development of the industrialised states. On the other hand, there was a very little attention put to the agricultural sector. As most of the Indian states and Indian population is dependent on the agricultural sector, the liberalisation did no good to these states. The industrial focus of 1980s liberalisation, has thus contributed to persisting inter state disparities. Again it has also contributed to intra-state disparities. By focusing on industrial and service sectors, it had contributed to development of industrialised urban areas, while the rural areas lagged behind. As it is

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[143] Indian economy has been experiencing an average annual rate of growth of around 6 percent since the early 1980s.

[144] Panda, Manoj (2005): 'Macroeconomic Scene: Growth and Equity Perspectives', in Kirit S Parikh and R Radhakrishna edited *India Development Report 2004-05*, New Delhi: Oxford University Press, Pg. 21-22.

claimed, the liberalisation was pro-rich and pro-business. So it has helped the rich to grow while paying a very little attention to the poor. By reducing corporate and personal income taxes it has provided scope to the rich to grow. This measure has done nothing good to the poor rather has widened the gap between the poor and the rich. Overall, the 1980s' liberalisation has, rather than reducing, increased the gap between the poor and the rich- regions as well as individuals.

5. Summing Up

In response to the balance of payment crisis, the minority government of P.V.Narasimha Rao initiated the process of full-fledged economic reforms for the Indian Economy. In an urgent and unprecedented move to meet the grave foreign exchange crisis Dr. Manmohan Singh who had been appointed as the Finance Minister in Narasimha Rao's government did not wait for the formation of a full-fledged cabinet, and introduced the economic policy reforms.

The process of economic liberalisation was not something, which was entirely new for the Indian economy. A number of steps towards the opening up of the economy had already been undertaken during the period of Indira Gandhi as the Prime Minister in 1980. However, this process of reforms was very slow and its scope was also limited. However, due to the pressure from within the party to get away with the reform measures, within no time she left them and returned to her populist policies of uplifting the downtrodden. Again in the tenure of Rajiv Gandhi in the second half of the1980s, a few steps were taken up towards adopting economic reforms, though this was also short-lived. It was launched in the budget of 1985-86 and lasted until some time in 1987 when the reform was effectively abandoned.

This chapter has focused on the pre-1991 reforms in India, particularly the reforms undertaken during the tenure of Rajiv Gandhi as the Prime Minister. It looks into the political economic conditions of India that prevailed during this period. The reforms of 1980s were not absolute. Rajiv Gandhi had been successful in introducing reforms in only a limited number of sectors, which included, dilution of licensing for the entry and expansion of an industry, import deregulation, increases in export incentives, exchange rate depreciation, financial liberalisation, etc. Though the growth rate had increased in this period, however, this growth rate could not match the rapid growth of population. Too much attention had been paid to the growth of the manufacturing sector while the agriculture sector had been totally neglected though 70 percent of the population were dependent on agriculture. The reforms of the 1980s were not that significant and can be referred as half-hearted reforms. This disparities existing in this period therefore can be attributed to both economic reforms as well as plans of the government.

Chapter 4

The Progress of Liberalisation in India (1991-2001)

1. Introduction:

India launched a programme of Economic Policy Reforms in response to the balance of payments crisis in July 1991. The programme consisted of measures for attaining macroeconomic stabilization and structural reforms in order to put the Indian economy on a higher growth path. While the 1980s witnessed rather limited deregulation and halting liberalisation of only a few aspects of the pre-existing control regime, by contrast, the reforms of the 1990s in the industrial, trade and investment regimes, among others, were much wider and deeper. Like most other developing countries, India's economic reforms were also preceded by an economic crisis. In 1990-91, the gross fiscal deficit of the Central government reached 8.4 percent of the GDP and the annual rate of inflation peaked at nearly 17 percent.[145]

As put forward by Amit Bhaduri and Nayyar, "The external debt crisis, which surfaced in early 1991, brought India close to default meeting its international payments obligations. The balance of payments situation was almost unmanageable. The fear of acceleration in the rate of inflation loomed large. The underlying fiscal crisis was acute. The factors that led the economy into such a situation were not attributable to any sudden shock beyond our control, such as a series of bad monsoons or a dramatic increase in world oil prices. It was the outcome of persistent mistakes in economic policy that accumulated through the 80s."[146]

The problem with international or national borrowing is not the borrowing *per se* but the use of it. These borrowings should have been used for supporting productive investment rather than consumption.[147]Keeping aside the external factors that compelled India to initiate economic reforms, more important internal factors

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[145] Government of India (1993): *'Economic Reforms: Two Years After and Task Ahead'*, Discussion Paper, Ministry of Finance, Department of Economic Affairs, Pg. 6.

[146] Bhaduri, Amit and Deepak Nayyar (1996): *The Intellectual Person's Guide to Liberalisation*, New Delhi, Penguin Books, Pg. 22.

[147] Bhaduri, Amit and Deepak Nayyar (1996): *The Intellectual Person's Guide to Liberalisation*, op. cit, Pg. 26.

were also present. The uncertain political situation was superimposed on an economy that was already in severe strain.[148]

During the 1980s, the growth rate accelerated due to too much borrowing without any drastic restructuring of the economy. This, in turn, aggravated the problem of external indebtedness. The external debt rose from 12 percent of the GDP in 1980-81 to 23 percent of the GDP in 1990-91. India borrowed heavily from abroad, particularly in the late 1980s. Much of the borrowing was from commercial banks and a large part was in the form of NRI deposits, which were short-term capital inflows at high interest rates. Consequently, the debt service burden rose from 10 percent of current account receipts and 15 percent of export earnings in 1980-81 to 22 percent of current account receipts and 30 percent of export earnings in 1990-91.[149]

Atul Kohli viewed, "In 1990 and 1991, increased political risk, overly expansionary macro economic policies, and a sharp decline in remittances from overseas Indian workers in the wake of the Gulf War led to outflows of short-term capital, putting extreme pressure on India's foreign exchange reserves. By mid 1991, India's foreign exchange reserves had declined to just two weeks of import coverage. This near miss with a serious balance of payment crisis was the proximate cause that started India's market Liberalisation measures in 1991, which was led by the then Finance Minister Manmohan Singh. Thus in July 1991, a balance of payment crisis was the occasion for a fundamental transformation of India's economic strategy, initiated by the Finance Minister Manmohan Singh in the Narasimha Rao Government".

According to Atul Kohli, there are basically three circumstances in 1990-91, which led to the initiation of economic reforms in India. The foremost reason for adopting the process of economic reform in 1991 was the decline and disintegration of the Soviet Union. This change was profoundly consequential for India. This was because; Soviet Union was an important trading partner of India. With the sharp decline in exports to Russia, the issue of maintaining defence forces, availability of hard foreign exchange was hampered. This created a new sense of urgency for liberalisation. The second important global change that had developed in the 1980s

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[148] Bhaduri, Amit and Deepak Nayyar (1996): *The Intellectual Person's Guide to Liberalisation,* op.cit, Pg. 27.

[149] Sachs, Jeffrey, Nirupam Bajpai and Ananthi Ramiah (2001): '*Understanding Regional Economic Growth in India*', art. cit., Pg. 1

was the growing availability of investible resources. And finally, it was clear to Indian decision makers that WTO was going to happen, and that India would be a signatory to WTO agreement. Given WTO's requirements, it was clear that import quotas would have to go and that tariffs would have to come down within some time bound period.[150]

The reforms in India followed a gradualist approach. Being crisis induced, the initial phase of reforms had to focus on macro-economic stabilisation. Simultaneously, reforms of industrial policy, trade and exchange rate policies, and foreign investment policy were initiated along with tax reforms.[151] The crisis was brought to a head by a steep fall in foreign exchange reserves to about $1 billion (equal to two weeks imports), a sharp downgrading of India's credit rating, and a cut off of foreign private lending. Its basic underlying features were high inflation, large public and current account deficits and a heavy and growing burden of domestic and foreign debt.[152]

External shocks played a minor role in the crisis. Oil prices increased following the Iraqi invasion of Kuwait in August 1990, but only for a few months. This shock would not have had greatly affected Indian economy, but to make matters worse, our economy was already in a highly vulnerable condition due to the various unsustainable macroeconomic policies over a prolonged period. The cut-off in the foreign lending was a reaction to this unsound macro-economic position.[153]

The roots of the crisis could also be traced back to the earlier crisis of 1979-81 when oil prices had doubled. This rise in oil prices had changed India's current account position from near balance in 1978 to a deficit of 2 percent of the GDP in 1981. Heavy borrowing from the IMF and various other commercial sources covered these deficits. Between 1982-85, there was complete stagnation of exports due to inappropriate exchange rate policy. From 1986, exchange rate policy became slightly flexible. Therefore, export boom was now insufficient to outweigh the combination of

[150] Kohli, Atul (2006): 'Politics of Economic Growth in India 1980-2005: Part II: The 1990s and Beyond', *Economic and Political Weekly*, April 8, Pg. 1362.

[151] Sachs, Jeffrey, Nirupam Bajpai and Ananthi Ramiah (2001): '*Understanding Regional Economic Growth in India*', art. cit., Pg. 2.

[152] Joshi, Vijay and I M D Little (2003): *India's Economic Reforms 1991-2001*, New Delhi: Oxford University Press, Pg. 14.

[153] Joshi, Vijay and I M D Little (2003): *India's Economic Reforms 1991-2001*, op. cit., Pg. 14.

rising interest payments on external debt and the rapid growth of imports induced by fiscal deterioration.[154]

As opined by Bhaduri and Nayyar, it was clear by mid-1991 that to live either on borrowed money or on borrowed time had been completely used up. Therefore, the Congress government that came to power in 1991 has no option left but to negotiate a stand by arrangement with the IMF. The negotiation of structural adjustment loan with the World Bank was almost a corollary. India needed the IMF not only as a lender of the last resort but also to maintain the international confidence in India's capacity for repayment. It was also essential to be able to borrow abroad private or commercial sources in capital markets. However, like every moneylender, IMF and World Bank had their own interest rates.[155]

As put forward by Frankel, in June 1991, it was the Congress (I) that returned to power after the collapse of two coalitions in less than two years, and the assassination of Rajiv Gandhi during the election campaign in May 1991. The party was now shadow of what it had been in the 1980s. It could no longer muster a majority of seats, and it had to govern as a minority in need of allies. While the popular vote of the congress (I) had declined further to 36.5 percent, this time a divided opposition, reflected in the fragmentation of the Janata Dal into regional groupings, allowed it to win 232 seats of 520. It gained another 18 seats from an alliance with the Tamil Nadu based AIADMK and the support of some tiny parties, splinter groups, and nominated members. Even so, for the first seven months it could rely only on 244 MPs. An unexpected victory in Punjab in February 1992 brought another 12 MPs, but it was only in late 1993 that it achieved a majority[156] and even then by winning over defectors through methods reported to involve bribery.[157]

Varshney viewed that it was since the mid 1980s that the imbalances in the current accounts warned the thinkers to redo not only the macroeconomic policy but also the economic strategies. In 1991-92, Manmohan Singh was aware of the fact that macroeconomic stabilisation and fiscal adjustment alone would not solve the crisis, therefore he argued for essential reforms to be undertaken. Thus a whole series of

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[154] Joshi, Vijay and I M D Little (2003): *India's Economic Reforms 1991-2001*, op. cit., Pg. 14.

[155] Bhaduri, Amit and Deepak Nayyar (1996): *The Intellectual Person's Guide to Liberalisation*. op.cit, Pg. 30.

[156] Frankel, Francine (2005): *India's Political Economy 1947-2004*, op. cit, Pg. 589.

[157] In 2002, former Prime Minister P.V. Narasimha Rao was acquitted by the Supreme Court on formal charges brought against him on this issue.

economic reforms have been undertaken. Now, there are certain areas that have complete reforms, some have had partial reforms and certain other areas where reforms have made no progress at all.[158]

Frankel write 'Prime Minister Narasimha Rao's minority government enjoyed a larger margin of movement towards an integrated economic reforms strategy than its predecessors. In 1990-91, total public debt accumulated to 76 percent of the GDP and 20 percent of the total expenditure of the central government. Borrowings from abroad were more than 2.5 percent of the GDP and debt service amounted to 21 percent of the current account receipts. India's credit rating was so low that the government could no longer raise loans from foreign exchange reserves. The government had to transfer gold to British banks as collateral to stem speculation about an imminent default. Under such crisis circumstances, it was easier to argue that the last resort was the IMF, and for macro-economic adjustment that had been foreshadowed by Yashwant Sinha in his interim budget'.[159]

2. Progress of Reforms in a New Context:

There are two important debates that are related with the adoption of substantial reforms in 1991 by the Narasimha Rao Government. They are, firstly, how could a minority government of Narasimha Rao introduce reforms easily without much opposition in 1991-92 whereas the majority government of Rajiv Gandhi could not carry on the process of reforms though he had wanted to do so in 1985? Secondly, why have the post 1991 reforms been successfully implemented in some areas and not in others?

Varshney argues that the Rajiv Gandhi government had a three-fourth majority in the parliament, whereas the Rao government did not have a majority in the parliament. However, when Rajiv Gandhi could de-license only a few industries Rao could do so with all industries except a very few. Gandhi lowered corporate and personnel income taxes and Rao government reduced them further. Unlike Rajiv

[158] Varshney, Ashutosh (1999): 'Mass Politics or Elite Politics? India's Economic Reforms in Comparative Perspective', art. cit., Pg. 230-231.

[159] Frankel, Francine (2005): *India's Political Economy 1947-2004*, op. cit., Pg. 590.

Gandhi, the Rao government had signed a stabilization agreement with the IMF, which is often dangerous for developing nations.[160]

It is true that that the economic crisis of 1990-91 necessitated reforms. Here it becomes essential for us to know how the crisis was perceived and resolved by India's political institutions. To carry on with the process of reforms, it was necessary for the government to get the approval from the parliament. The question is, however, related to the fact that how could the minority government of P.V. Narasimha Rao attain the support of the parliament.

According to Frankel, "The restructured economic policy is always reflected in the national budgets. The economic reforms proposals were placed in three budgets, which contained the bulk of India's reform policies and were supported.[161] The budget of 1991 put forward certain basic elements of the integrated strategy for trade, tax, and foreign exchange reforms aimed at reducing fiscal deficit, providing inputs for a growing volume of exports and encouraging inflows of foreign exchange for investment. A further IMF loan of $1.4 billion under the compensatory and contingency finance facility followed soon after, along with loans from the World Bank and the Asian Development Bank".[162]

The debates related to the first two budgets in July 1991 and March 1992 were bitter and charged. Opposition leaders made trenchant arguments in the parliament, about India losing its economic sovereignty to the IMF and the World Bank. A second set of political criticisms was about the pro-rich and pro-urban orientation of the new policies. Despite these criticisms, the three budgets were passed.[163]

The question that comes up here is why did the various non-Congress parties, which criticised the economic reforms not vote against it. This can be answered once we are clear with the political context of 1991-92. Those who remained unconvinced were temporarily silenced by the collapse of the Soviet Union.[164] This discredited the

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[160] Varshney, Ashutosh (1999): 'Mass Politics or Elite Politics? India's Economic Reforms in Comparative Perspective', art. cit., Pg. 245.

[161] The three budgets were placed in the parliament in between 1991-93. The first budget was placed in September 1991, the second budget in May 1992 and the third budget in May 1993.

[162] Frankel, Francine (2005): *India's Political Economy 1947-2004*, op. cit., Pg. 590.

[163] Varshney, Ashutosh (1999): 'Mass Politics or Elite Politics? India's Economic Reforms in Comparative Perspective', art. cit., Pg. 246.

[164] We had borrowed economic development model from Soviet Union. We had basically relied on the establishment of heavy industries for our development.

model of centralised planning, but also raised practical problems that perhaps proved more persuasive. It became impossible to proceed with arguments between Rajiv Gandhi and Mikhail Gorbachov to raise India's manufacturing exports to the USSR to over 17 percent by the end of the decade in a continuation of the ruble-rupee trade that bartered mediocre Indian products for soviet military equipment and oil.[165]

The Rao government had initiated reforms when Hindu nationalism was a rising force. BJP was the second largest party in the parliament. The Congress party had 245 seats in parliament in 1992, falling short of 24 seats to form a majority. So if all the opposition parties had voted against the proposal of economic reforms then it could have been stalled. But this did not happen because Congress (I) was the party of government and all other parties were opposed to it. Between 1990-97, a triangular contest developed between the left, the Hindu nationalists, and the Congress. Coalitions were formed against BJP but not against Congress. The left and Janata Dal and its allies disliked reforms but they hated the concepts of Hindu nationalism more. The Congress party, which was an enemy of Janata Dal in the past, was no longer its principle enemy.[166]

For the BJP, building a temple in Ayodhya was the major issue. This campaign of theirs had increased their supporters. So economic reforms was secondary for them. Therefore though the Janata Dal criticised economic reforms but did not vote against it. Once Hindu nationalists demolished the mosque in December 1992, the Janata Dal and its allies became even more conscious to contain the Hindu nationalists. Therefore in 1993 budget, most of the Janata Dal members voted for economic reforms whereas the BJP members for the first time opposed the budget in the parliament. India's economic reforms kept progressing because the political context had made Hindu-Muslim relations and caste animosities the prime determinant of political coalitions.[167]

The opposition groupings, that of the national front left parties, and the BJP, were in no position to attack the shift to economic liberalisation. They were too weak to provide an alternative government. The Janata Dal and the two communist parties

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[165] Frankel, Francine (2005): *India's Political Economy 1947-2004*, op. cit., Pg. 590.

[166] Varshney, Ashutosh (1999): 'Mass Politics or Elite Politics? India's Economic Reforms in Comparative Perspective', art. cit., Pg. 247.

[167] Varshney, Ashutosh (1999): 'Mass Politics or Elite Politics? India's Economic Reforms in Comparative Perspective', art. cit., Pg. 248.

had amongst them 108 seats and 20 percent of the vote. The BJP, which received a major boost from Hindu voters sympathetic to the campaign for the construction of the Ram temple, almost doubled its popular vote from over 11 percent in 1989 to approximately 21 percent in 1991, resulting in 119 seats. Both the left and the BJP moreover, feared the repercussions of precipitating a third election in 3 years.[168]

Now the question that comes to the front is why have some reforms been successfully executed but others neglected or unsuccessfully pursued? Economic logic alone cannot explain the selectivity of reforms. The reforms which directly affect the elite politics has gone the farthest: a large devaluation of the currency, a restructuration of capital markets, a Liberalisation of the trade regime, and a simplification if investment rules.

Reforms that are economically desirable and concern mass politics have positive political consequences in mass politics than those that have potentially negative consequence on mass politics. The former has been implemented with single-minded determination; the latter have either been completely ignored or pursued with less than policy resolve.[169]

Popular resistance, however, could be overcome if some other policies, or political issues, that can generate support for the government are also on the agenda and, compared to economic reforms, are able to attract greater popular attention.[170]Thus with multiple political issues in the front, even minority governments can press ahead with economic reforms, whereas, strong governments also fumble if economic reforms become the sole focus of political contestation in the country.[171]

3. Design and Nature of Reforms

There are certain issues relating to the design and implementation of reforms in India[172]. Since the reforms are sweeping and often liberal and permitting a far

[168] Frankel, Francine (2005): *India's Political Economy 1947-2004*, 2005, op. cit., Pg. 590.

[169] Varshney, Ashutosh (1999): 'Mass Politics or Elite Politics? India's Economic Reforms in Comparative Perspective', art. cit., Pg. 249.

[170] Varshney, Ashutosh (1999): 'Mass Politics or Elite Politics? India's Economic Reforms in Comparative Perspective', art. cit., Pg. 258.

[171] Varshney, Ashutosh (1999): 'Mass Politics or Elite Politics? India's Economic Reforms in Comparative Perspective', art. cit., Pg. 258.

[172] Bhagwati, Jagdish and T.N.Srinivasan (1993): *India's Economic Reforms*, Ministry of Finance, Government of India, Pg. 6-10.

greater role for market forces in guiding the economy than hitherto, it is natural that they create some misunderstanding regarding reforms, which need to be cleared up. Bhagwati and Srinivasan have put forward four misunderstandings related to the economic reforms prevailing in our country.

Very often it is felt that through these reforms "We are moving towards Laissez-Faire", that is, the reforms initiated by Narasimha Rao government in 1991 was a turning point from planning to 'Laissez-Faire'. Reforms aimed at allowing a greater role for markets. Reforms were intended to remove government from areas of economic decision-making, as it was felt that government does more harm to development process than good. In short, government tends to do certain things badly and must be kept away from them and the energy thus saved to be used in some other areas. Public sector units, which have become inefficient, should be given up. So none of this adds up to Laissez-Faire where government has no role to play. Government now will be more involved in education, public health, trade management, science and technology policies, environmental protection, etc which cannot be left to the market.

Secondly, there is a feeling that "We are abandoning poverty alleviation for growth." The government has to educate the people that it is not abandoning poverty alleviation in favour of efficiency and growth of the economy. Economic reforms are never against poverty alleviation. The removal of poverty requires anti-poverty programmes, not growth. Growth increases employment and hence reduces poverty. Even our ability to finance anti-poverty programmes of the government will be hampered if growth stagnates. Reduction of poverty has been the concern of our planners since the beginning of plans. The government has never neglected poverty since the beginning of plans. Growth is not a conservative "trickle down" strategy. Growth rather represents an activist, radical "pull up" strategy for removing poverty.

Thirdly, often the reforms are misunderstood as "We are yielding to foreign pressure." Since reforms were part of a conditionality of the IMF and the World Bank, it is often seen as they are result of foreign pressure and so are ill designed. The Rao government's explicit embrace of the reforms demonstrated that it was our conviction that we had lost precious time and the reforms were finally our own option. It is also very sad if we accept or reject ideas based on where they are coming from as long as they give us good results.

Finally, there are another groups, which says, "We are turning back on all we did earlier". The reforms of 1990s suggest to some that whatever was done before reforms were a failure. In some critical areas, it is largely true. In some other cases the mistake was not in the original policy but rather not abandoning it as circumstances changed. The reforms naturally focus on areas where we have had some success story in agriculture sector. It makes sense to say that the earlier policies have become inappropriate in present times than to say that they were wrong altogether.

Menezes is of the view that with the repudiation of Import Substitution Industrialisation (ISI), after its practice in less developed countries for the past 30 years, economic liberalisation, under the coercion of the World Bank and the IMF and others, was instituted. Yet, India chose to liberalise in a cautious, and deliberate manner, judging at what pace the country would tolerate Liberalisation. The shock therapy, which would make a swift conversion from a planned economy to a liberal economic system, was rejected as a possibility because it could potentially create too many losers in the short-run with clear winners emerging in the medium to long run.[173]

Frankel argues that during the early years of economic reforms, Prime Minister Narasimha Rao and his small team of extremely talented economic advisors in crafting an integrated package of policies to go beyond crisis management and set the economy on a sustainable growth path of 7 percent per annum. The government drastically cut back the number of industries reserved for the public sector; removed compulsory licensing in the private sector for starting and expanding new enterprises in virtually all industries; devalued the rupee; introduced current account convertibility to pay balances on the current import and export account; removed quantitative quotas on imports; steadily reduced tariff levels on imports; lifted restrictions on majority of foreign investment in a wide range of industries; allowed foreign companies to borrow funds in India, raise public deposits and expand their operations by creating new businesses or taking over existing businesses and

[173] Meneses, Francis A (1999): 'Implications of Financial Liberalisation in India', *Swords & Ploughshares: A Journal of International Affairs*, 8(2), Pg 4.

permitted foreign financial institutions to make direct port folio investments in India's two stock markets.[174]

Bhaduri and Nayyar correctly pointed out that, "The process of economic reform is either crisis driven or strategy based. It is clear that reform process in India is not strategy based. It was neither shaped by the economic priorities of the ordinary people, nor did it have a long-term view in terms of development objectives. It was crisis driven. There are relatively few examples of strategy-based reform, except for the few success stories among East Asian economies. Crisis driven economy is more in common: crisis driven economy, mostly, on account of external debt. For example, Latin America, Sub Saharan Africa and South Asia, while the collapse of the political system gave the push in Eastern Europe. The success or failure of economic reforms is strongly influenced by the economic or political origins of the reform process".[175]

An economic reform represents a natural transition in the strategy of development and emerges from experience and learning within the countries. Such reform process can both sustain and succeed. Economic reforms that are crisis-driven, irrespective of whether the crisis is an external shock or an internal convulsion, are more difficult to sustain and succeed. There are several problems in the context of India.[176]

As for the Ahluwalia, the economic reforms in India were gradual in nature. One reason for gradual process of economic reform in India was that the reforms were not introduced under conditions of prolonged economic crisis or systems collapse which demand radical restructuring. The reforms were introduced in India in the wake of a balance of payment crisis, which was certainly severe. However, it was not the result of prolonged crisis with a long period of non-performance. Gradualism was the inevitable outcome of India's democratic and highly pluralistic polity in which economic reforms can be sufficiently wide popular consensus. The 1991 reforms were bolder compared to the reforms in the late 1980s, but the pace of reforms had to be calibrated to what would be acceptable in a democratic polity.[177]

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[174] Frankel, Francine (2005): *India's Political Economy 1947-2004*, op. cit., Pg. 591.

[175] Bhaduri, Amit and Deepak Nayyar (1996): *The Intellectual Person's Guide to Liberalisation,* op. cit., Pg. 51.

[176] Bhaduri, Amit and Deepak Nayyar (1996): *The Intellectual Person's Guide to Liberalisation,* op. cit., Pg. 52.

[177] Ahluwalia, Montek S (1993): 'India's Economic Reforms', art. cit., Pg. 1.

The economic liberalisation undertaken in India at the central level has also created an initiation for economic reforms at the state levels. Some states have come forward and encouraged private domestic and foreign investment in sectors previously reserved only for the public sector, cut their fiscal deficits, promoted investment in electronics, information technology, power, roads, air transport, ports and reduced subsidies.[178]

State governments have started competing with each other for private capital as well as investment from central government. However, reform process at the state level is slow. State governments maintain large fiscal deficits, which are a drag on the national economy.[179]

In this phase of economic reforms when the states have a major role in attracting investment, both foreign and domestic, for their development, the competition among the states is increasing to augment their growth profile. However this competition among the states is very often seen as ushering efficiency and enhancing growth. According to Suresh Babu, the growth process in India seems to be caught in a set of centripetal forces tending to keep it in certain confined pockets. This is one reason why the developed states register consistent higher levels of growth. And this process has continued even in the reforms phase.[180]

As per the words of Rudolf and Rudolf, "[181]under the new conditions of reforms, the states commands a larger share of economic sovereignty than they did in the planned economy. Whether they do badly or well economically depends on them more than before on what they do for themselves. States can now act as agencies which can modify their structure." The state governments are willing to adopt administrative reforms that would accelerate for industrial investments and provide for greater transparency. The responsibility and resources of state governments should be increased. There should be decentralisation of power to the local levels. This will help individuals to participate in decision-making. This would enhance the power of

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[178] Weiner, Myron (1999): 'The Regionalisation of Indian Politics and Its Implications for Economic Reform', art. cit., Pg. 261.

[179] Weiner, Myron (1999): 'The Regionalisation of Indian Politics and Its Implications for Economic Reform', art. cit., Pg. 261.

[180] Babu, Babu (2002): 'Competition and Competitiveness among States', *Economic and Political Weekly*, March-30, Pg. 1281.

[181] Rudolph, Lloyd I and Susanne Hoeber Rudolph (2001): 'The Iconization of Chandrababu: Sharing Sovereignty in India's Federal Market Economy', *Economic and Political Weekly*, 36(18).

the state government to adopt reforms to the needs of the state rather than following the dictates of the central government.

It is said that decentralisation, democratisation, participation, innovation, equity, economic reform all go together. There is another school of thought, which says that in the absence of adequate institutional structure, decentralisation and economic reforms do not help in development. For example, in Africa, political leaders resort to clientelistic politics and ethnic appeals to stay in power. But in India, the institutional structures are strong and civil society is more vibrant.

In 1991, India was in a balance of payment crisis and thus adopted market friendly policies. The business community and middle classes had been shielded from the world economy by the policies of the state. Though the growth rate of the economy was low, public sectors had become a drain on the economy; none of the state governments had demanded for economic reforms, as they were the political beneficiaries of state led industrial policies and regulatory regime. When Rajiv Gandhi introduced economic reforms in 1985 and then P.V.Narasimha Rao in 1991, no special effort was made to explain the new economic policies to the state governments.[182]

India's constitution gives considerable political autonomy to the state governments, that is, they have the right to pursue their own policies in areas of education, health, social services, industrial relations, agriculture, rural development and road transport. State government also has a role in national, social and economic policies. Though the state governments enjoy enormous autonomy to take decisions, there is no evidence in the past where state governments have taken initiative in any area under their jurisdiction to change some policy or introduce a new policy without the initiative from the centre. In India, the balance of power leans towards the centre. The state governments in India have limited fiscal autonomy.[183]

The delicensing of industries is at the central level and numerous restrictions continue at the states level. This puts forward an important question- that is, since any industry has to be physically located in a particular state, how can effective

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[182] Manor, James (1995): 'The Political Sustainability of Economic Liberalisation in India', in Robert Caseen and Vijay Joshi edited *India: The Future of Economic Reforms*, New Delhi: Oxford University Press, Pg. 351.

[183] Weiner, Myron (1999): 'The Regionalisation of Indian Politics and Its Implications for Economic Reform', art. cit., Pg. 261-263.

delicensing be achieved if state-level restrictions continue. Once central licensing is removed, states can no longer use political clout to have industries allocated by the licensing authorities to them. Now, the allocation of industries among the states comes through competition among states. As a result, states will now have an incentive to offer relief from the tyranny of their own restrictions to industrialists seeking to find the most favourable location of their industry. This is already happening in Indian states, for e.g., in Orissa. In that case, the inefficient state level restrictions will begin to disappear simply because the central licensing cum state allocation system has been dismantled.[184]

The economic liberalisation process has made certain fundamental changes in the balance of power between the centre and the states. As the role of the central government has declined as a source of public investment, state governments must now look not to New Delhi but to the private sector-domestic as well as foreign-for investments.

The state governments provide substantial subsidies to the agricultural sector, electricity, irrigation, seeds, fertilisers, etc. The short-lived Deve Gowda government in the centre indicated its support for transferring centrally sponsored schemes to the control of states and for the inclusion of all central taxes in the federal division pool. This seems to lead to a fiscally more decentralised federation.

For a rapid economic growth, state governments should play as major actors in attracting investment, reduce bureaucratic regulations, open up investment in areas previously close to private sector, develop infrastructure, reform labour laws, etc. there are differences among the states in the character and pace of reforms, however, these differences are not ideologically based. With the introduction of liberalisation, states now have greater scope for pursuing their own development strategies.

It is essential for the state governments to accelerate the process through initiative by the central government to dismantle state-level restrictions. Equally, the central government should consider introducing "conditionality" in its allocation of revenues to the states: the level of such allocation could be made a function, not merely of 'needs', but also of 'rewards' for pursuit of designated policies such as delicensing that complement rather than frustrate the nations economic reforms. This

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184 Bhagwati, Jagdish and T.N.Srinivasan, (1993): *India's Economic Reforms*, op. cit. Pg. 28-29.

would be an extension of the principle that the Finance Commission and the Planning Commission already uses in rewarding the states for their resource mobilisation efforts. While this can only be a 'medium run' political process, it should be initiated at the earliest as its importance is undeniable.[185]

Earlier, the state governments totally relied upon the central government to set the overall strategy for development. However, with the new emerging economic order, state governments must compete with each other to get investment from whatever source they can be obtained. As the central government takes steps to liberalise the economy and to permit greater freedom of action by the states, the opportunities for attracting private investment by state government leaders increase immeasurably. The pursuit of market-friendly policies by state governments requires a change in the mindset of state politicians, new skills need to be developed within the bureaucracy and a different kind of politics is what everyone would look forward to.

3. Features of Liberalisation

The major failure of planned development since 1950s was that the growth rate in national income was very slow, particularly in per capita income. The public sector has become highly inefficient and thus a drain on the resources mobilised by the government. There was rampant political and bureaucratic corruption in the economy. The sluggish growth could not fulfill the growing aspirations of the people. Due to slow growth, the elite that controlled the economy did not have adequate state resources to placate those who were banging at the gate with increasing assertiveness. This led to political frustrations and social fragmentation all around.[186]

According to Pranab Bardhan, "In response to this rising frustration, the elite in India over the last two decades launched a process of economic reforms with a view to unleash the entrepreneurial forces from the shackles of controls and regulations, hoping that some of the ensuring economic growth trickle down to the clamouring masses. The major elements of changes in policy over the last two decades includes:

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185 Bhagwati, Jagdish and T.N.Srinivasan (1993): *India's Economic Reforms*, 1993, op. cit., Pg. 29.

186 Bardhan, Pranab (2001): 'The Politics of Economic Reform in India', Pg. 1, available at http://globetrotter.berkeley.edu/macarthur/inequality/papers/BardhanReformIndia.pdf, last accessed on 22.03.04.

- Delicensing and deregulation of investment and production in most industries, and the introduction of a general regulatory framework in the case of monopolies.

- Discontinuation of exclusive reservation of many key industries for the public sector and of budgetary subsidies to public sector enterprises, with some small steps towards privatisation in more recent years.

- Gradual abolition of quantitative restrictions on imports.(except for some consumer goods)

- Movement towards a market determined exchange rate and current account convertibility

- Reduction of average levels of direct and indirect taxes and some streamlining and rationalisation of the tax structure.

- Some reform in the financial sector (abolition of control of capital issues, more competition among banks and insurance companies, deregulation of some interest rates, insistence of capital adequacy norms, etc)[187]

As for Ahluwalia, "The current reforms are based on a much clearer recognition of the need to integrate with the global economy through trade, investment and technology flows and for this purpose to create conditions which would give Indian entrepreneurs an environment broadly comparable to that in other developing countries, and to do this within the space of four to five years. As far as instruments are concerned, there is clear recognition that the reforms cannot be limited to piecemeal adjustments in one or other aspect of policy but must bring about system changes affecting several sectors of the economy. The comprehensiveness of the reforms was not perhaps fully evident at the very beginning, when the primary focus was on restoring macro-economic stability, but as the reforms proceeded the scope and coverage of the reform effort was more clearly outlined. The main elements of the reform are summarised in this section, which also indicates differences in the pace and sequencing of individual elements in the package".[188]

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[187] Bardhan, Pranab (2001): 'The Politics of Economic Reform in India', art. cit, Pg. 2.

[188] Ahluwalia, Montek S (1993): 'India's Economic Reforms', inaugural address to the seminar on *India's Economic Reform*, Merton college, Oxford, June, Pg. 1-2.

Dutt and Rao view that since mid 1991, India has been embarked on economic reforms, which aim to liberalise and globalise the economy. Besides a stabilisation programme, both internal and external activities have to be deregulated and liberalised. Internal liberalisation included the dismantling of a complex industrial licensing system, opening up of a number of sectors previously reserved for the public sector to private investment, some disinvestments in the stock in the state sector, and decontrol of administered prices. External liberalisation measures included removal of non-tariff barriers to imports, reduction in import tariffs, removal of restrictions on and active encouragement of foreign investment, some freeing up of technology imports, and attempts to increase portfolio inflows.[189]

As put in the words of Bhaduri and Nayyar, "Structural adjustment and reform seeks to shift resources a) from non-traded goods sector to the traded goods sector and within the latter from import competing activities to export activities; and b) from the government sector to the private sector. Apart from such allocation of resources, structural reform seeks to improve resource utilization by: i) increasing the degree of openness of the economy; and ii) changing the structure of incentives and institutions in favour of private initiative and against state intervention. The general economic philosophy was to rely more on market forces, dismantle controls as far as possible by relying more on prices, and wind down the public sector in the hope that vacuum would be filled by the private sector. The underlying presumption was that industrialisation based on state intervention leads to inefficient allocation and utilisation of economic resources.[190]

In conformity with what is commonly known as "Washington Consensus" the world over, the Government of India initiated a wide range of polity reforms from July 1991. We would now look into the structural policy changes that resulted out of economic reforms in the various areas.

Industrial Sector: Perhaps the most radical changes implemented in the reform package have been in the area of Industrial Policy removing several barriers to entry in the earlier environment. Industrial policy reform removed barriers to entry for new firms and limits on growth in the size of existing firms. Investment decisions are no

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[189] Dutt, Amitava Krishna and J Mohan Rao (2000): 'Globalisation and its Social Discontents: The Case for India', *CEPA Working Paper No 16*, Centre for Economic Policy Analysis, Pg. 1-2.

longer dependent upon government approval or constrained by state intervention. Industrial licensing has been abolished for all industries, except those specified. The law regulating monopolies has been amended and the threshold limit of 1 billion rupees has been removed. Now there is no need for prior approval from the government for capacity expansion, capacity creation, mergers or takeovers on the part of industries.[191]

One area where licensing controls remain in place relates to the list of industries reserved for the small-scale sector. Doubts are often expressed on whether reservation, which prevents larger units from entering the reserved areas to compete with small-scale industries, is a desirable instrument for promoting the small-scale sector. However the Government has indicated that the general policy of reserving certain items for the small-scale sector will continue for social reasons.

Electric power generation has been opened up for private investment, including foreign investment, and several state governments are actively negotiating with various foreign investors for establishing private sector power plants. The hydrocarbon sector covering petroleum exploration, its production and refining has now been opened up to the private sector including foreign investment and has attracted significant investor interest. The telecommunication sector has also been opened up for certain services such as cellular telephones, though the modalities for inducting private sector participants have yet to be worked out.[192]

Trade Policy Reform: The object of trade policy reform implemented so far in India is to eliminate discretionary bureaucratic controls mostly on imports, to reduce the protection available to domestic industry, and to bring the domestic prices close to world prices. In conformity with these objectives, there has been a rapid dismantling of quantitative restrictions on imports and exports, a substantial reduction in tariffs on imports combined with an abolition of subsidies on exports, and several downward adjustments in the exchange rate which have led to a sizeable depreciation of the rupee. The basic assumption was that this process would shift resources from the

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[190] Bhaduri, Amit and Deepak Nayyar (1996): *The Intellectual Person's Guide to Liberalisation*, op. cit, Pg. 33.
[191] Bhaduri, Amit and Deepak Nayyar (1996): *The Intellectual Person's Guide to Liberalisation*, op. cit Pg. 34.
[192] Ahluwalia, Montek S (1993) 'India's Economic Reforms', art. cit., Pg. 4.

production of non-traded goods to the production of traded goods, while exposure to international competition will force domestic firms to become more efficient.[193]

The process of economic reform in India seeks to increase the degree of openness of the economy to integrate it as soon as possible with the world economy. Therefore economic reforms are no more confined to industrial and trade policies. It extends to capital flows and technology flows. As a result, the policy regime for foreign investment and foreign technology has been liberalised at a rapid pace so that prior government approval is now the exception and not the rule. It would seem that the primary objective of the government is to enlarge non-debt creating foreign capital inflows. While technology acquisition and market access to imports of technology is meant to facilitate technology up gradation and enhance international competitiveness in industry.[194]

Public Sector Reforms: Perhaps the most radical changes implemented in the reform package have been in the area of Industrial Policy removing several barriers to entry in the earlier environment. In the sphere of public sector reforms, the main objectives of the government seems to be reduction in the objectives of the public sector, to facilitate the closure of loss-making units in the public sector, and to ease the burden on the exchequer on account of public sector. The public sector should focus only on those sectors, which are strategic, and high technology or constitute an integral part of essential infrastructure. The sick public sector enterprises would be referred to Board of Industrial and Financial Reconstruction, to decide whether these sick units could be reconstituted or closed down. It also includes disinvestments of government equity up to 20 percent subsequently extended to 49 percent in some selected public sector enterprises.[195] Instead of outright privatisation the government has initiated a limited process of disinvestments of government equity in public companies, with government retaining 51 percent of the equity and also management control.[196] Air transport, which until recently was a public sector monopoly, has been opened up to the private sector and some new entrants have begun operations.

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[193] Bhaduri, Amit and Deepak Nayyar (1996): *The Intellectual Person's Guide to Liberalisation,* op. cit., Pg. 36.
[194] Bhaduri, Amit and Deepak Nayyar (1996): *The Intellectual Person's Guide to Liberalisation*, op. cit., Pg. 38.
[195] Bhaduri, Amit and Deepak Nayyar (1996): *The Intellectual Person's Guide to Liberalisation,* op. cit., Pg. 41.
[196] Ahluwalia, Montek S (1993): 'India's Economic Reforms', art. cit., Pg. 4.

Financial Sector Reforms: The object of financial sector reforms is to improve profitability of the state owned commercial banking system and better functioning of the domestic capital market. The presumption that follows here is that the discipline of market forces will make both the banking system and the capital market more efficient. The reforms in the context of commercial banks seek to improve profitability and restore financial health. The actual and the intended reductions in the statutory liquidity ratio and the cash reserve ratio are meant to ensure that resources made available in the form of bank deposits are not pre-empted by the government but released for the private sector. The complex structure of differential interest rates charged and paid by commercial banks has been simplified and rationalised largely through deregulation. The interest rate on long-term government securities have been raised close to the market levels. The government has introduced new guidelines for income recognition, asset classification, provisioning requirements and capital adequacy in commercial banking system.

The reforms in the capital market seek to finance investment in the private sector and attract foreign portfolio capital. Interest rates in the domestic capital market have been deregulated and the need for prior government approval of the size and price of equity issues in the primary capital market has been dispensed with. The newly constituted SEBI will establish rules and regulations to govern the stock market and its intermediaries.[197]

Tax Reforms: Reforms in the tax system has been an important element in the governments reform programme with major changes contemplated in both direct and indirect taxes. The taxation reforms committee has put forward certain broad directions for tax reforms. The committee has recommended for a simple system of direct taxation with moderate rates and fewer exemptions, a progressive reduction in the level as well as the range of variation of custom duties and a rationalisation of the domestic excise taxes in industrial production, fewer duty rates and a drastic reduction if not elimination of exemptions. Consequently, substantial progress has been made in these directions.

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[197] Bhaduri, Amit and Deepak Nayyar (1996): *The Intellectual Person's Guide to Liberalisation,* op. cit., Pg. 44.

These reforms in the tax system go a long way towards the objective of creating a system, which avoids economic distortions, and ensures adequate buoyancy of revenues to support the task of fiscal consolidation.[198]

Reforms and the Agricultural Sector: In India, about 70 percent of the population live in rural areas and are dependent on agriculture for their survival. Therefore economic reforms must address the constraints on efficiency and production in the agricultural sector. There should be effective implementation of reforms for agricultural development, which has worked well in parts of the country and needs to be extended to other parts. Substantial investments should be made in land and water management, supply of improved seeds, an effective delivery mechanism for delivery of rural credit and security of tenure. Many of these reforms come under the jurisdiction of the states. Public investment in agriculture and irrigation has to be increased. Reforms eliminate all central government restrictions on movement of agricultural commodities both domestically and also for exports (though not fully for exports).

Labour Market Reforms: Many foreign investors complain about the labour markets of India being very rigid. Indian labour laws provide a great deal of protection to the labour with retrenchment of labour and closure of an unviable unit. Prior permission of the state government is needed for employing more than 100 workers in any unit of the industry. However, such permission is not always easily granted. Therefore, they complain that Indian firms lack the flexibility to adapt to the changing economic circumstances under the reforms. Spokesmen of domestic industry as well as foreign investors, make the point that firms must have the ability to retrench labour and to close down unviable units. This flexibility is also relevant if old firms, with a hangover of excess labour, have to compete with new firms without this burden.

As Ahluwalia has put it, "It is important to begin with those reforms in the markets, which adjust the slowest. On this basis, reforms in the labour markets should have top priority since labour market typically take longer to adjust. However it is also important to recognise that reform of labour laws is a politically sensitive issue. Any weakening of the labour laws is likely to evoke fears of widespread

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[198] Ahluwalia, Montek S (1993): 'India's Economic Reforms', art. cit., Pg. 4.

unemployment and this is especially the case at the early stages of the reforms when the beneficial effect of the new policies in terms of more rapid growth of output and employment has yet to gain momentum. There is recognition, even in official circles, that excessive rigidity in the labour laws may not be in the interest of employment creation, but a consensus on how to tackle this problem is yet to emerge".[199]

Further he says, "In any case, reform of labour laws must come after the creation of credible safety nets to deal with the problems of displaced labour. The first step in this direction has been taken by the creation of a National Renewal Fund which will finance compensation payments to labour rendered redundant in the course of public sector restructuring and closure of unviable units. It will also finance retraining programmes to help redeploy such labour. Financing for the fund is being provided from the Central Budget and resources have been obtained from multilateral and bilateral aid donors in support of this activity. Approximately 20,000 workers were laid off and paid compensation from the NRF in 1992-93 and a similar number again in 1993-94. As the process of restructuring public sector firms gains momentum the NRF will play a larger role in years to come".[200]

5. Indices of Measurement of Regional Disparities

According to Lawrence Saez, economic liberalisation policies of 1990s have prompted a change in federal relations from inter-governmental co-operation towards inter-jurisdictional competition among the states. There has been a concentration of FDI in a few states of India. The transformation from co-operative federalism to inter-jurisdictional competition has prompted states to compete with each other for further inflows.[201]

Foreign Direct Investment: The economic liberalisation policies in India have succeeded in increasing FDI inflows into India. Similarly economic liberalisation has increased the total portfolio equity investment (PEI), which includes foreign institutional investment, Euro issues, portfolio investment by NRIs and offshore funds. The increases of FDI and PEI have been dramatic, although PEI inflows have been more volatile. This increase in FDI and PEI has helped in the recovery of private

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[199] Ahluwalia, Montek S (1993): 'India's Economic Reforms', art. cit., Pg. 9

[200] Ahluwalia, Montek S (1993): 'India's Economic Reforms', art. cit., Pg. 10.

[201] Saez, Lawrence (2002): *Federalism without a Centre: The Impact of Political and Economic Reform on India's Federal System*, New Delhi: Sage Publications, Pg. 15.

investment in India. The gross domestic investment increased from 23.1 percent in 1991 to 29 percent in 1997 and is increasing even now. The years after 1991 have been referred as galloping liberalisation period. The impact of liberalisation, that is, the high FDI inflows however, have disproportionately affected the middle and the high-income states. The states with high income have developed infrastructure as a result of which they are able to pursue more foreign investors.[202]

The economic reforms have certain spill over effects in some states. The three states of Maharashtra, Gujarat, Tamil Nadu, account for nearly a quarter of FDI proposals made in India from August 1991 to December 1998. If Delhi is included then these 3 states along with Delhi have nearly 50 percent of the FDI approvals made in India in their favour.[203].

There is wide dispersal of FDI inflows into other states of India. Economic liberalisation pinpoints foreign investment magnets and foreign investment laggards. Four states of Uttar Pradesh, Madhya Pradesh, Rajasthan, and Bihar are India's most populous states, low-income states with comparatively very low FDI inflows.

Many states having continuous political turmoil could not attract foreign investment for example, Jammu and Kashmir and Assam. The NRI Indians have been a growing source of FDI inflows in India. However, there appears to be a high regional concentration in foreign investment sub sectors. In addition to high income, there appears to be a co-relation between political stability and the ability to attract FDI. States having a competitive two-party system have been more successful in attracting FDI compared to states having multi-party systems.[204]

Foreign investors have multiple motivations, which include service to the domestic market; to exploit state specific natural resources; in low wage countries to establish export platforms in labour intensive goods, or in standardised technologies that are easily transferable to lower wage settings. In general, coastal access is a huge benefit for all export platform manufacturing. More generally, FDI is attracted to urban areas and to natural resource deposits. Interior cities like Bangalore, Hyderabad,

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[202] Ahluwalia, Montek S (2002): 'State Level Performance under Economic Reforms in India', in Anne O Krueger edited *Economic Policy Reforms and the Indian Economy*, New Delhi: Oxford University Press, Pg. 108-109.

[203] Saez, Lawrence (2002): *Federalism without a Centre: The Impact of Political and Economic Reform on India's Federal System*, op. cit., Pg. 146.

Pune, etc., may be attractive for IT based activities, which do not depend on coastal access. FDI normally flows to urbanised centre's and to the states with large mining sectors as a percent of GNP (especially Orissa and to a lesser extent Madhya Pradesh.[205]

As a consequence of liberalisation, FDI increased from US$ 233 million in 1992 to an estimated US$ 3.3 billion in 1997. Developing countries as a group attracted FDI flows of US$ 29 million per year, India's share was 0.5 percent compared to 12 percent of china. There is plenty of room for India to expand its share of FDI flows.[206]

GDP Growth: According to the World Bank growth estimates, India in 2002 was the fourth largest economy in GDP at purchasing power parity (after USA, Japan, China) and eleventh in absolute size of GNP. If the crisis year of 1990-92 is included, aggregate growth for the decade (1991-2001) averages 5.5 percent. If 1990-91 is omitted, GDP growth over the period of nine years averages an "unprecedented" 6.3 percent. So the average growth rate of India was much higher after reforms compared to the period before reforms.[207]

What is significant is not the growth rate but that it was possible without external borrowings. India relied primarily on the mobilisation of internal savings, which ranged from 21 to 25 percent of GNP to sustain average annual growth rates in the range of 5.5 to 6.3 percent.

Agricultural Growth: Agriculture can occasionally be a leading sector in economic growth, either on the basis of a spurt in agricultural productivity or on the basis of cash crop exports. In India, agricultural productivity led growth occurred in one major historical period, that is, the 'Green Revolution' period. The epicentre of the green revolution was Punjab and Haryana,[208] and to a lesser extent north Indian

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204 Saez, Lawrence (2002): *Federalism without a Centre: The Impact of Political and Economic Reform on India's Federal System*, op. cit., Pg. 146-149.

205 Sachs, Jeffrey, Nirupam Bajpai and Ananthi Ramiah (2001): '*Understanding Regional Economic Growth in India*', art. cit., Pg. 11.

206 Srinivasan, T N (2003): *Eight Lectures on Indian Economic reforms*, New Delhi: Oxford University Press, Pg. 76.

207 Frankel, Francine (2005): *India's Political Economy 1947-2004*, op. cit., Pg. 595.

208 Most rice farmers were too poor to introduce the high yielding variety of rice, which required substantial application of fertiliser, as well as irrigation. Also, the taste of the rice was unfamiliar, and public acceptance was limited. Therefore, rice became 'orphan' of the green revolution. Tirtha, Ranjit (2000): *Geography of India, op.cit.,* Pg. 268.

plains and southward to Rajasthan, Maharastra, Gujarat. However this agriculture led growth was short lived in India. [209]

Uttar Pradesh is the major producer of diverse agricultural crop in the country. It is the largest producer of wheat, sugarcane, pulses, potato, and milk. Punjab is the second largest producer of wheat and milk. Haryana produces a good amount of wheat, mustard, cotton, etc. Rajasthan is a major producer of bajra, rapeseed, and mustard. A productivity level of agricultural crops in India is much lower than the international levels. Kerala is the major producer of commercial crops in the country. The other three states of the south have a balance in the production of cash and food crops. Kerala's agriculture suffered due to steep fall in the prices of commercial crops since the mid 1990s.

The yield structure of agricultural crops depends on irrigation coverage of the different states. The northern states have comparatively better irrigation network because of good number of glacial rivers as well as flat land. In Punjab about 92 percent of the cultivable lands are provided with irrigation facilities. The southern states are comparatively not as well irrigated as the northern states. Among the southern states Tamil Nadu has the highest irrigation facility, which is about 55 percent. Public irrigation share has come down in the 1990s after the onset of economic reforms.[210] Due to better irrigation facilities, the agricultural production in the north is much better than the south[211]. This has a direct impact on the standard of living of the people because almost 70 percent of the Indian population live in rural areas and are dependent on agriculture for their livelihood.

In the 1990s, the share of public investment in agriculture declined sharply to 28 percent from 45 percent in the 1980s. This is mainly due to the enlarging subsidies on food, fertilisers, and power for farmers, which altogether accounted for 2.4 percent of GDP in 2001-2002. The private sector investment in agriculture has been increasing to compensate the falling public sector investment. However, the disparity in agriculture sector arises due to a simple fact that the better-off sections of the society ultimately capture any subsidy of the government that is meant for the poor.

[209] Sachs, Jeffrey, Nirupam Bajpai and Ananthi Ramiah (2001): '*Understanding Regional Economic Growth in India*', art. cit., Pg. 9.

[210] The sluggish growth if irrigation in the country is reflected in the fall in investment in agriculture from 1.6 percent of the GDP in 1993-94 to 1.3 percent in 2001-2002.

During the 1990s, the share of agriculture in the state economies has come down in most states except West Bengal and Orissa. Along with this, the share of employment in agriculture has also declined in all the states. Acceleration in the rate of investment in agriculture is an important challenge for public policy in the next few years. Without that, sustained growth in the agricultural sector will not occur. There are, of course, a host of other important issues pertaining to agriculture that need to be focused. These include the removal of inter-crop imbalance; reorganisation of agricultural credit, liberalizing agricultural exports, and revitalizing extension, etc. Corrective action in all these areas will become easier if sufficient resources are available to increase investment in agriculture and related sectors.[212]

Social Sector Growth: The quality of human resources, broadly defined to mean the educational attainment and skill of the labour force, is another factor generally regarded as a critical determinant of growth. The states with superior availability of human skills, and more rapid growth in these skills, are more likely to have higher per capita GSDP and to experience faster growth[213].

The Planning Commission has been constructing decadal National Human Development Report for all India and for the various states of India and the latest such index is available for 2001. This is a composite measure of a number of indicators relating to health, education and certain economic attainments.

The average human development index for the northern states of Haryana, Punjab, Rajasthan and Uttar Pradesh is rapidly rising but still it is much lower compared to the western and southern states. The gap between the average human development index for the north and the all India average has widened steadily in the last two decades, from 8 percent in 1981 to 11 percent in 2001. Punjab holds the second position in human development index.

Literacy Rate: Literacy rates have increased from 18 percent in 1951 to little over 52 percent in 1991. This record is not totally unimpressive in view of the pathetically low initial levels of literacy. There has been a phenomenal increase in the number of primary schools in this period.

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[211] The state government expenditure on irrigation and flood control has increased to 14-15 percent per annum during 2001-02 in the southern states.

[212] Jalan, Bimal (1993): *India's Economic Policy: Preparing for The Twenty-First Century,* op. cit., Pg. 88.

The advances though impressive are not enough. India's literacy ratio is one of the lowest in the world. Low level of literacy is an important barrier to reduce the incidence of poverty in the country. In improving its record on literacy, India faces some special problems: rapid growth of population results in high proportion of adult literates. Another related problem is the high illiteracy among females. Illiteracy is concentrated more in rural areas. In addition to the measures for accelerating the overall rate of growth of literacy in India, special effort is required to remove gender and regional disparities in access to education.[214]

The level of literacy is the most important index of development of a society. In a backward society male literacy is higher than female literacy. The true index of development of a society is the level of female literacy, which can be considered as the bottom line as far as literacy is concerned. All the states in the forward group[215] have female literacy above the national average of 39.3 percent except Andhra Pradesh. In contrast only Assam and West Bengal in the backward group have female literacy above national average. Kerala has female literacy up to 86 percent whereas Rajasthan has the lowest of about 20 percent. The female literacy in the other three BIMARU[216] states is below 30 percent.[217]

Thus literacy in slow growing states (Uttar Pradesh, Orissa, Bihar) is very low. However, the poor growth performance of these states cannot be explained solely in terms of the low levels of literacy. The situation in Madhya Pradesh, Rajasthan and Andhra Pradesh at the start of the decade was only marginally better, and yet these states showed a much better performance in the 1990s.[218]

Health Sector Growth: A principal issue in health care is that of equity. Publicly financed health care facilities should be accessible to all in poor developing

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[213] Since the data on the educational and skill characteristics of the labour force are simply not available, the literacy rate of the population is commonly used as a proxy for the quality of human resources.

[214] Jalan, Bimal (1993): *India's Economic Policy: Preparing for The Twenty-First Century,* op. cit., Pg. 153-154.

[215] The 15 major states of India 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, Karnataka, Maharashtra, Punjab, Haryana, Tamil Nadu, and Kerala. The backward group comprises of Assam, Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh, and West Bengal.

[216] The so called BIMARU states of Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh, the acronym BIMARU taken from the initial letters for Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh, as a pun on the Hindi word '*bimar*', meaning sick, and was first used by Ashish Bose in the context of demographic analysis as these states displayed much high fertility rates than other states in the country.

[217] Kurian, N J (2000): 'Widening Regional Disparities in India - Some Indicators', art. cit., Pg. 540.

[218] Ahluwalia, Montek S (2002): 'State Level Performance under Economic Reforms in India', art.cit., Pg. 108-109.

countries in view of inadequate availability of services, high per capita cost, and severe limitation of resources. However, it is generally seen that access to health care facilities is confined to better off sections of the people. More is spent on curative care rather then preventive care. Compared to other developing countries, India has been able to provide health care facilities to the vast population whether it is in urban or in the rural areas. In India, about 45 percent of the budget is spent on health care. Life expectancy at birth has increased from 32 years in 1950-51 to 61 years in 1991. Mortality rate has also come down. Infant mortality rate has come down from 146 per 1000 births in 1950s to 91 in the 1990s. The incidence of communicable diseases, infant mortality and morbidity was substantially higher in rural areas. There is wide variation among the states in respect of the health status of the population and public spending on health. Poorer states spend less in the health care sector compared to better off states. For example, Punjab spends seven times more than Bihar in health care.[219]

Female Infant Mortality Rate (IMR) in 2001 was 64(national average). The lower the IMR, the better health care the state enjoys. All states in the forward group have IMR below the national average except Karnataka. In the group of backward states, Assam, Bihar, and West Bengal have IMR below the national average. The worst IMR is that of Orissa which is 105. Life expectancy at birth or longevity is an overall indicator of the economic and social well being of the people. As the society advances, life expectancy increases. In India female life expectancy is 64.4 years, which is lower than male life expectancy. Among the forward states, all but Gujarat have figure above national average. In the group of backward states, except West Bengal all the other states have low female life expectancy. Kerala has the highest female life expectancy, which is about 75 years, and Madhya Pradesh has the lowest of about 57 years.[220]

Sectoral Growth: The most common indicator of the economic development of a society is the per capita annual income generated by it. An important structural change in the economy in the process of development is the decline of income generated in the agricultural sector and the increase in the income generated in the manufacturing sector. The level of poverty or share of population, which do not have

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[219] Jalan, Bimal (1993): *India's Economic Policy: Preparing for The Twenty-First Century,* op. cit., Pg. 162-170.

[220] Kurian, N J (2000): 'Widening Regional Disparities in India - Some Indicators', art. cit., Pg. 540.

minimum income to meet its basic requirements, is an indicator of not only its economic development but also the inequality in income distribution.

A look at the NSDP indicates that all states in the forward group except Andhra Pradesh, Kerala and Karnataka have per capita income above the national average. In contrast, except West Bengal, all the other states in the backward group have per capita below national average. The gap between the state with highest per capita income and state with lowest per capita income is enormous.

A strange thing to be noted here is that Kerala, which has a very high human development index has the lowest per capita income among the forward states. So the hypothesis that high human development accelerates economic growth does not apply here.

A look into the percentage share of agriculture in NSDP of different states shows that 10 out of the fifteen states being studied have a share of agriculture in NSDP more than the national average. Out of these ten states, four are of forward group and six are of the backward group. Punjab has the highest share of agriculture in the NSDP, that is, about 44 percent and Maharashtra has the lowest share of agriculture of about 18 percent.

A fact that needs to be considered here is that almost all the developed countries of the world have a share of agriculture in their national income much below ten percent. Many middle-income countries have share of agriculture in national income much below twenty percent. A look at the Indian states shows that it is the states of Punjab and Haryana, which are basically agrarian.

A look at the percentage share of manufacturing of the forward and backward states in their respective NSDP shows that four states in the forward group have a share of manufacturing above the national average of 16.7 percent. None of the states in the backward group even touch the national average. Highest share in manufacturing is that of Gujarat. The states of Gujarat, Maharashtra and Tamil Nadu are referred as the manufacturing states in the country.

Among the backward states Madhya Pradesh has the highest contribution to its NSDP through manufacturing, that is 16.5 percent and Orissa has the lowest. In 1980s, the share of manufacturing in West Bengal's NSDP was 24 percent, which has now dwindled to 14 percent in the 1990s. This brings out a picture of clear de industrialisation of West Bengal. It should be, however, made clear that if a state's share of manufacturing is lowering, it need not necessarily be getting more agrarian but rather it may be good at its service sector.[221]

Poverty Ratio: A clear picture of the percentage share of poor in different states shows that the All India average is about 36 percent. Maharastra is the only state in the forward group, which has a percentage share of poor above the national average. Five out of eight states of the backward group have levels of poverty above the national average. West Bengal has a level of poverty equal to the national average. Rajasthan is the only state, which has poverty much below national average. The poverty level of Bihar is highest in the country. Almost 55 percent of the people in Bihar live below the poverty line.

Here we have only looked at the percentage of poverty and not the depth of poverty. Maharastra having a very high percentage of poverty is a puzzle for us because in spite of this high level of poverty, it enjoys a very high level of per capita income as well as the indices of development including social development. Maharastra has also been an interesting case study of intra regional disparity with Mumbai on the developed side and Vidharba on the underdeveloped side.[222]

India's past experience suggests that when in the 1970s the growth rate of the economy was moderately growing between 3.5 percent and 4 percent, there was no significant reduction in poverty. When there was bumper agricultural growth, standard of living of the people rose so poverty level would fall and when there would be a bad harvest, there would be a rise in the poverty level. But as the economy started growing at a rate of 6-7 percent since 1990s there has been significant reduction in the poverty, so in India, poverty reduction strategy consisted of relying on acceleration in growth to bring about general improvement in the standard of living supplemented by certain poverty alleviation programmes to identify the poverty stricken groups and thereby helping them to benefit from the growth process of the economy.[223]

Poverty reduction in the major states required rapid growth of GSDP, increase in employment opportunities, rise in income levels. Migration of workers from slow

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[221] Kurian, N J (2000): 'Widening Regional Disparities in India - Some Indicators', art. cit., Pg. 541-542.
[222] Kurian, N J (2000): 'Widening Regional Disparities in India - Some Indicators', art. cit., Pg. 542.
[223] Ahluwalia, Montek S (2002): 'State Level Performance under Economic Reforms in India', art. cit., Pg. 98-101.

to fast growing areas should be allowed as it helps the growth to trickle down across the states, particularly in small states. However, this cannot be a substitute for acceleration of growth of the domestic economy in these states.

In the post reform period, there has been a significant decline in the levels of poverty in all states except Orissa. Among all the states, Rajasthan had a significant decline in the level of poverty in the reforms period. Even after this decline, the level of poverty in these states is still very high. The concentration of poverty in India is in three states, they are, Bihar, Orissa and Uttar Pradesh. This concentration of poverty in a particular region will exacerbate regional inequality and this would lead to political instability. Therefore slow growing states should grow at a rate of 6 percent per annum with a per capita not below 4 percent, which would certainly help in the reduction of poverty.[224]

Infrastructure and Economic Development: The prosperity of a country depends upon the development of agriculture and industry. Agricultural production however, requires irrigation, power, credit, transport facilities, etc. Industrial production requires not only machinery and equipment but also skilled manpower, management, energy, banking and insurance facilities, marketing facilities, transport services which include railways, roads and shipping, communication facilities, etc. All these facilities and services constitute collectively the infrastructure of an economy and the development and expansion of these facilities are an essential pre-condition for using agricultural and industrial production in a country.

As discussed by Ahluwalia, "Infrastructural facilities often referred as economic and social overheads- consist of

- Irrigation – including flood control and command area development.
- Energy - coal, electricity, oil and non-conventional sources.
- Transport - railways, roads, shipping and civil aviation
- Communications - post and telegraphs, telephone, telecommunications, etc.
- Banking, finance and insurance
- Science and technology

[224] Ahluwalia, Montek S (2002): 'State Level Performance under Economic Reforms in India', art. cit., Pg. 100-101.

• Social overheads – health and hygiene and education.

All the plans generally devote more than 50 percent of their total plan outlay on infrastructural development in India. As a result of this heavy investment, there has been a phenomenal increase in facilities, which in turn increase the pace of agricultural and industrial development in India."[225]

The quality of infrastructure is widely regarded as an essential determinant of growth in the states. Good infrastructure not only increase the productivity of existing resources going into production and thereby helps growth, but helps to attract more investment, which can be expected to increase growth further.

The CMIE had produced a composite index of the relative infrastructure capacity of different states based on 13 separate components.[226] The relative index values for individual states confirm with some expectations but also some surprises. Bihar scores the lowest in infrastructure. Its relative position has deteriorated over time. Uttar Pradesh has higher value for the index than the national average, higher than Karnataka, West Bengal and Andhra Pradesh, the states that have grown very fast.[227]

Though every plan spends a lot on infrastructure, the effectiveness of such plan expenditures is still to be found. Infrastructure falls totally under the central government jurisdiction. Therefore infrastructure needs must be met directly through increased central public investment or when private investment is feasible by a combination of public and private investments.[228]

5. Summing Up

While the 1980s saw a process of half hearted and limited economic reforms, the reforms of the 1990s in the various sectors saw a phase of full-fledged economic liberalisation. The balance of payments situation in early 1991 was almost unmanageable. The rate of inflation was more than 16 percent and was therefore referred as galloping inflation. There was a constant fear of acceleration in the rate of

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[225] Ahluwalia, Montek S (2002): 'State Level Performance under Economic Reforms in India', art. cit., Pg. 111.

[226] The thirteen variables are per capita electric power, percent of villages electrified, railway route length per 1000 sq kms, surfaced road length per 1000 sq kms, unsurfaced road length, handling capacity of major ports, gross irrigated area as a percentage of cropped area, and tele-density plus the following per lakh of population, bank branches, post offices, primary schools, hospital beds, and primary health centers. Each indicator is computed for each state relative to the all India average of 100. The composite index is the sum total of all these indices.

[227] Ahluwalia, Montek S (2002): 'State Level Performance under Economic Reforms in India', art. cit., Pg. 111.

inflation. This crisis in 1991 was not a sudden mishap but rather an outcome of persistent mistakes in the economic policies that accumulated throughout the 1980s.

There were a large number of external factors like the Gulf War, dismantling of the Soviet Union, etc but there were also some internal factors like instability of the governments, rapid increase in the inflation rate, payment crisis, shortage of foreign exchange, etc. It is these factors that compelled India to initiate economic reforms. Therefore the then Finance Minister Manmohan Singh in the Narasimha Rao Government went ahead to adopt the economic reforms. In other words, there was no other choice before the government. It should be realised that whichever government would have been in power, would have been compelled to adopt the liberalisation policy.

The chapter has dealt with important questions like, how could a minority government of Narasimha Rao introduce reforms easily without much opposition in 1991-92 whereas the majority government of Rajiv Gandhi could not carry on the process of reform in 1985? And also, why have the post 1991 reforms been successfully implemented in some areas and not in others?

The reforms of India were crisis driven and not a choice of its own. Though it has been almost 15 years since we have had economic reforms, but these reforms are not hasty, they are gradual in nature. It is to be realised here that with multiple political issues in the front, even minority governments can press ahead with economic reforms, whereas, strong governments also fumble if economic reforms become the sole focus of political contestation in the country. With the upcoming reforms, the private sector has gained significance. Though a large number of areas have been opened to the private sector but still there are some areas, which are under the public sector. The areas that look after the welfare of the citizens like education, health, etc is still in the hand s of the government they count the vote bank.

The economic liberalisation process has made certain fundamental changes in the balance of power between the centre and the states. The role of the central government has declined as a source of public investment in the reform period; state governments now look to the private sector-domestic as well as foreign-for investments.

[228] Ahluwalia, Montek S (2002): 'State Level Performance under Economic Reforms in India', art. cit., Pg. 112.

In this process of liberalisation, a large number of reforms were undertaken in almost all sectors of the economy barring a very few. The major reforms were in the sectors of industry, trade policies, agriculture, finance, labour market, taxation and public sector. These reforms have been studied so as to have a better knowledge of the width and depth of reforms undertaken and their effect on the developed as well as backward regions of the country. There are a large number of indices for the measurement of regional disparities, which include GDP growth, social sector growth (health, education, etc.), infrastructure, FDI inflows, poverty, sectoral growth, etc. These have been studied elaborately to have an understanding of the relative position of the various states of India in these development indicators.

Chapter-5

Regional Disparities Today: A Macro Picture

1. Introduction:

Regional disparities have become a matter of serious concern[229] in almost all developing countries, particularly in India in this period (1991-2005) of ongoing economic reforms. According to T Ravi Kumar, "A major aspect of the development process of a nation is the problem of regional disparities and the nature and sources of these inequalities. Large countries whose regions are structurally diverse in terms of their size, income and physical and human resource endowments are likely to experience unbalanced regional growth, as the regions possess varying developmental potential. It is a perceived notion that there exist inherent tendencies for increasing regional disparities in the early stages of the economic development of a nation".[230]

A new controversy in this respect is whether growth rates and standards of living in different regions would eventually converge or not. The related empirical evidence is however controversial. It has also been observed that when an economy is liberated, especially after controls on investment is lifted, regions with better infrastructure attract more investment, especially foreign capital through market mechanisms, and this in turn leads to regional inequity, at least in the early phase of reforms.[231]

Indian economy has experienced an average annual growth of 5-7 percent through the 1990s. Though it may not be that significant growth when compared to most other countries of Asia (like china, Indonesia, Malaysia, Thailand, etc) still it was quite impressive when compared with the average annual growth rate of the Indian economy in the planning period, which was 3.5 percent per annum. As far as the per capita income in India is concerned, there has been a growth of per capita income at a rate of 4 percent per annum in the recent period compared to 1.5 percent in the planning period. There has been acceleration in the growth performance of the

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[229] Bhattacharya, B.B and S. Shakthivel (2004): 'Regional Growth and Disparity in India: Comparison of Pre- and Post-Reform Decades', art. cit., Pg. 1071.

[230] Kumar, T Ravi (2005): 'Regional Growth and Disparities', art. cit., Pg. 127.

[231] Bhattacharya, B.B and S. Shakthivel (2004): 'Regional Growth and Disparity in India: Comparison of Pre- and Post-Reform Decades', art. cit., Pg. 1071.

Indian economy in the recent period. In contrast to the stagnant or negative growth of most East Asian economies India's growth rate is quite significant in the period of economic reforms.

Here it is correctly expected that this economic growth and rising per capita income would automatically lead to reduction in the level of poverty in India. The period of liberalisation has seen the adoption of several anti-poverty programmes and public intervention policies in favour of the poor. Along with the steady economic growth, rising per capita income, reduction in poverty level, there has also been a substantial improvement in the human development index of this period. While there is a broad consensus on the overall improvement of the economy and quality of life during this period of liberalisation, there are significantly differing perceptions about the distributional impacts of these gains.

Disparities in the economic and social development across the regions and intra regional disparities had been one of the major reasons for our leaders to adopt planning in India since independence.[232] Apart from the massive public investments, private investments were also made to reduce regional disparities and to equalize the proceeds of economic development for all regions. In spite of the enormous efforts made by the government to reduce regional disparities in the plan period, considerable regional disparities still remained.

The ongoing economic reforms[233] since 1991 with stabilization and deregulation policies as their central themes seem to have further widened the regional disparities. With the economic reforms, the country is growing at a rate of more than 7 percent per annum; however, there is still an enormous amount of disparities existing across the states and within the states.

A number of previous studies on convergence of income across Indian states covering different time periods have examined whether per capita income levels have been converging or diverging in India. Most of these papers including mine show that there is a tendency towards divergence rather than convergence. Rao, Shand, and

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[232] Kurian, N J (2000): 'Widening Regional Disparities in India - Some Indicators', art. cit., Pg. 538.

[233] The reforms of 1991 includes two major components: a) trade Liberalisation aiming at outward orientation and integration with rest of the world, and b) deregulation and privatisation of industrial production aimed at putting the private sector as the dominant driver in their sphere.

Kalirajan[234], by contrast suggest that per capita SDP in the Indian states have tended to diverge rather than converge. Per capita SDP growth is positively related to their initial levels. States with better infrastructure and human resources have had an edge over the others in attracting investments in the post reform era. Dasgupta et al[235] also report a distinct tendency for the Indian states to have diverged during the period 1960-95 as far as per capita SDP is concerned. Kurian[236] finds widening regional disparities among the Indian states and a clear dichotomy between what he calls the forward and backward states. The former having higher levels of per capita income, better infrastructure, high per capita resource flows and private investments and better social and demographic indicators compared to the latter states. Ahluwalia[237] analyzing the economic performance of Indian states during the post-reform period suggests that not all the richest states got richer relative to poorer states. He cites Punjab and Haryana as two key examples. While these were the two richest states in 1990-91, their growth rates of per capita SDP in the 1990s were not only lower than in the 1980s, but also in both cases actually fell below the national average. He also points out that not all the poorer states lagged behind. While suggesting that two poor states, Rajasthan and Madhya Pradesh had performed well, Ahluwalia, however, does not offer an explanation for their better performance. Ghosh[238] has concluded that the overall growth process in the Indian economy has widened income differentials not only across classes and economic groups, but also across the regions. The richer states such as Gujarat, Karnataka and Tamil Nadu have also had among the highest growth rates over the recent period. Meanwhile, as is clear from the charts, the poorest states have also been the most laggard in terms of economic performance. All in all, it appears that the uneven development of states is something that has been accentuated over the 1990's. Bagchi and Kurian[239] debating on the trends of regional inequalities in India conclude that 'divergence' is stronger than 'convergence' in development

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[234] Rao, M Govind, R T Shand and K P Kalirajan (1999): 'Convergence of Incomes Across Indian States', art. cit., Pg. 769-779.

[235] Dasgupta, Dipankar, Pradip Maiti, Robin Mukherjee, Subrata Sarkar, and Subhendu Chakrabarti (2000): 'Growth and Inter State Disparities in India', art. cit., Pg. 2413-2422.

[236] Kurian, N J (2000): 'Widening Regional Disparities in India - Some Indicators', art. cit., Pg. 538-550.

[237] Ahluwalia, Montek S (2000): 'Economic Performance of States in the Post Reforms Period', art. cit., Pg. 1637-1648.

[238] Ghosh, Jayati (2001):'Economic Performance of the State in the 1990s', art. cit., Pg. 1-7.

[239] Bagchi, Amaresh and N. J. Kurian (2005): 'Regional Inequalities in India-Pre and Post Reforms Trends and Challenges for Policies', art. cit, Pg. 322-350.

among the states, particularly in the post-reform era. Noorbakhsh[240] argues that regional inequalities in India, initially high in the 1980s, have not been reduced significantly after a decade and as judged by a number of measures have increased in some aspects. There is little evidence to suggest that any convergence is taking place amongst the states in India, on the contrary, the evidence points at divergence. Bhattacharya and Sakthivel[241] find that while the average growth rate of GDP increased only marginally in the 1990's as compared to the 1980's, regional disparity has widened significantly during the 1990's, and so far there is no evidence of convergence. Whether this is due to the ongoing economic reforms is a matter of investigation, but the evidence very clearly indicates a rise in regional inequity in the post reform period.

The conclusions of these studies differ according to which groups of states have been examined. When focusing on the most populous states there seems to be little evidence of convergence, while there may be some convergence of the small North-east states with the rest of the country.

In order to understand the inter-state disparity existing in India in the period of liberalisation; I have tried to make a comparison of the various indicators of development in a group of 15 major states[242]. These states together account for 96 percent of the population of India. The remaining 4 percent of the population are spread in 10 smaller states and seven union territories including the National Capital of Delhi. The 15 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, Karnataka, Maharastra, Punjab, Haryana, Tamil Nadu, and Kerala. The backward group comprises of Assam, Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh, and West Bengal. [243]

Geographically, the forward groups 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 is in the eastern and northern parts of the country and is

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240 Noorbakhsh, Farhad (2003): 'Human Development and Regional Disparities in India', art. cit., Pg. 1-34.

241 Bhattacharya, B B and S Sakthivel (2004): 'Regional Growth and Disparity in India- Comparison of Pre-and Post Reform Decades', art. cit., Pg. 1071-1077.

242 This grouping has been influenced by N J Kurian.

243 Kurian, N J (2000): 'Widening Regional Disparities in India - Some Indicators', art. cit., pg. 539.

geographically contiguous. Another notable geographical feature is that while six out of eight states, except Haryana and Punjab, in the first group have vast seacoasts, only two out of seven in the second group, such as, and Orissa and West Bengal are littoral. While the forward group of states accounts for about 42 percent of the national population, the backward group accounts for as much as 54 percent of the population of the country. In terms of natural resources including mineral wealth, water resources and quality of soil, the latter has a definite edge over the former.[244]

There is a limitation associated with the study of 'states' as the unit of analysis of the inter-regional disparities. The reason behind this is that we cannot have a clear picture of the intra-regional disparities through such a study. The large states of India have enormous imbalances within the state as far as the various indicators of development are concerned and my study would emphasize on the fact that regional disparity has been widening under economic reforms and that does not show any signs of convergence. The widening regional disparity is to be shown by making a clear study of three sectors that are the primary, secondary and tertiary sectors. Distinct regions at different stages of development are identifiable in several states. Therefore after making a clear description of the inter state disparities existing in India I would also try to bring out the complex problem of intra regional disparity and also make a case study of the regional disparity existing within Andhra Pradesh which is in the forward group and Orissa which is in the backward group.

2. Uneven Growth and Regional Disparities: The Present Scenario

The existence of wide inter-regional disparities in a vast country like India is well recognized. In fact, one of the principal justifications for the adoption of five-year plans and the establishment of the Planning Commission in India were to ensure a process of balanced and socially equitable development. Through public and private investments, and various other interventions and public policies, balanced regional development was pursued during the first four years of planning. Though such policies are not an unadulterated success, a measure of regional balance in development still was maintained. However, since the adoption of economic reforms in 1991, various studies reveal that there has been a widening of socio-economic disparities across the Indian states.

[244] Kurian N J (2000): 'Widening Regional Disparities in India - Some Indicators', art. cit., pg. 539.

India embarked on a process of economic policy reforms in mid-1991 in response to a fiscal and balance of payment crisis. Since then the role of the governments, particularly the central government and also the state governments, to some extent has changed substantially. The government has now to be a facilitator for private initiatives rather than an arbiter and is expected to restrict its economic activities to areas that were purely in the domain of the government. The experience of a more than a decade of economic reforms points out that one of the major victims of economic reforms has been balanced regional growth.

With the economic reforms being initiated, the central government has undergone a number of reforms in various areas like fiscal policy, trade and exchange rate policy, foreign investment, public sector reforms, industrial policy and so on. Though the central government has undertaken a number of reforms but the state governments are yet to implement a good number of the reforms. In other words, till now, the reform measures are mostly concentrated at the central level. The state governments ought to be given autonomy so that they add much dynamism to reforms. More freedom to the states would mean more competition among the states.

There has been a substantial level of healthy competition among the three southern states of Andhra Pradesh, Karnataka and Tamil Nadu.[245] Since then the role of the governments, particularly the central government and also the state governments, to some extent has changed substantially Looking at the GSDP of the reform oriented states of 2004 and comparing them with the GSDP of these states in 1980s shows that they are growing very fast in the post reforms period. In Karnataka and Tamil Nadu, the per capita income began to surge and exceed the national average since 1991-92. On the other hand the lagging reformers, Bihar, Madhya Pradesh and Uttar Pradesh, and to some extent Orissa, have lagged behind the All India average. The per capita SDP of these states is far below the other developed states of India.

The gap between the per capita income of poorer and richer states has gone up in the recent years. The per capita income of Maharashtra was 3.8 times that of Bihar in 1998-99 as against 2.8 times in 1990-91. Further, while all the seven states in the

[245] Bajpai, Nirupam and Jeffrey D Sachs (2000): 'Reform in the States-I', *The Hindu*, 24 January,

backward group have a per capita income below the national average[246], all but one of the eight states in the forward group has a per capita income above the national average. The only exception is Andhra Pradesh where the per capita income was as much as 99.7 percent of the national average.[247]

With the initiation of reforms, the role of the private sector has acquired a great significance. Private investments has increasingly gone to the relatively better off states, which have better social and economic infrastructure and better governance, especially in-terms of speedy decision making process. Five states, that are, Gujarat, Maharashtra, Tamil Nadu, Andhra Pradesh and Karnataka accounted for almost two-third of the private investments in our country over the last decade. The same group of states have also benefited from 60 percent of the commercial bank credit and financial flows from national level financial institutions like IDBI, IFCI, etc. In contrast the states in the backward group, that are, Uttar Pradesh, Bihar, Orissa, Assam, West Bengal, Madhya Pradesh and Rajasthan received less than 30 percent of the private investment and a similar share of bank credit and other institutional finances during the last decade.[248]

The fast moving reformers are relatively attracting higher investments, both foreign as well as domestic. Between 1991-2003, the five fast reformers, Gujarat, Maharashtra, Tamil Nadu, Karnataka and the National Capital Territory of Delhi accounted for 52 percent of the total FDI approvals in the country. There seems to a positive relationship between FDI and social and economic infrastructure.[249]

Some of the social indicators for which state wise data is available also indicate that the reform-oriented states are relatively better placed. However, Kerala is an exception with the highest life expectancy at birth, and the lowest death rate, infant mortality rate and the total fertility rate among all the Indian states. On the other hand, Bihar, Orissa, Madhya Pradesh, Rajasthan, and Uttar Pradesh have infant mortality

[246] The per capita income of the seven backward states was below the national average. This can be attributed to two factors. One, the incomes of these states grew at a lower rate than the national average. Second, the population growth was significantly higher in these states as compared to those in the forward group.

[247] Kurian, N J (2002): 'Growing Inter-State Disparities', *Seminar*, 509, January, Pg. 64.

[248] Kurian, N J (2002): 'Growing Inter-State Disparities', art. cit., Pg. 63.

[249] Dev, Mahendra S (2004): 'Post-Reform Regional Variations', *Seminar*, 537, May, Pg. 26.

rates and life expectancy that is below the national average. Literacy indicators too depict a similar trend among the states with Kerala once again ahead of them all.[250]

Physical and social infrastructure is important for economic growth and higher human development. The reports of the 10th and the 11th Finance Commissions provide an index of social and economic infrastructure for major Indian states. The index of social and economic infrastructure was much higher for Maharashtra, Gujarat, Haryana, Kerala, Tamil nadu and Punjab in both 1995 as well as in 2000. This suggests that there is a positive relationship between infrastructure and growth. However, there are exceptions everywhere. For example, Punjab did not show remarkable growth in spite of the better infrastructure and Rajasthan showed better growth despite of the low level of the infrastructure.[251]

According to the official estimates, poverty declined from 37.3 percent in 1993-94 to 27.1 percent in 1999-00. It declined 10.2 percentage points over this six-year period indicating a 1.7 percentage point decline per annum.[252] This shows a concomitant of poor economic and socio-demographic performance in poverty and deprivation. While the poverty ratio for the country as a whole is 26.1 percent, it is as high as 33.1 percent for the backward states as a group and as low as 17.9 percent for the forward states as a group. All the states in the backward group, with the exception of Rajasthan[253] have a poverty ratio more than 25 percent. It is clear that the battle of poverty in India has to be fought in the northern and eastern states.

An interesting aspect of the economic growth in the 1990s is its regional dichotomy. The better performing states are in the western and the southern parts of the country and they are geographically contiguous. On the other hand, the non-performing or the poorly performing states are in the northern and eastern regions of the country; they too are geographically contiguous. While all the states in the first group are coastal states, all but two, that are, West Bengal and Orissa in the second group have no coastlines. This geographical dichotomy is not restricted to economic performance.

[250] Bajpai, Nirupam and Jeffrey D Sachs (2000): 'Reform in the States-II', *The Hindu*, 25 January 2000.

[251] Dev, Mahendra S (2004): 'Post-Reform Regional Variations', art. cit., Pg. 25.

[252] Dev, Mahendra S (2004): 'Post-Reform Regional Variations', art. cit., Pg. 26-27.

[253] The poverty ratio of Rajasthan is 15.3 percent, which is a bit of surprise not only for India as a whole but also for the Rajasthan government.

It is abundantly clear from these various points discussed above that in terms of the various dimensions of development, the gap between the backward and the forward states of the country has widened during the last decade[254]. Since the beginning of the 90s private investment has become the principle engine of growth in India. And, private investment has gone to those states that have well developed infrastructure in terms of power, transport, communication, educational and health facilities, law and order and so on leaving behind those states which lack well developed infrastructural facilities.

3. Patterns of Regional Inequalities

The reforms of the 1990s significantly improved the growth rate of the Indian economy but their impact has not been uniform in all the states, that is, a number of states have under performed in the reform period. Southern and western states grew faster in comparison to the northern and eastern states. This has brought about a drastic change in the relative development of the various states in the reform period and has thus sharpened inter-state disparities. On the human development front as well, the north and east seem to lag behind in the post-reform period. The experience of the 1990s has also brought out that reforms at the state level have become crucial to the future well being of the country.

The performance of the northern and eastern states deteriorated economically and more so socially in the last decade or so while the states in the south and west surged ahead in the post-reform period. The southern and western states of Andhra Pradesh, Karnataka, Tamil Nadu, Gujarat, and Maharastra have undertaken wide-ranging reforms for some time now whereas the states of the north and east, that are, Uttar Pradesh, Bihar, and Orissa have initiated reforms in a limited way. However, exceptions are there in each group, for e.g., Punjab and Haryana in the north are well developed whereas Rajasthan in the west is not much developed.

There has been an all round deterioration in the growth rates of the northern and eastern states in the reform period. The southern and western states showed improved performance by a full percentage point from 5 percent per annum in 1980s to 6 percent in the 1990s, and this has been reflected in the better performance in all the three sectors: agriculture, industry and service. The states in the west had a poor

[254] Indeed, in respect of certain other indicators of economic activity like telephone density, vehicle density, equity

show of their agriculture sector in this period.[255] There have been either no growth or only marginal growth in agriculture, manufacturing and service sector in the northern and eastern states.

In the south, Karnataka has the fastest growing economy followed by Tamil Nadu in the post reform period. The growth performance of Andhra Pradesh and Kerala has been at par. These states have adopted reforms in various sectors. Some of these reforms have worked really well and has been able to bring out its benefits in the form of adding on to the NSDP of the state. Though almost all states whether the slow or the fast growing states, are facing a resource crunch to meet their expenditures. Tamil Nadu makes use of it banking and institutional finance on account its fast industrialisation and urbanisation. Though Kerala has a very poor investment climate,[256] it tops the Indian states in its human development indices. However, the agriculture and the manufacturing sector have not made much improvement in these states since the mid-90s.

The average per capita income of the northern and eastern states has fallen far below the southern and western states by the end of 1990s. The major reason for the low income in the northern states is the rapid growth of population; this is the only region where the population growth has not reduced in the last decade. The slow down of the economy has been equally significant in all the three sectors. The only exception is Rajasthan where there has been rapid industrialisation in the last decade. The other states of the north have high dependency on agriculture, but the state governments of these states have reduced their expenditures on this sector. The various financial institutions of our country provide very little assistance to these states.

In social sector development, the performance of the northern and eastern states is dismally low, far below the southern and the western states. There has been a decline in the poverty ratio of Uttar Pradesh but still this lowering is only moderate, and still remains above the national average. The northern and eastern states are basically agrarian contributing to about half of the country's food grains production.

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participation, etc., the gaps have widened even further.

[255] Joseph, Mathew (2004): 'Northern States versus Southern States: A Comparative Analysis', art. cit., Pg. 1-9.

[256] Kerala has a very poor investment climate and it does not make the official financial intermediaries seek any bankable projects. The only amount of investment that Kerala gets is from the NRIs of that states staying abroad and investing in the development of their own land.

Because of the fall in agricultural production, there is a fall in the industrial and service sectors as well.

The most important challenge in front of the northern and eastern states is to revitalise their agriculture sector and to attract more investment for their manufacturing sector. The state governments have to formulate their economic policies, which would support economic growth and facilitate the delivery of public services. Each state has its own industries and areas in which it has a comparative advantage over other states, and they will flourish once the congenial environment is created.

The states that were once in the forefront of the Green and White Revolution are now facing diminishing returns. The reform process has caught on in these in the states in the recent period spurred by the acute financial crisis of most of these states and the prodding of the central government. The governments of these states have to face severe financial crisis. The northern states have vast economic potential. It is the task of the management at the political and the bureaucratic levels to provide better atmosphere for investment.

The slow performance of the northern and eastern states is reflected in a number of areas and has important implications on the ability of the country to climb further up in the development ladder. It is very essential that all the states of India have equal growth; India cannot pull ahead firmly so long as the big states like Uttar Pradesh and Rajasthan continue to lag behind

4. Inter-Sectoral and Intra-state Imbalances

India is now close to its sixty years of independence. These sixty years have been quite remarkable in several ways though, with many upheavals. On one hand we have been successful in building a modern nation with appropriate institutions and a vibrant democratic society. Indians have excelled in all fields the world over. On the other hand, a sizable section of the Indian society remains illiterate, ill fed and ill clad. There are many divisive forces at work undermining the vitals of the nation. The Indian economy is yet to recognise its potential strength.[257]

[257] Kurian, N.J (2002): 'Growing Inter-State Disparities,' art. cit., Pg. 62.

Despite a number of efforts undertaken by the central as well as the state governments, regional disparity continues to remain a serious problem in India. In the post reforms period due to de-regulation, the degree of control of the central government declined in many sectors. State governments can now take more initiatives for economic development than ever before. Also, the role of private sector has become more important as compared to the public sector. In this changed economic scenario, it would be interesting to examine the economic performance at the sectoral level.[258]

The most common indicator of the economic development of a society is the per capita income generated by it. An important structural change in the economy in the process of development is the decline of income generated in the agricultural sector and the increase of income generated in the manufacturing sector. [259]Sectoral growth rates before and after reforms indicate different patterns of growth for the various states.

The primary sector of a state includes agriculture, forestry and logging, fishing, mining, and quarrying.[260] Ten out of the fifteen states that is being considered for study have a share of agriculture higher than the national level. Out of the ten states, four belong to the forward group and rest is from the backward group. The highest share of NSDP from agriculture is in Punjab at over 44 percent, which is followed by Haryana where the share of agriculture is over 38 percent. The share of NSDP from agriculture is least in Maharashtra at 18.3 percent. All the states of India have shares of agriculture far above the level in the developed countries. All the high-income economies have a share of agriculture less than 10 percent. Even most of the middle-income countries have a share of agriculture below 20 percent. Maharashtra and Tamil Nadu are the only two states, which have reduced the share of agriculture in their NSDP to that level. Two of the most prosperous states, Punjab and Haryana, remain largely agrarian.[261]

Except a few states, the share of primary sector has dwindled drastically from about one-half in the early 1980s to one third or one-fourth in 1999-2000. In industrial states, such as Gujarat, Maharashtra and Tamil Nadu, the share of the primary sector

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[258] Dev, Mahendra S (2004): 'Post-Reform Regional variations', art. cit., Pg. 24.

[259] Kurian, N J (2000): 'Widening Regional Disparities in India - Some Indicators', art. cit., Pg. 541.

[260] Kumar, T Ravi (2005): 'Regional Growth and Disparities', art. cit., Pg. 127.

in the SDP has come down by around 15 percent by the end of 1990s. The decline in the contribution of the primary sector in the SDP was partly because of the fast growth of the manufacturing and tertiary sector and partly because of the negative growth of the primary sector. Not only in the industrial states but also in the poor states of Bihar, Orissa, Madhya Pradesh the share of the primary sector has declined.

For the secondary sector (manufacturing, construction, and electricity, gas and water supply), out of the five fastest growing states in the first sub period – Andhra Pradesh, Gujarat, Punjab, Haryana and Rajasthan, only Haryana and Rajasthan maintained to remain in that category in the second sub-period.[262]

The percentage share of manufacturing in NSDP for different states shows that four out of the eight states in the forward group have a share of manufacturing above the national average of 16.7 percent and none of the states in the backward group has a share of manufacturing above the national average. Gujarat with 27.1 percent share of manufacturing in NSDP has the highest level followed by Maharashtra and Tamil Nadu. Indeed, these states have emerged as the major manufacturing states in the country, together accounting for about 45 percent of the NSDP from manufacturing. In the first group Kerala has the lowest manufacturing share at 11.6 percent followed by Punjab at 13.4 percent. Among the group of backward states, Madhya Pradesh has the highest percentage share of manufacturing in the NSDP at 16.5 percent and Orissa has the lowest at 9 percent. The share of manufacturing in West Bengal's NSDP has declined steadily over the years. However, a lower share of manufacturing may not necessarily imply that a state is getting more agrarian. It could mean that the share of non-agricultural activities is going up, including the service sector.[263]

The five states that experienced the highest growth of NSDP were also the states whose tertiary sectors grew the fastest, Karnataka, Haryana and West Bengal in the early 1990s and were replaced by Maharashtra, Rajasthan and Andhra Pradesh in this category by the late 1990s, while Karnataka and Haryana maintained their positions over the entire 20-year period.

[261] Kurian, N J (2000): 'Widening Regional Disparities in India - Some Indicators', art. cit., Pg. 541.
[262] Kumar, T. Ravi (2005): 'Regional Growth and Disparities', art. cit., Pg. 128.
[263] Kurian, N J (2000): 'Widening Regional Disparities in India - Some Indicators', art. cit., Pg. 541-542.

The tertiary sector growth in the reforms period grew from 21.2 percent to 23.1 percent.[264]The growth of the tertiary sector in most states has been much faster than the growth of the manufacturing sector. There has been a boom in the establishment of IT services, BPOs, software services, etc., which contribute substantially to the NSDP of the state. These services have captured the entire market of the country. This service sector has been successful because of the opening up of the Indian economy and due to globalisation being in full swing the world over. The tertiary sector has risen by 6 percentage points in the 1990s. This rise of IT sector can also be attributed to the coming up of a good amount of well-trained professionals in this sector.

The tertiary sector has recorded the fastest growth in most states, both before as well as after reforms. In most states, the share of the tertiary sector now exceeds 40 percent. During the last two decades, the tertiary sector has grown on an average by 8 to 9 percent per annum in many states, notably Gujarat, Haryana, Kerala, Maharashtra, Tamil Nadu and West Bengal. With the exception of Gujarat, the tertiary sector now accounts for almost half of the SDP in all rich states. The tertiary, rather then the secondary sector, has now become the engine of growth in most states.[265]

The pattern of growth has been clearly dissimilar with the regional economies growing at different rates over the pre- and post-reforms period. The various measures of dispersion, indicates that disparity in the growth performance of the states increased over the post-reform period. The variation in the growth rates was more striking for the primary and secondary sector then the tertiary sector.

It has been observed that the share of the manufacturing sector has remained mostly stable or increased in almost all states, except Assam. Secondly, the share of agriculture has declined in all states and the share of the tertiary sector has risen in all states. Thirdly, the share of tertiary sector has overtaken that of the primary sector in most cases, though the time when this happened differs from one state to another. At the same time, there are states like Punjab and Haryana, where the tertiary sector has still not come up. Finally, an important point is that the changes in the primary and

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[264] Kumar, Ravi T (2005):'Regional Growth and Disparities', art. cit., Pg. 127-128.

[265] Bhattacharya, B B and S Sakthivel (2004): 'Regional Growth and Disparity in India: Comparison of Pre- and Post-Reform Decades', art. cit., Pg. 1077.

tertiary sectors are roughly equal in magnitude and opposite in sign for all states, thereby confirming the stable trend in manufacturing sector.[266]

In general, when an economy progresses, the share of the primary sector declines and that of the secondary sector increases. After industry gathers momentum, the secondary sector becomes the dominant sector in the economy. It is only at a later stage when the economy attains a fairly high level of development, typically when it becomes a middle-income country – that the tertiary sector overtakes the secondary sector. This is the general pattern of development seen, especially in East Asia. However, in India, the tertiary sector became the largest sector even before the secondary sector predominated the economy.[267]

Intra-regional disparities are another important aspect of regional disparities in India. It refers to the significant level of disparities that exist within the states. These regional disparities in economic and social development, which exist within some states, are an important cause of regional tensions, which sometimes converts to popular agitations and in extreme cases, to militant activities.

There have been a number of occasions in India when some or the other states have been carved out of old bigger states as a consequence to popular agitations and militantism based on perceived neglect of certain backward regions. The best examples are the creation of Andhra Pradesh and Gujarat in the 1950s and the creation of Punjab, Haryana and Himachal Pradesh in the 1960s.

It is now a conceived notion based on past experience that when one or more states are carved out of a bigger state or combining of some homogeneity (language, culture, common heritage, race) they are bound to grow faster than the pre-partition state. There are a number of states in India, which have identifiable regions within them which are at different stages of development and which have distinct problems to tackle. Therefore creation of a new state may not always be the solution to such disparities. These disparities within the states are state-specific, so no universal

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[266] Dasgupta, Dipankar,Pradip Maiti,, Robin Mukherjee, Subrata Sarkar, and Subhendu Chakrabarti (2000): 'Growth and Inter-State Disparity in India', art. cit., Pg. 24.

[267] Bhattacharya, B B and S Sakthivel (2004): 'Regional Growth and Disparity in India: Comparison of Pre- and Post-Reform Decades', art. cit., Pg. 1076-1077.

solution is there to solve such problem but special efforts are needed to develop these regions.

Maharashtra is a typical example of a state where overall development is quite good in terms of almost all indicators but extreme regional disparities still exist. Andhra Pradesh has three distinct regions, which are at different stages of socio-economic development, Coastal Andhra, Telangana and Rayalaseema. Similarly Uttar Pradesh has at least four 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 close look at the various states having intra-regional disparities show that every state has its own specific reasons for such disparities. The major reason for backwardness of Vidharba in Maharashtra, Rayalaseema and Telangana in Andhra Pradesh is due to water scarcity. 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 these regions who are mostly tribals and the neglect of such regions by the ruling elite.

Topography of a region can well help in its advancement or in its backwardness. The hills of Uttar Pradesh, desert of Rajasthan are such cases. Historical factors like the attitude of the rulers of the past towards development could have significantly effected the development of a region, for e.g., development in Kerala can be attributed to the enlightened attitude of the former rulers of the princely states. The lack of social development in Telangana region of Andhra Pradesh and some other parts of the south is due to the lack of visionary rulers in the past.

The question that comes up here is that why even after almost sixty years of planned development, intra-state disparities still exist in India? The answer varies according to the group, which is answering it. The people of the backward regions of the state blame their backwardness on the neglect of the rulers of the state, their inefficient policies, lack of interest of the bureaucracy towards development, etc., because they mostly belong to the developed regions of the state. The ruling elite blame it to certain factors like topography, climate, past heritage, huge population, etc which are beyond their control. Some states have adopted certain measures to uplift their backward regions. For example, Maharashtra has separate regional plans for its backward regions.

There have been some efforts on the part of the central government in the last two-three decades to uplift the backward regions in the states. The Tribal Development Programme, Drought Prone Programme, Hill Area Development Programme, Western Ghat Development Programme, etc. Though these programmes have benefited the backward areas but at the same time they have been criticised for their inefficiencies in existing and implementing these programmes. These programmes have been criticised for their non-involvement of the locals who have a better knowledge of the causes of their backwardness and ways to tackle them.

It is because of this sheer neglect of backward regions that there have been a number of demands from various corners of the country to get their autonomy so that they are able to chalk out a development policy of their own based on their resources and circumstances in which they have lived in. Those people who have been demanding for separate states have now agreed to settle down with autonomous regions with some administrative and financial powers. But however, the states do not want to give away their patronage.

With the 73rd amendment in action now, it is the responsibility of the Panchayati Raj Institutions to take care of most of the developmental functions. They have also been provided with sufficient financial resources to help in the betterment of the areas under their jurisdictions. If these institutions work as expected, there is a considerable amount of hope that regional disparities can be reduced.

There have been a number of cases where regional disparities have been reduced successfully. First, in 1956 when Kerala was formed under the State Reorganisation Act, a huge social disparity existed between Malabar and Travancore-Cochin region. However, after fifty years, Malabar has been able to catch up with Travancore-Cochin region as the social indicators of Malabar have improved. The drought prone areas of Haryana have been developed through proper irrigation channels. Now even the remotest villages of Himachal Pradesh have access to education, health care, etc.

Tamil Nadu has huge differences in the resource endowments of different regions within the state. However, it has been successful in reducing regional disparities within the state in economic and social development. This was possible due to certain public and private initiatives. There are a large number of states where a number of non-governmental organisations are working together to attain high levels of socio-economic development.

5. Regional Disparities within Orissa and Andhra Pradesh:

An important aspect of regional disparities in India is the significant level of intra-regional disparities, which exist within different states. An important cause of regional tensions that 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 1950's, Punjab, Haryana and Himachal Pradesh in the 1960's. The latest examples are the creation of Jharkhand, Uttaranchal and Chattishgarh.[268] There are still various demands for the creation of new states like the demand for Kosala Rajya in western Orissa, Telangana in Andhra Pradesh, Vidharba in Maharashtra, etc. Different states are in different stages of development; each region has its own distinct set of problems of development, and needs to be tackled in a different way. Creation of a new state may not always prove to be a solution to the problem of regional disparities. Andhra Pradesh has three distinct regions, which are at different stages of socio-economic development, they are, coastal Andhra, Telangana and Rayalaseema. Similarly Orissa can be divided into three distinct regions on the basis of the various development indicators, they are, coastal, northern and southern Orissa. 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 Rayalaseema and Telangana in Andhra Pradesh is the scarcity of water due to lower precipitation and lack of other perennial sources of water. On the other hand, the reason of backwardness in certain regions of 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 the region. Historical factors like the attitude of rulers of the former princely states towards development could have significantly affected the development of a region. On the other hand, the poor social development of Telangana region of Andhra Pradesh and certain parts of Deccan could be traced back to the absence of visionary rulers in the respective princely states.[269]

Even after more than fifty years of planned development, intra-state regional disparities have still remained unattended. The representatives of the backward region often attribute the cause of their backwardness as neglect on the part of the rulers of the state, who often come from the well-heeled regions. The ruling class cites factors, which are beyond their control. There are specific institutional arrangements for development of backward regions in some of the states. 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 decades for taking care of specific aspects of backwardness of such regions, Tribal Development Programme, Hill Area Development Programme etc. Though such programmes may have been beneficial but at the same time they are criticised for their cost-ineffectiveness. [270]

5.1 Orissa:

Orissa is one of the major states of the Indian Union, with a population of 36.71 million in 2001. It was created on 1st April 1936 by combining few princely states of Bihar, West Bengal and Andhra Pradesh. The population is predominantly Hindu (94.67 percent). It has a population density of 236 persons per sq. km in 2001. The rate of growth of population in Orissa during the decade 1991-2001 was 15.64 percent as against 21.34 percent.[271] However there is significant variation within the state in this regard, with the district of Khurda having a population density of 666 persons per sq. km at one end, and Kandhamal district with a population of only 81 persons per sq. km at the other end, this reflects massive spatial concentration of the population. Orissa can be divided into three distinct regions on the basis of the various development indicators, they are, coastal, northern and southern Orissa. Coastal Orissa accounts for some 52 percent of the population of the state with an area share of 25 percent.[272] The rate of urbanisation in Orissa at 14.91 percent is the lowest among the major states of India and is rising very slowly. Among the fifteen major

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[268] Kurian, N J (2000): 'Widening Regional Disparities in India - Some Indicators', art. cit., Pg. 547-548.

[269] Kurian, N J (2000): 'Widening Regional Disparities in India - Some Indicators', art. cit., Pg. 547-548.

[270] Kurian, N J (2000):'Widening Regional Disparities in India - Some Indicators', art. cit., Pg. 548.

[271] GoO (2004): 'Human Development Report', Bhubaneswar: Government of Orissa, Pg. 5.

[272] GoO (2004): 'Human Development Report', op. cit., Pg. 4-5.

states of India, the human development index for Orissa was the fifth lowest in 1981, fourth lowest in 1991 and again the fifth lowest in 2001, even though the absolute value of the index has risen between 1981 and 2001 by 51.3 percent.[273]

Orissa is traditionally one of the India's poorest states. It is also the slowest growing state in the 1980s, at a miniscule of 1 percent per annum. Its poor growth is partly attributed to its lower agricultural growth, though it is unclear why agricultural production has fared so poorly in this state. One explanation could be Orissa's vulnerability to floods, resulting in massive devastation almost every year as a result of tropical cyclones.[274] Secondly, the quality of soil in Orissa, in general, has low moisture retention capacity except in the coastal districts, which contain highly fertile alluvial soil and the soil of the river valleys. However this coastal belt comprises of only 25 percent of the entire land area. This is a natural weakness of the state's economy and hinders in its overall development of the economy as well as the people, as agriculture is the mainstay of the people.[275]

Orissa's mineral deposits are large, and as a percent of All India resource stock, there is fairly heavy concentration of bauxite, iron ore, coal, graphite, manganese, though they may not be of high-grade variety. However, this has not provided a sufficient condition for the establishment of metallurgical and non-metallic mineral based industries on a large scale.[276] Orissa is also notable for having the most productive mines and quarries in the country adding further to the mystery of poor performance of the economy. Its pre-reform failure was primarily due to ineffective or non-existence of industrial policy to exploit its mineral wealth of 0.5 percent.[277]

The state has rich irrigation potential but that has been under exploited. The rich natural resources of Orissa have been degraded over time. This degradation can be attributed to the rapid growth of population, unsustainable activities and institutional failures. The key infrastructures of Orissa when compared to such infrastructures of the various other states of the country show a backward status.

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[273] GoO (2004) 'Human Development Report', op. cit., Pg. 5.

[274] Sachs, Jeffrey D, Nirupam Bajpai and Ananthi Ramiah (2001): 'Understanding Regional Economic Growth in India', 2001, art. cit., Pg. 21.

[275] Planning Commission (2001): *The Orissa Development Report 2001*, Planning Commission of India, Pg. i.

[276] GoO (2004):'Human Development Report', op. cit., Pg. 5; Planning Commission (2001): *The Orissa Development Report 2001*, op. cit., Pg. i-ii.

[277] Sachs, Jeffrey D, Nirupam Bajpai and Ananthi Ramiah (2001): 'Understanding Regional Economic Growth in India', art. cit., Pg. 21.

Orissa is the poorest state, in terms of proportion of people living below the poverty line. The poverty ratio of Orissa had been declining till the mid-1990s but in the late 1990s this ratio has became almost stationary. In fact the poverty ratio of the southern and northern parts has increased in the last decade. The rate of rural poverty in Orissa was 48.03 percent in 1999-2000.[278] There are significant regional differences in the incidence of poverty within Orissa. The rural poverty ratio in the southern region is more than two and a half times that of the coastal region. These regional differences in the incidence of poverty capture differences in the degree of economic deprivation of different ethnic groups and their spatial concentration. Thus the incidence of poverty among the Scheduled Caste and Scheduled Tribe population in the southern and northern regions is very high - it is in these regions that 88.56 percent of the states ST population and 23 percent of the states SC population reside.[279] There has been a steady decline in the poverty level only in the coastal region.

It has a much slower improvement in human development indicators compared to other parts of India, and there are perennial reports of starvation deaths in southern and western districts of the state. Orissa is not only poor, but also an unequal state with large intra-state disparities. Various forms of regional disparities overlap and mutually reinforce each other, with the tribal upland vs. coastal-elite forming the extreme ends of a range of disparities, possibly creating poverty traps or 'log-jams of disadvantage'.[280]

The relative per capita income of Orissa has declined vis-à-vis all other low-income states during the second half of the 1990s. When compared to the All India average, Orissa's per capita income was half of it. The per capita income of Orissa is one-third of that of Punjab. The long-term growth of the agriculture has been low at 2.38 percent, lower than that of the secondary and the tertiary sectors. Only the tertiary sector has shown considerable growth, at more than 3 percent through successive decades. The growth in agriculture slowed down by 2 percent. Within the primary sector only mining has improved.

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[278] GoO (2004): 'Human Development Report', op. cit., Pg. 20-22.

[279] GoO (2004): 'Human Development Report', op. cit., Pg. 5.

[280] Haan, Arjan de (2004): 'Disparities Within India's Poorest Regions; Why do the Same Institutions Work Differently in Different Places', *Equity and Development, World Bank Report 2006*, December 9, Pg. 1.

The 'over determination' of disparities in the state has long historical and deep institutional roots. The conquest of Orissa by the Afghan and the Mughal invaders in the 16th century slowed down the economic progress of the state. During their rule, foreign trade was restricted due to the Portuguese dominance of the sea. Agricultural development slowed down, not due to the oppressive revenue system, but due to the rapacity and extortion by local officers posted in Orissa towards the end of the empire. During the later part of the Mughal rule and the Maratha rule, local officials became so oppressive that farmers left their lands and fled to the adjoining territories of feudal chiefs. Under the British rule from 1803 till the great Orissa famine of 1866, no attention was paid to the plight of agriculturalists, with more focus being paid on revenue collection than on farmers' welfare.[281]

The temporary Zamindari Settlement System, which was in operation throughout the 19th century, proved to be detrimental to the development of agriculture. The Zamindars temporarily put their lands out of cultivation in order to avoid assessment, and the ryots[282] had no incentive due to lack of security of tenure. The land revenue policy and the sunset law led to large-scale replacement of Oriya Zamindars by Bengali Zamindars who were absentee landlords. Their agents in Orissa resorted to many illegal exactions. Heavy assessment of land tax was one of the main causes for the increase in poverty and deterioration of agriculture. During this period, due to lack of support, village industries and rural handicrafts decayed, and people of the artisan class resorted to agriculture for a living, leading to a further pressure on land.

This gradual decline could have been somewhat reversed after India gained independence, through comprehensive state intervention in agriculture, which involved land reforms, extension of irrigation facilities, introduction of high yielding variety of seeds, and encouraging the use of fertilisers through subsidies. In spite of the negative development in agriculture in the 19th century, food security of the people had never been affected, except in the years of widespread famines and scarcity.[283]

281 GoO (2004):'Human Development Report', op. cit., Pg. 8.

282 Ryots were cultivators who lost their traditional proprietary rights and were reduced to the status of tenants and tenants-at-will.

283 GoO (2004): 'Human Development Report', op. cit., Pg. 8.

The late and in a sense still on-going colonisation from the coast into Orissa's hinterland, combined with the relatively recent formation of Orissa' elite form the background against which recent developments need to be understood.

As discussed by Haan, "The disparities are closely linked to at least three sectoral or institutional developments: first, forest policies that have traditionally prioritised state revenue have been unable to break through vested interests that disadvantage poor people particularly women; second, land policies which have undergone dramatic transformation on paper but lacked the teeth to provide secure access for poor people; and finally development-induced displacement with a very patchy record of resettlement and rehabilitation".[284]

Added to this, it is found that the level of disparities in the development status of infrastructure among the present 30 districts of Orissa is fairly high. Also its access across space and people is highly unequal. It does not ensure service utility for the poor and the downtrodden. Therefore it has failed to generate the intended development effects among the poorer and vulnerable sections of population.[285] One possible explanation may be the very high proportion of tribal population in Orissa. These tribal populations tend to have distinctively lower social indicators in health and education, and to suffer social and political exclusion.

These disparities do not exist because of a lack of a effort to address them; on the contrary, both the regional and group identities have featured significantly on the policy agenda, a large number of programmes have been in existence for long, and significant sums of money allocated for this purpose. The lack of performance is related to a lack of accountability within the administrative system, and that the very disparities that the policies try to address permeate the system of delivery responsible for these.[286]

In Orissa, the villages remain poor, though with many examples of basic development in education, food security and otherwise, assisted by large numbers of extremely committed people inside as well as outside government. This is after all the area that is regularly in the news because of starvation deaths.

[284] Haan, Arjan de (2004): 'Disparities Within India's Poorest Regions: Why do the Same Institutions Work Differently in Different Places, art. cit., Pg. 1-2.

[285] Planning Commission (2001): *The Orissa Development Report 2001*, op. cit., Pg. xiv-xv.

The state level income poverty data reveal that in 1999-2000 Orissa has become the poorest state of India, surpassing Bihar that had been the poorest in 1993-94. For Orissa, the trend of falling behind the Indian average has a longer history. The income poverty data allows for regional disaggregation, which gives us a rather different picture of poverty in the state. While rural poverty in coastal Orissa was 32 percent, it was 50 percent in northern Orissa, and a staggering 87 percent in southern Orissa. The urban poverty ratio shows a mixed picture, with relatively high urban poverty in coastal areas, in comparison to the rural areas, and without significant differences across the three regions. The reason for this is however very unclear and needs further enquiry. Orissa's poverty trends seem to be closely associated with the lack of economic growth in the state. Orissa's economic growth has varied across its districts as well as its sectors. For example, agricultural growth has been higher in the coastal areas;[287] this can be attributed to the rich alluvial soil coming along with the big rivers of Orissa, which are very fertile for cultivation.

The high poverty levels in non-coastal areas of Orissa are intertwined with the fate of the forest economy. Many poor households traditionally have depended on the forest economy, but over the last decades, they have suffered from deforestation. The durable inequality that affects tribals in particular, the interplay between the largely coastal, state officials and representatives and their administrative history in relation to the cultural and administrative history of the tribal societies[288] they encounter. The status of health and education sector in the state is in a pity condition. The financial sector services in the state are found to be fairly underdeveloped and this is one of the major reasons for the large-scale sickness of the social sector indices in the state.

Over the last few decades there have been major changes in land ownership issues. Not less than 50 percent of the tribal land has been lost to non-tribals, through indebtedness mortgage and forcible possessions. The quality of life of the tribal people has to be revitalised through distribution of resources, emphasizing more on

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286 Haan, Arjan de (2004): 'Disparities Within India's Poorest Regions; Why do the Same Institutions Work Differently in Different Places?', art. cit., Pg. 1-2.

287 Haan, Arjan de and Amaresh Dubey (2005): 'Poverty, Disparities, or the Development of Underdevelopment in Orissa', *Economic and Political Weekly*, May 28-June 4, Pg. 2321-2329; Haan, Arjan de (2004): 'Disparities Within India's Poorest Regions; Why do the Same Institutions Work Differently in Different Places?', art. cit., Pg.7.

288 The term 'Scheduled Tribe' though has been given by the constitution of India, as a ethnic group, they have evolved historically and have become part of the larger society. However, these ethnic groups are identified with various stereotype nomenclatures, like secluded territory, language, ascribed territory, endogamy and many other cultural, linguistic and religious features.

primary sectors, where the societal pay-off is largest in the long run.[289] According to the 1991 census, 49 percent of Orissa's population was literate, and this increased to 64 percent in 2001. But even in 2001, literacy levels in the southern districts remained around 30-35 percent, and female literacy was below 25 percent whereas in Cuttack and Puri, it rose to 80 percent. Adult literacy in 2001 was 69 percent in Puri and it was 23 percent in Koraput. This presents a picture of not only a poor state but also a very unequal state.

Orissa, like the rest of India, has a wide array of government policies directed at enhancing well-being of the entire population, including policies- for primary education, marginalised groups and regions. Orissa's spending on social sectors is not low. Evaluations in Orissa indicate that the lack of implementation capacity in Orissa, even where substantial infrastructure is made, and the need for strengthening local structures, highlights - for successful utilization of available funding.

The governments at the centre and the state have to work together towards the development of Orissa. Since almost more than 70 percent of the population of Orissa is dependent on agriculture for their livelihood, therefore the growth strategy in Orissa should be agriculture based. Various anti-poverty measures[290] have been undertaken by the government, but strict measures are needed to implement them at the local level. Though a number of steps had been taken through the five year plans to invest in the backward areas, which reached Orissa in the form of heavy industries but still the industrial sector has not been able to maintain the pace of development.

With the ushering of the economic reforms, private investment has become the most important source of development. It is therefore essential for the government of Orissa to develop its infrastructure, growth rate, social sector, etc., so that it is able to attract foreign investors to the state, in spite of the competition among all the major states of India to do so. The only reason for the foreign investment in Orissa now is the comparative political stability in the state. The development in Orissa has to be state specific, keeping in mind the diverse population, culture, ecology, topography, etc.

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[289] Panigrahi, Nilakantha (2005):'Tribal Development Policies: A Critical Review with Special Reference to Orissa', in R.M.Mallik and S.P.Padhi ed., *Development, Deprivation and Welfare Policy*, Jaipur: Rawat Publications, Pg. 384-387.

[290] Antodaya Anna Yojana (AAY), Jawahar Rozgar Yogana (JRY), etc.

5.2 Andhra Pradesh:

Andhra Pradesh was formed on 1st November 1956, by merging the nine Telangana districts with the erstwhile Andhra state, under the 1956 States Reorganisation Act. With the break up of the native state of Hyderabad, the nine districts of Telangana, along with the capital city of Hyderabad, were merged with the Andhra state that had been formed in October 1953.[291] The Andhra area comprises of three sub-regions namely, north coastal Andhra or Telangana, south coastal Andhra and Rayalaseema. Among these three sub-regions, south coastal Andhra was comparatively more developed. The two districts of north coastal Andhra were most backward and exploited, with 90 percent of the area under the possession of the Zamindars.

In the opinion of Rao, "During the 1850's Vijaywada anicut on River Krishna, Dowleswaram anicut on River Godavari, Sangam and Nellore anicuts on River Penna were constructed. The construction of these irrigation schemes, have brought about a sea change in the economy of the coastal Andhra. By 1891 about 29 percent of the net sown area and by 1900 about 43.1 percent and by 1915 about 47.1 percent of the net sown area in Coastal Andhra was irrigated. During the second half of 19th century, Cuddapah-Kurnool canal was constructed on River Tungabhadra It was estimated that between 1895-99 and 1919-24, the total irrigated area under the Krishna and Godavari deltas had increased by 36 percent. With the increase in irrigation the cropping pattern changed during the late 19th and early 20th centuries. Paddy crop dominated the crop structure of coastal Andhra. It occupied around 50 percent of the total cropped area in Srikakulam, Godavari, and Krishna delta. Thus there was specialization of rice crop in coastal Andhra. From 22.5 lakh acres in 1891-92, the area under cultivation increased to 33.9 lakh acres by 1910-11 in coastal Andhra. From a subsistence crop, rice has gradually become a commercial crop. Large surpluses were produced and 30 to 40 percent of the total production of paddy under the Krishna and Godavari deltas was marketed".[292]

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291 Subrahmanyam, S (2002): 'Regional Disparities in Andhra Pradesh at Millennium', in ed Y.V.Krishna Rao and S.Subrahmanyam, *Development of Andhra Pradesh: 1956-2001, A Study of Regional Disparities*, Hyderabad: Pragati offset private ltd, Pg. 4.

292 Rao, Y V Krishna (2002): ' Development Experience of India and Andhra Pradesh in The Context of Global Trends', in Y.V.Krishna Rao and S.Subrahmanyam ed., *Development of Andhra Pradesh: 1956-2001, A Study of Regional Disparities*, Hyderabad: Pragati Offset Private Ltd, Pg. 24.

The economy of the state is basically agrarian. Net sown area accounts for 40 percent of the geographical area. Rayalaseema districts were not as backward as northern coastal Andhra, but were not as developed as south coastal Andhra districts. Because of the low rainfall, these districts were very often subjected to droughts and famines. The percentage of irrigated area is low. The Telangana area at the time of formation of Andhra Pradesh was most backward, oppressed and exploited, with medieval feudal set up and with autocratic and hated rule of Nisam. Telangana area can be divided into two sub-regions, north Telangana and south Telangana. Rainfall is higher in north Telangana compared to south Telangana.

South coastal Andhra covers 34 percent of the total land area of the state while the other two regions, Rayalaseema and Telangana, cover 24 and 42 percent of the area respectively. These three regions differ considerably in terms of socio-economic and demographic indicators with Telangana lagging behind the other two regions. The northern part of the state is mountainous and receives an annual rainfall of 45 to 50cm mostly in the southwest monsoon. Rainfall shows a declining tendency as one move from northeast to southwest.

With the spread of paddy cultivation in the coastal districts, cotton and groundnuts cultivation in Rayalaseema and dry parts of coastal districts a number of agro-processing industries like rice and oil mills, cotton ginning and pressing mills have come up. Such mills were started in urban centres. By the end of 19th and early 20th century a number of urban centres have grown along the railway lines and canals. Due to failure and neglect of the rulers, the state was lagging behind some states of our country in development. In some important indicators the state is lagging behind even in the All India averages.

Industries were established in Sirpur-Kagaznagar, Ramagundam, Warangal, Singareni collieries in Khammam district. In Hyderabad, Lalaguda railway workshop and some other industries were established. In Bodhan, two of Nizam sugar factories were established. Under the Nizamnagar project, irrigation was developed to some extent. Between the two regions of Telangana, north Telangana is more developed compared to south Telangana.

Andhra Pradesh experienced significant decline in population growth from 2.20 percent per annum in the 1980s to 1.30 percent in the 1990s. Though all the regions experienced decline in the growth rate, the two Telangana regions growth rate are relatively higher than in the two regions in coastal Andhra. Sex ratio (ratio of females to males) increased in the 1990s for the first time and all the regions except south coastal Andhra experienced this increase. In contrast to this, sex ratio among children in the 0-6 groups declined in all the regions. North coastal Andhra, north Telangana and south Telangana experienced steep fall in juvenile sex ratio. This can't be attributed to mortality ratio, as child mortality is lower among girls than among boys. Demographic changes are found to be faster than changes in socio-economic variables. The demographic transition that took place in the nineties will shift the state's population from young to adults.[293]

Regional variations exist in human development index and also in sectors like education and health. While inequality is narrowing down in literacy and primary education, it is not so in infant mortality.[294] South coastal Andhra occupies the top position as far as the literacy level is concerned and north coastal and north Telangana occupies the bottom position in literacy.[295] Technical education has undergone severe changes in the state. With a boom in the service sector, students are no more interested in the traditional courses which were giving them an opportunity in the public sector but take up information technology, computer sciences and management courses to get themselves well placed in the IT and software sectors.

Though the state has got plenty of mineral and water resources, Krishna Godavari-Penna river systems, they have not been used properly. The rulers have exhibited utter carelessness in implementing Gentlemen's Agreement arrived in 1956 at the time of the formation of the state and also the six point formula of the central government. They have utterly failed to promote the emotional integration of the people of different regions of the state[296]. Because of these failures on the part of the rulers and also because of the faulty planning models pursued, balanced development of the state has become a casualty and regional imbalances are persisting. These imbalances have become roadblocks for the emotional integration of the people of all the regions of the state.

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[293] Subrahmanyam, S (2002): 'Regional Disparities in Andhra Pradesh at Millennium', art. cit., Pg. 4-5.
[294] Dev, Mahendra S (2004): 'Post-Reform Regional variations', art. cit., Pg. 25.
[295] Subrahmanyam, S (2002): 'Regional Disparities in Andhra Pradesh at Millennium', art. cit., Pg. 10.
[296] Subrahmanyam, S (2002): 'Regional Disparities in Andhra Pradesh at Millennium', art. cit., Pg. 4.

At the time of formation, there were wide regional disparities in development, Telangana occupying the lowest position. On the eve of its formation an agreement known as the Gentlemen's Agreement was signed under which Telangana Regional Committee was constituted to assist the development of Telangana area. While failure in the strict implementation of the Gentlemen's Agreement led to the separatist movement in Telangana in 1969, some emotional problems and Mulki rules led to Jai Andhra Separatist Movement in 1972. As a consequence, a six-point formula was announced in 1973 by the Union government after consultations with all concerned. As the state completed four and half decades after its formation, there is need to assess the trends in regional disparities in different sectors in the state. The state is divided into five regions, north coastal Andhra, south coastal Andhra, north Telangana, south Telangana and Rayalaseema.

Regional disparities in per hectare output declined significantly during the last 45 years. The gap between the most developed and least developed regions came down from 150 to 89 percentage points. Presently, south Telangana and Rayalaseema occupy bottom position in productivity of land. But ranking on per capita output shows that south Telangana and north coastal Andhra occupy the bottom position. Irrigation development is unsustainable as ground water exploitation is crossing the limits of optimum in areas of low rainfall and surface irrigation. In the low rainfall areas of south Telangana and Rayalaseema, irrigation by ground water accounts for more than 70 percent of the total irrigated area. On the other hand, the high rainfall area of north coastal Andhra lags behind in ground water exploitation. North coastal Andhra and Rayalaseema have low consumption of fertiliser, the former due to poor quality of irrigation and the latter due to low extent of irrigation, Regional concentration of commercial crops has been increasing. Regional variations in yields are very high. North Coastal Andhra has very low yield of rice, Rayalaseema has very low yield of groundnut and north Telangana has very low yield of cotton. However, south Telangana has poor performance in all the crops.[297]

Agriculture in drought prone areas is becoming unsustainable. There is a significant decline in net sown area and increase in fallow land, though cultivable waste is declining. Land degradation is another serious problem in the state for

[297] Subrahmanyam, S (2002): 'Regional Disparities in Andhra Pradesh at Millennium', art. cit., Pg. 6.

accounting for 19 percent of the cultivable area.[298] There is no relationship between the extent of degraded land and level of development. Some of the backward and poverty ridden districts like Medak and Adilabad are showing lower levels of degradation than developed districts like East Godavari. All the indicators of agricultural development such as irrigation, fertiliser use, credit availability and per hectare output are positively associated with the extent of degradation indicating that development does not ensure sustainability. Watershed development, though planned properly with a bias towards drought prone areas, suffers from wide gap between planning and implementation.

Andhra Pradesh does not conform to the sector theory of development, according to which industry will replace agriculture in the first stage and service sector will replace industry in the second stage. The share of manufacturing in state domestic product has not increased much despite significant decline in the share of agriculture. The growth of manufacturing decelerated in the 90s compared to 80s mainly due to the poor performance of registered manufacturing. The share of manufacturing in workers is the lowest in Rayalaseema followed by south coastal Andhra. These two regions experienced decline in manufacturing activity in the eighties. Even north coastal Andhra exhibited poor performance in industrial activity during the eighties. In the nineties, only south Telangana showed significant growth. North Telangana, north coastal Andhra and south coastal Andhra showed poor performance in manufacturing in nineties. North Telangana exhibits the distinct feature of high share of rural areas as well as women in manufacturing activity. *Bidi*-making is the most prominent activity in this region, in which women and child labour are high. In registered manufacturing, south coastal Andhra experienced decline and north coastal Andhra experienced low growth in workers between 1980s and 1990s. Value added per worker is the lowest at Rs. 0.24 lakh in north Telangana, followed by south coastal Andhra at Rs 0.74 lakh. North coastal Andhra specialises in mineral and metal products, south coastal Andhra and north Telangana in food and beverages and Rayalaseema in machinery and equipment. South Telangana has more diversified pattern of industrial development with a higher share of food and beverages.[299]

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[298] Subrahmanyam, S (2002): 'Regional Disparities in Andhra Pradesh at Millennium', art. cit., Pg. 7.
[299] Subrahmanyam, S (2002): 'Regional Disparities in Andhra Pradesh at Millennium', art. cit., Pg. 7-8.

The estimate of rural poverty is too low for Andhra Pradesh.[300] North Telangana has made significant dent in poverty reduction in the 80s and 90s. It has almost reached the level of the most developed south coastal Andhra. This is due to the high growth of agriculture and rise in the real wages in the region. The fiscal situation of the state is also not healthy. This is due to the reluctance of the state government to mobilise the non-tax revenue. Recently the government has turned to external borrowing even to meet its expenditure. As the government is unable to raise adequate resources, it is cutting down the subsidies, which is adversely affecting the poor section of the society. In spite of the reform processes introduced in the state fiscal situation has still not improved.[301]

Intra-regional variations in development are much higher in some regions than in others due to differences in the strength of spread and back wash effects. These differences can be related to the economic structure of these regions. South coastal Andhra and north Telangana are agriculture based, north coastal Andhra and Rayalaseema are mineral-based and south Telangana is industrial-based. The industry based regions show very high intra-regional disparities in development. The most developed as well as the most backward districts of the state fall in this region and they are geographically contiguous. The spread effects of growth are less powerful then the backwash effects of this region. On the other hand, the range of variation in the development index is not so high in the two agriculture-based regions. South coastal Andhra, having attained agricultural development long back, could achieve social indicators as well. On the other hand, north Telangana, which was the most backward region at the time of the formation of the state, picked up agricultural growth only during the subsequent period; hence, its performance in the social indicators is still poor. Spread effects are stringer than backwash effects in these two agricultural-based regions. Of the two mineral based regions, north coastal Andhra is densely populated and its level of development is lower than in the other region. However, development is more evenly spread in these two regions than in the industry-based region.

Regional disparities in population growth rate increased during the 1990s, while they had remained constant in the earlier decades. Though the decline was

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300 This is due to the low official poverty line fixed by the state.

301 Subrahmanyam, S (2002): 'Regional Disparities in Andhra Pradesh at Millennium', art. cit., Pg. 8.

noticed in all the regions, but it was significant in the two coastal Andhra regions. There was no decline in mortality in the 1990s. Agriculture sector at the state level experienced deceleration in growth in the 1990s. North coastal Andhra and Rayalaseema experienced negative growth in agriculture in the 1990s compared with the state average. This was due to the low response to irrigation. There was a significant decline in the irrigation ratio in the 1990s.

The growth rate of registered manufacturing decelerated in the 1990s to 5.9 percent. Industrial activity was getting concentrated in south Telangana region. The disparities in education have narrowed in the reform period. South Telangana, which occupied the lowest position in literacy in the 1991, achieved highest improvement in the 1990s. North coastal Andhra, which was in the middle position in 1991, showed lowest improvement in the 1990s.[302]

Though there is no change in the ranking of the regions between 1981 and 2001, the ranking of the districts changed significantly. Except Hyderabad, which occupied the top position in both the periods, the ranks of all the other districts changed.

The historical advantage that coastal regions had enjoyed in terms of government investment in canal irrigation, Green Revolution, benefited crops grown under irrigated conditions. The industrial growth was also concentrated in these regions and around the capital city. The government in the 1980s concentrated more on welfare policies. The 90s witnessed liberalisation of economic policies in the country. By the end of 90s, Andhra Pradesh was recognised as a state to be in the fore front of many reforms in India given by several fiscal, governance and sectoral reform initiatives that are underway to accelerate economic development and reduced poverty. These and other reforms have been articulated in a broad vision of economic, political and social development, known as 'Andhra Pradesh- Vision 2020', which says that by 2020 every individual of Andhra Pradesh will be able to lead a comfortable life, filled with opportunities to learn and develop skills.[303]

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[302] Subrahmanyam, S (2002): 'Regional Disparities in Andhra Pradesh at Millennium', art. cit., Pg. 12-13.

[303] Dev, S Mahendra and C Ravi (2003): 'Macro Economic Scene: Performance and Policies', *Economic and Political Weekly*, 22-29 March, Pg. 1143.

6. Summing Up

It is a perceived notion that there exist inherent tendencies for increasing regional disparities in the early stages of the economic development of a nation. A new controversy in this respect is, whether growth rates and standards of living in different regions would eventually converge or not. A number of previous studies on convergence of income across Indian states covering different time periods have examined whether per capita income levels have been converging or diverging in India. Most of these studies reveal that there is a clear sign of growth diverging instead of converging.

There has been acceleration in the growth performance of the Indian economy in the recent period. However, this rapid growth of the economy at a rate of 8 percent per annum has not been able to distribute the benefits of the growth uniformly across the Indian states. The 15 states taken up for the detailed study have been grouped into two- a forward group and a backward group. The forward group of states had been developed before reforms and are growing rapidly even now but the backward group was lagging and is unable to match the development of the forward states in this period of liberalisation. There is tentative demarcation of development within the northern and eastern states in the backward group and western and southern states in the forward group. Though there are some exceptions in the grouping.

The growth of any economy depends to a great extent on the development of all its sectors. After independence lot of attention was paid towards the development of the industrial sector, not realising that India is a agrarian society where about 70 percent of the population depend on agriculture for their existence. Though the Green Revolution helped in increasing the growth rate of agriculture in the 1960s but this was limited only to a handful of wheat growing states. The states that cultivated rice did not get any benefit of the Green Revolution.

In this period of liberalisation as well, the agriculture sector seems to have been neglected totally. The states now depend too much on the tertiary sector. Any growth that has taken place in the various states is due to the upcoming of the IT and the software services. This opportunity of reaping the benefits from the foreign investors to a large extent depends on the infrastructure, political stability, governance, location, and topography etc. therefore here also, it was the forward group, which was ahead of the backward group.

Intra state disparities are another important aspect of regional disparities in India. It refers to the significant level of disparities that exist within the states. For e.g, Vidharba region within Maharastra, Telangana within Andhra Pradesh, Koshala Rajya within Orissa, etc, are the most underdeveloped regions within the respective states. These regional disparities in economic and social development, which exist within some states, are an important cause of regional tensions, which sometimes converts to popular agitations and in extreme cases, to militant activities. There are varied reasons for their underdevelopment, which vary according to the group of people asked.

In the end the chapter studies the intra-regional disparities within Orissa and Andhra Pradesh. Orissa as a whole can be divided into three distinct regions on the basis of the various development indicators, they are, coastal, northern and southern Orissa. The coastal Orissa is the developed part of the state in all indicators of development due to various factors, past heritage, fertile soil, huge coastline, skilled labour, etc. There is now the coming up of the tertiary sector in this region of the state due to better infrastructure facilities and good record in the social sector whereas the northern and southern regions are those parts, which lag behind since time immemorial and still backward. This is due to the agrarian way of living of the people who are mostly tribals and who are unaware of the developments across the state.

Andhra Pradesh can be divided in the same manner into three regions, coastal Andhra, Telangana, and Rayalaseema. Among the three regions, coastal Andhra is the most developed whereas Telangana is the worst developed. From the early times, there has been the concentration of agriculture and manufacturing sector in the coastal Andhra region due to cultivable land, abundant rainfall, etc compared to the Telangana and Rayalaseema region which is in the rain shadow area. However, recently, there is the coming up of the tertiary sector in the backward region, which might take some time to develop the region.

These disparities within the states are state-specific, so no universal solution is there to solve such problem but special efforts are needed to develop these regions. It is therefore essential for the states to make use of their autonomy and work for the overall development of the state.

Conclusion

India, as a sovereign republic, is going to be 59 years old. The first 59 years of the Indian state have been quite remarkable in several ways, with many upheavals. On the one hand we have succeeded in building a modern nation with a large number of suitable institutions and a vibrant democracy and society. Indians have established their excellence in almost all walks of life. Our education system has produced world-class professionals who occupy top positions even in developed countries. On the other hand, a vast section of Indian population still remains illiterate, ill fed and ill clad. There are a large number of divisive forces at work, which undermine the vitals of the nation to a great extent. The Indian economy has been often characterised as a sleeping giant, which, has yet to recognise its potential strength.

Montek S Ahluwalia has discussed about the various reasons why one should go on to study the performance of the individual states in the post reforms period. Firstly, balanced regional growth had been a major focus of plans in India and so it is essential to find out whether economic reforms also give emphasis to development of states. Secondly, India's federal democracy is now being characterised by regionalisation of politics, state politics is now revolving round state issues and not national issues. Hence, economic performance of the states, would affect the electoral results of the states as states now have more autonomy to frame their own policies for development. Thirdly, in the post reform period some states have grown faster than the other states, therefore it is essential to look into the reasons for their development so that they can be applied in the underdeveloped states.[304]

As discussed by Amit Bhaduri, India is a vast and poor country, and is highly diversed in terms of language, culture, religion, etc. In spite of this diversity, we have been successful to consolidate them in our democratic system. This is no doubt a remarkable achievement when many democracies of our time have failed. Keeping aside this success, there are a number of failures as well. One of the most important failure is our inability to check poverty and destitution. There has been a doubling of growth in per capita income that has almost doubled, in the last two decades.

[304] Ahluwalia, Montek S (2002): 'State Level Performance under Economic Reforms in India', art. cit. Pg. 91.

However, this doubling of the growth rate in per capita income has not made a corresponding dent on mass poverty. The high growth of the economy does not help in the upliftment of the poor. So here it is essential for the planners of our development to focus not only on increasing the growth rate but also to distribute the benefits of growth equally. The various plans that had been adopted after independence for the overall development of our country have not been successful in reducing the inter-state disparities. Therefore, it is necessary to have growth which has a inbuilt mechanism to improve the distribution of income rapidly through the process of growth itself.[305]

This study has highlighted a disturbing trend that has become more apparent during the last one and half decade, that is of widening socio-economic disparities across the Indian states. No doubt, considerable disparities in the level of development across the regions existed even 59 years ago. Indeed, one of the principal justifications for introduction of five-year plans and the establishment of the Planning Commission was to ensure a process of regionally balanced and socially equitable development. Through public and directed private investments, as well as various other interventions and public policies, balanced development across the regions was pursued during the first four decades of planning. Though such policies were not an unadulterated success, a measure of regional balance in development was maintained.

Most of the development process depends on the amount of resources at the states disposal. On one hand, the too much dependence of the states on the central authorities for funds to built up their infrastructure, and hence, its vulnerability to bureaucratic interference heightens, and, on the other, it leads to unhealthy competition between aspiring states based mainly on parochial political interests.[306] It is because of these reasons that we have not been able to reduce regional disparities even after 59 years of planning.

The role of government in general, and the central government in particular, in the economic activities of the nation changed substantially since the initiation of economic reforms in 1991. The private sector, which was controlled and contained in

[305] Bhaduri, Amit (2005): *Development With Dignity: A case for Full employment,* New Delhi: National Book Trust, Pg. 2-10.

[306] Das, Keshab (2006): Underdevelopment by Design? Undermining Vital Infrastructure in Orissa, *Economic and Political Weekly,* 18 February, Pg. 247.

various ways, has since then been encouraged to play a more important role. Market forces, rather than government directions, would decide the investment decisions – where to invest, what to produce, whom to sell to, and so on. The locations and priorities were to be market-determined rather than government-determined. The government would have to be a facilitator for private initiatives rather than an arbiter and expected to restrict its economic activities to areas that were purely in the domain of the government.

Indeed, the past history of the governments at the Centre and states is such that they have entered into areas and activities that are best left in the hands of private sector and at the same time have left out or neglected activities that only governments can undertake. Various manufacturing activities carried out by public sector undertakings are examples of the former whereas primary education and basic health services are typical examples of the latter.

The experience of one and half decade of economic reforms clearly indicates that one of its major victims has been balanced regional growth. Private investments have increasingly gone to relatively developed regions that have better social, economic and physical infrastructure and better governance, especially in terms of speedy decision-making processes. Five major states, viz. Gujarat, Maharashtra, Tamil Nadu, Andhra Pradesh and Karnataka, that together account for less than one-third of our population, accounted for almost two-third of the private investment proposals over the last 10 years since August 1991. The same set of states benefited from over 60% of the commercial bank credit and financial flows from national level financial institutions like IDBI, IFCI etc. In contrast, another set of seven major states, viz. Uttar Pradesh, Bihar, West Bengal, Madhya Pradesh, Rajasthan, Orissa and Assam together accounting for 55% of the population received less than 30% of the private investment proposals and a similar share of bank credit and other institutional finances during the last decade.

An interesting aspect of the economic performance in the 90s is its regional dichotomy. The better performing states are in the western and southern regions of the country and they are geographically contiguous. On the other hand, the non-performing or poorly performing states are in the northern and eastern regions of the country; they too are geographically contiguous. While all the states in the first group are coastal states, all but two, viz., West Bengal and Orissa in the second group have no coastlines. Indeed, this geographical dichotomy is not restricted to economic performance. More or less similar trends are also noticeable in other spheres of development.

The most striking dichotomy is in respect of socio-demographic trends. A recent ranking of all districts in the country by the National Population Commission (NCP) on the basis of a composite index of socio demographic progress clearly brings out the frighteningly wide socio-economic disparities among the major Indian states. Out of the 569 districts covered by the report, 190 belong to the forward group of states consisting of eight major ones which include the five economically better performing states plus Punjab, Haryana and Kerala. Another 299 districts belong to the group of backward states, which consist of the seven economically backward states.

However, while 180 out of 190 districts of the forward group of states had rankings among the first 300, just 76 out of the 299 districts from the backward group of states had rankings among the first 300. Indeed, while all the districts of Kerala and Tamil Nadu are among the first 100, all the districts of Bihar and Rajasthan are among those below 300 in ranking. It is clear that the two groups of states are world's apart socio-demographically.

Some states in India are more successful in facilitating industrialisation, managing Globalisation, and ensuring the well being of their citisens than others are. Every state has its own pace of development, which is very different from the other as well as they are specific to every individual state. This variation across states, during the reform era, in terms of socio-economic development, has resulted due to several factors:

Firstly, the failure of inter-governmental institutions can be blamed for this reason. Absence of strong inter-governmental institution has resulted in lack of co-operation among the states in the era of Liberalisation, when the states are competing among themselves for resources. For example, though the Inter-State Council (ISC) was established in 1990, immediately before the Liberalisation, it still struggles to define its internal structure.

Secondly, the failures of public institutions like the Planning Commission and the Finance Commission. The public institutions which, were created for a balanced regional development have become weaker in the period of economic reforms. The role of these public institutions has been reduced significantly leading to uncontrolled regional development in India.

Thirdly, there is the absence of any suitable mechanism to manage competition among the states that has resulted in the further development of the developed regions, while the under developed regions are left behind. Though Liberalisation has resulted in overall development of the nation and has helped in lifting the growth rate upto 8 percent but still a lack of a mechanism to manage the competition among the various states has resulted in divergence of development across states.

Fourthly, over emphasis on industrial development during the reform era has resulted in downsizing of the states, which are dependent on agriculture. Hardly any attention is given to the agricultural sector during the Liberalisation era, contributing to the inter-state disparities.

Finally, government's attentions to poorer regions have been reduced during the period. The special assistance provided to the poorer and underdeveloped regions and states during pre-liberalisation has been reduced allowing the states to compete among themselves for resources and investments. In the process, the poorer and infrastructurally less developed states are left behind.

India embraced democracy first and capitalism afterwards and this has made all the difference. India became a full-fledged democracy in 1950, with universal suffrage and extensive human rights, but it is not until recently that it has opened up to the free play of the market forces. This curious historical inversion means India's future will not be a creation of unbridled capitalism but will evolve through a daily dialogue between the conservative forces of the caste, religion and the village, leftist and the Nehruvian socialist forces which dominated the intellectual life of the country for long, and the new forces of global capitalism. These "million negotiations of democracy", the plurality of interests, the contentious nature of the people, and the lack of teamwork and discipline imply that the pace of economic reforms will be slow and incremental. It means that India will grow rapidly as the Asian Tigers, not wipe out poverty and ignorance as quickly. It may be too much to expect from economic reforms. India cannot be a tiger as expected. It was an elephant that has began to lumber and move ahead. It may not have the speed but does have the stamina. The inversion between capitalism and democracy, suggests that India might have a more stable, peaceful, and negotiated transition into the future than china. It will also be able to avoid as well as cross over the harmful effects of unprepared capitalist society.[307]

Current Measures:

Currently the UPA government has taken some significant steps for development of rural India, which may contribute to development of poorer regions. Most significant of these measures are the larger Bharat Nirman project, which focuses on rural infrastructure building and the National Rural Employment Guarantee scheme.

***Bharat Nirman Project*: Bharat Nirman is larger project for rural infrastructure** building to be implemented by the Government of India in collaboration with the state governments and the Panchayati Raj Institutions. The project was launched in 2005 by the Prime Minister of India, Manmohan Singh. The Project focuses on six areas of rural infrastructure:

- Roads: Provide road connections to +38,484 villages above 1000 population and all 20,867 habitations above 500 population in hilly and tribal areas;
- Telephone Connections: Provide telephone connection to 66,822 number of villages without a telephone and replace presently dysfunctional systems;
- Irrigation: Create 1 crore hectare of irrigation potential. 6 million hectare from major and medium projects, 3 million hectare for ground water development and 1 million hectare for minor irrigation projects;
- Water Supply: Cover of 55,067 uncovered habitations. Provide additional coverage to 2.8 lakh habitations that have slipped back from full coverage. Provide potable water in 2,16,968 villages affected by poor water quality;
- Housing: Provide 60 lakh houses at the rate of 15 lakh houses each year to be built by funds allocated to the homeless through Panchayats; and

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[307] Das, Gurcharan, (2002): *India Unbound: From Independence to Global Information Age*, op. cit. Pg. xviii-xix.

- Electrification: Provide electricity to 1,25,000 villages by grid based supply or in remote and inaccessible areas through alternative technologies.

Launching the project, the Prime Minister Manmohan Singh told that "Bharat Nirman will be a time-bound business plan for action in rural infrastructure for the next four years. Under Bharat Nirman, action is proposed in the areas of irrigation, road, rural housing, rural water supply, rural electrification and rural telecommunication connectivity. We have set specific targets to be achieved under each of these goals so that there is accountability in the progress of this initiative."[308]

National Rural Employment Guarantee Scheme: The National Rural Employment Guarantee Bill, 2004 promises wage employment to every rural household, in which adult members volunteer to do unskilled manual work. Through this Bill the government, aims at removing poverty by assuring at least 100 days' employment. The word 'poor household' was replaced by 'household' for guaranteeing jobs in every household for one person. The original Bill had laid down that it would be applicable only to families living Below the Poverty Line. The scheme was launched by the Prime Minister Manmohan Singh in a function at village Narpala Mandal in Anantapur district of Andhra Pradesh. Under the scheme one unemployed man or woman in a family would have the right to demand 100 days of work in a year. They would be paid Rs80 per seven hours of unskilled work.

People employed by the scheme will work on projects such as building roads, improving rural infrastructure, constructing canals, working on water conservation schemes etc. Ninety percent of the cost of the scheme would be borne by the Central government and the rest by the state. It's estimated that the scheme has a budget allocation of Rs 54,000 million (US$ 1109 million) as cash component and 50 million ton of food grains as commitment. It is said that this is the most ambitious pro poor scheme launched by an Indian government. It was an important plank of the Congress Party's election campaign last year (election manifesto), and is supported by its communist allies. The scheme as far as possible tries to use manual unskilled labour over machines. Use of contractors in projects under the scheme is prohibited. The scheme will be implemented at the Gram Panchayat level. In the beginning the

[308] GoI, *Bharat Nirman* (2005): Government of India.

scheme will be introduced in 200 districts and would be extended to the whole country by 2010.[309]

So far, the scheme that was geared to alleviate rural poverty and create natural resource assets has been extended to 200 districts and is targeted to 583 districts in five years. The second phase was to start around July — which is six months after the first one began but for the abrupt halt. According to the ministry, the reason for pulling the brakes is the gap between demand and supply in employment. By the end of May, around 17.1 million job cards were issued and 71 lakh people demanded employment. Only 60 lakh received it. Moreover, studies and media reports brand the scheme inefficient and say that it discriminates against Muslims in Gujarat. Besides, the UPA government claims that while the opposition is trying to hijack the scheme in some states, it is also trying to gain political mileage out of it.[310]

However, it will be too early to decide whether these measures have contributed to balanced regional development of India. The time will say whether these schemes are a successful or not.

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[309] Venkitaramanan, S (2005): 'National Rural Employment Guarantee Scheme- Last Straw on the Camel's Back?', *Business Line*, 29 August.

[310] Ghosh, Padmaparna (2006): 'India's National Rural Employment Guarantee Scheme Put on Hold: Employment Guarantee Scheme Brought to an Abrupt Halt', *Down to Earth*, 15 July.

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