

# WIDENING REGIONAL DISPARITIES IN INDIA

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### Introduction

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

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

population since the late Seventies. The official estimates of population below poverty line released by the Planning Commission on the basis of the Expert Group methodology indicates the latest trend.

Year	1977-78	1983	1987-88	1993-94	1996-97
Percentage of Poor	51.3	44.5	38.9	36.0	29.2

The period since 1980 has seen the introduction/expansion of several anti-poverty programmes and public intervention policies in favour of the poor including public distribution of subsidised food grains. The reduction in poverty in the recent period is attributed to anti-poverty programmes by their protagonists and to accelerated economic growth by market friendly experts.

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

4. Disparities in economic and social development across the regions and intra-regional disparities among different segments of the society have been the major planks for adopting planning process in India since independence. Apart from massive investments in backward regions, various public policies directed at encouraging private investments in such regions have been pursued during the first three decades of planned development. While efforts to reduce regional disparities were not lacking, achievements were not often commensurate with these efforts. Considerable level of regional disparities remained at the end of the Seventies. The accelerated economic growth since the early Eighties appears

to have aggravated regional disparities. The on-going economic reforms since 1991 with stabilisation and deregulation policies as their central pieces seem to have further widened the regional disparities. The seriousness of the emerging acute regional imbalances has not yet received the public attention it deserves. The purpose of this study is to initiate a debate on the various issues involved with a view to explore effective corrective measures without any further delay.

5. Most of the studies on inter-country and inter-regional differences in levels of living and income are done within the theoretical framework of neoclassical growth models. These models, under plausible assumptions demonstrate convergence of incomes. Three notable recent studies,<sup>1</sup> however, indicate that in the Indian context these convergence theories do not explain the ground realities.

6. The scope of this study is restricted to a comparative analysis of the emerging trends in fifteen major States in respect of a few key parameters which have an intrinsic bearing on social and economic development. The variables chosen for examination include those which will have a bearing on gender and equity issues. The fifteen States together account for 96 per cent of the population of India. The remaining 4 per cent of the population is spread out in 10 smaller States and seven Union Territories including the National Capital Territory of Delhi. Leaving out these States and UTs from detailed study is mainly due to non-availability of all relevant data and also to keep the data sets analytically and logistically manageable. The fifteen States taken up for the detailed study have been grouped into two - a forward group and a backward group. The forward group consists of Andhra Pradesh, Gujarat, Haryana, Karnataka, Kerala, Maharashtra, Punjab and Tamil Nadu. The backward group comprises of Assam, Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal.

7. Geographically, the forward group of States fall in the Western and Southern parts of the country and are contiguous except for Punjab and Haryana which are separated by Rajasthan from the rest of the States in this group. The group of backward States are in the Eastern and Northern parts of the country and are geographically contiguous. Another notable geographical feature is that while six out of eight States, except Haryana and Punjab, in the first group have vast sea coasts, only two out of the seven in the second group viz., Orissa and West Bengal are littoral. While the forward group of States accounts for about 42 per cent of the national population, the backward group accounts for as much as 54 per cent of the population of the country.<sup>2</sup> In terms of natural resources including mineral wealth, water resources and quality of soil, the latter has definite edge over the former.

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

### **Demographic and Social Characteristics**

9. A few major demographic characteristics of the fifteen States under consideration are presented in Table-I alongwith corresponding all-India figures. Demographic data relating to the group of forward States are given in the upper panel of the Table and those relating to the group of backward States are given in the lower panel of the Table. As per the 1991 Census, the total population of the first group of States was 353.5 million whereas that of the second group was 457.9 million; the latter being about 30 per cent more than the former.

**Table 1**  
**Important Demographic Characteristics of Major Indian States**

Sl. No	State	Population as per 1991 census(in millions)	Number of females per 1000 males	Annual compound rate of growth of population (1981-91)	Year by which total fertility rate comes down to 2.1 - the replacement level
	(1)	(2)	(3)	(4)	(5)
1	Andhra Pradesh	66.5	972	2.17	2002
2	Gujarat	41.3	934	1.92	2014
3	Haryana	16.5	865	2.42	2025
4	Karnataka	45.0	960	1.92	2009
5	Kerala	29.1	1036	1.34	1988*
6	Maharashtra	78.9	934	2.29	2008
7	Punjab	20.3	882	1.99	2019
8	Tamil Nadu	55.9	974	1.43	1993*
9	Assam	22.4	923	2.17	2015
10	Bihar	86.4	911	2.11	2039
11	Madhya Pradesh	66.2	931	2.38	Beyond 2060
12	Orissa	31.7	971	1.83	2010
13	Rajasthan	44.0	910	2.50	2048
14	Uttar Pradesh	139.1	879	2.27	Beyond 2100
15	West Bengal	68.1	917	2.21	2009
All India		846.3	927	2.14	2026

Source: Data in columns 2 to 4 are from 1991 Census Hand Book and data in column 5 are from Population Projections for India and States 1996-2001;

\* Kerala and Tamil Nadu have already achieved the TFR of 2.1 in 1988 and 1993 respectively.

It is noteworthy that most of the Indian States included in our study are comparable to medium sized countries of the world whether in Europe, Africa, Latin America or Asia, in terms of population. Indeed, the population of Uttar Pradesh which is projected to have crossed 160 million by October, 1997, is comparable to the population of the most populous countries of the world. Only five countries viz., China, India, USA, Indonesia and Brazil have population larger than that of Uttar Pradesh.

10. The State-wise sex ratio given in column 3 of Table 1 is, perhaps, the most revealing index of gender disparities among the States of the Indian Union. The all-India sex ratio of 927 females per 1000 males itself is a reflection of the neglect of women's health due to relatively lower economic and social value assigned to women, in general, in this country. Among the fifteen States considered in our study eight have sex ratio above the national average and seven have below national average. The international experience indicates that as a society develops economically the sex ratio turns more favourable to women. Within India, however, this does not appear to hold good. Though only two out of the eight States in the forward group have sex ratio below national average, they happen to be the two of the richest States ( first and third ) in the country in terms of per capita income. Further, their sex ratios happen to be the lowest (Haryana) and the third lowest (Punjab) in the country. Even the second and

fourth richest States in the country viz., Maharashtra and Gujarat have sex ratios only marginally higher than that of the nation. The highest sex ratio is that of Kerala. Indeed, Kerala is the only State in the country which has a sex ratio favourable to women. While a sex ratio favourable to women is considered the norm in the developed world and is quite logical in view of the biological advantage women have for longevity, in India, it is a rare occurrence. We shall come back to this issue again in the context of our discussion of social development issues.

11. Annual compound rate of growth of population for the decade (1981-1991) based on the two Censuses for the different States is presented in column 4 of Table 1. There are three States in the upper panel and 5 States in the lower panel with annual compound growth rate higher than the all-India figure of 2.14. The lowest growth rate is that of Kerala at 1.34 followed by Tamil Nadu at 1.43. The highest growth rate is that of Rajasthan at 2.50 followed by Haryana at 2.42. Since the population growth is the net effect of natural growth (resulting from births and deaths) and net migration, these figures may not truly reflect the level of demographic transition a State has achieved. While migration may be important for a smaller State, it is the natural growth which contributes mainly to the population growth in larger States. A lower population growth could be a reflection, either of high birth rate high death rate combination or low birth rate low death rate combination. A higher population growth in the Indian context is a reflection of a State in early stage of demographic transition where death rate has come down but birth rate has not yet followed suit.

12. Column 5 of Table 1 presents the likely year by which replacement level total fertility rate (TFR) of 2.1 will be achieved by different States of the Indian Union and the nation itself if the recent pace of decline in TFRs observed during 1981-93 continues in the years ahead. While Kerala and Tamil Nadu have already achieved the replacement level of TFR, all the remaining six States in the first group are expected to reach the replacement level of TFR by 2025, one year in advance of the attainment of replacement level of TFR by the country. In contrast, only three States viz. Assam, Orissa and West Bengal, in the second group, are expected to reach the replacement level of TFR by 2025. The four States for which TFR is likely to remain above replacement level well after 2025 are Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh. While Bihar and Rajasthan are likely to reduce TFR below replacement level by 2050, Madhya Pradesh is not likely to reach this level before 2060 and Uttar Pradesh is not likely to reach this level even by 2100. It is evident that the demographic battle of the country in the coming years are to be fought in these four populous States in the backward group which are known by the generic acronym 'BIMARU' States. We shall now turn to the important social characteristics of the two groups of States which are presented in Table 2.

**Table 2 Important Social Characteristics of Major Indian States**

Sl No	State	Percentage share of urban population (1991)	Percentage of literate females above 7 years	Female literacy as % of male literacy in rural areas	Projected levels of infant mortality for females during 1996-2001	Projected levels of expectation of life at birth for females during 1996-2001
	(1)	(2)	(3)	(4)	(5)	(6)
1	Andhra Pradesh	26.9	32.7	50.5	56	63.7
2	Gujarat	34.5	48.6	57.9	44	62.8
3	Haryana	24.6	40.5	59.3	57	67.4
4	Karnataka	30.9	44.3	57.7	67	65.4
5	Kerala	26.4	86.2	91.6	9	75.0
6	Maharashtra	38.7	52.3	58.8	46	68.2
7	Punjab	29.5	50.4	72.3	51	71.4
8	Tamil Nadu	34.2	51.3	62.2	43	67.6
9	Assam	11.1	43.0	66.8	61	58.8

10	Bihar	13.1	22.9	37.3	55	62.1
11	MP	23.2	28.8	38.6	101	57.2
12	Orissa	13.4	34.7	51.3	105	58.1
13	Rajasthan	22.9	20.4	24.4	65	61.4
14	Uttar Pradesh	19.8	25.3	36.5	74	61.1
15	West Bengal	27.5	46.6	61.4	56	67.2
All India		25.7	39.3	52.8	64	63.4

Source: Data in columns 2, 3 and 4 are from '1991 Census Hand Book' and data in columns 5 and 6 are from 'Population Projections for India and States 1996-2016'

13. The share of urban population in India was 25.7 per cent in 1991. While all the States except Haryana in the first group had higher share of urban population, all States except West Bengal in the second group had urban population share below the national average. The most urbanised State in the first group is Maharashtra and the least urbanised one is Haryana. In the second group the corresponding States are West Bengal and Assam. While the most urbanised State in the first group is a little more than 1.5 times urbanised as compared to the least urbanised, in the second group the most urbanised West Bengal is about 2.5 times urbanised as compared to Assam. Indeed, West Bengal has a number of characteristics of a forward State, the level of urbanisation being one of them. This is because of the historical background of Bengal and especially Calcutta which used to be the second most important city of the British Empire. Another aspect of the level of urbanisation is the fact that all those States with higher level of urbanisation have a metro-city each which accounts for a considerable share of urban population in the respective States.

14. The level of literacy is, perhaps, the most important index of development of a society. Invariably, male literacy is higher than female literacy in any society. Often there may be significant gender gap in literacy. The true index of development of a society is the level of female literacy which can be considered as the bottomline as far as literacy is concerned. State-wise percentage of literate females above 7 years as per 1991 Census is given in column 3 of Table 2. All the States in the first group except Andhra Pradesh have female literacy level above the national average of 39.3 per cent. In contrast only Assam and West Bengal, in the second group, have female literacy above the national average. The distinction of highest female literacy goes to Kerala where 86 out of every 100 females above 7 years are literate. Maharashtra and Tamil Nadu in the first group with 52 per cent and 51 per cent respectively occupy the second and third positions. The gap between Kerala and the rest of the country in female literacy is, indeed, phenomenal. Rajasthan is the least literate State where female literacy is as low as 20 per cent, which implies that out of every five females in Rajasthan four are illiterate. The female literacy rates in the other three 'BIMARU' States viz., Bihar, Madhya Pradesh and Uttar Pradesh are also below 30 per cent. The empirically well-established positive relationship between female illiteracy and TFR is quite evident in the case of these States. It is quite evident that the critical precondition for stabilisation of Indian population is to raise the female literacy in the 'BIMARU' States.

15. Rather than the level of female literacy it is the gender difference in literacy which captures the States of women in a society. Female literacy as a percentage of male literacy is given in column 4 of Table 2. As against the all-India average of 52.8., female literacy as a percentage of male literacy varies from 91.6 per cent in Kerala to a low of 24.4 per cent in Rajasthan. In all the four 'BIMARU' States, this percentage remains below 40 indicating vary low economic and social status of women in these societies. While Assam and West Bengal from the second group have above all-India level, Andhra Pradesh and Haryana from the first group go below national average.

16. An important indicator of the quality of health care in a society is the infant mortality rate (IMR). As in the case of literacy, here also the bottom-line is the female IMR. The projected State-wise IMR for females for the period 1996-2001 based on the past trend is presented in column 5 of Table 2. The national average is 64 which implies that out of every 1000 female infants born in the country, 64 will not survive till the first birthday. The lower the IMR the better health care a State enjoys. All the States in the

forward group except Karnataka have IMR below the national average. The lowest IMR at 9 is that of Kerala which is comparable to the level achieved by high income developed societies. The next best IMR at 43 is that of Tamil Nadu followed by Gujarat at 44 and Maharashtra at 46. In the group of backward States, Assam, Bihar and West Bengal have IMR below the national average. The worst IMR figures are that of Orissa at 105 followed by 101 in Madhya Pradesh. These figures imply the sad fact that in these two States out of every 10 new born female infants, at least one will not live to see her first birthday celebrated.

17. Life expectancy at birth or longevity is an overall indicator of the economic and social well-being of a people. As a society advances, the life expectancy of its people also increases. The highest life expectancy for a nation reported so far is that of Japan, which is 80. For most societies, especially developed ones, female life expectancy is higher than male life expectancy. In India, however, female life expectancy at birth remained below male life expectancy till recently mainly due to high infant and child mortality among the females and substantial loss of female life associated with child birth due to lack of health care. This trend has been reversed in recent years. The last column of Table 2 provides the projected levels of expectation of life at birth for females during 1996-2001 based on past trends. The all-India figure is projected at 63.4 years. Among the forward States, all but Gujarat, are having figures above the national level. In the case of backward States, all except West Bengal, have female life expectancy below national average. The highest level is for Kerala at 75.0 years and the lowest level is for Madhya Pradesh at 57.2 years. This implies that while a female child born in Kerala today can, on the average, expect to live for 75 years, the corresponding average life span of a female child born in Madhya Pradesh today is only 57.2 years. Obviously, there is a vast gap in the overall quality of life for women between these two States of the Indian Union.

### Income and Poverty

18. 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 agriculture sector and the increase in the income generated in the manufacturing sector. The level of poverty or the share of population which do not have minimum income to meet its basic requirements is an indicator of the level of economic development as well as the inequality in the income distribution. A few important indicators of State level income and poverty are presented in Table 3.

**Table 3: The Structure and Magnitude of State Domestic Product and the Level of Poverty**

Sl No.	State	NSDP per capita at current prices in 1996-97 (in Rs)	Percentage share of NSDP from Agriculture 1996-97	Percentage share of NSDP from Manufacturing 1996-97	Percentage share of poor in 1993-94
	(1)	(2)	(3)	(4)	(5)
1	Andhra Pradesh	9867	30.6	13.6	22.2
2	Gujarat	13932	21.4	27.1	24.2
3	Haryana	16199	38.4	19.2	25.1
4	Karnataka	10279	30.7	15.7	33.2
5	Kerala	9066	24.2	11.6	25.4
6	Maharashtra	17295	18.1	24.1	36.9
7	Punjab	18213	44.1	13.4	11.8
8	Tamil Nadu	11708	18.3	23.7	35.0
9	Assam	6663	37.2	9.6	40.9

10	Bihar	3835	36.9	10.0	55.0
11	Madhya Pradesh	7445	31.6	16.5	42.5
12.	Orissa	6422	26.3	9.0	48.6
13.	Rajasthan	8481	36.8	10.5	27.4
14.	Uttar Pradesh	6733	35.3	14.3	40.9
15	West Bengal	9441	30.0	14.1	35.7
All India		10919	27.7	16.7	36.0

Source: Central Statistical Organisation for data in columns 2,3 &4; Planning Commission for data in column 5.

19. The net State domestic product, State-wise, given in column 2 indicates that all States in the forward group except Andhra Pradesh, Karnataka and Kerala have per capita income above the national average. In contrast, all the States in the backward group have per capita income below the national average. The highest per capita income is that of Punjab which is almost 5 times that of Bihar which has the lowest per capita income. It is noteworthy that Kerala, which has made great strides in social development, has the lowest per capita income among the forward States. It may, perhaps, convey an important message that high level of social development is achievable even at relatively low level of per capita incomes. Indeed, the case of Kerala along with that of Srilanka has been noted internationally for achieving high level of human development at relatively low level of economic development.

20. The percentage share of agriculture in net State product for different States is given in column 3. Ten out of the 15 States considered in our study have share of agriculture higher than the national level. Out of these ten States, four are among the group of forward States and six are among the group of backward States. The highest share of NSDP from agriculture is in Punjab at over 44 per cent which is followed by Haryana where the share of agriculture is over 38 per cent. The share of NSDP from agriculture is least in Maharashtra at 18.1 per cent which is followed by Tamil Nadu where it is 18.3 per cent. It may be noted that all the States in 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 per cent. Even most of the middle income countries have a share of agriculture below 20 per cent. Maharashtra and Tamil Nadu are the only two States which have reduced their share in agriculture to that level. Two of the most prosperous States, Punjab and Haryana, remain largely agrarian.

21. The percentage share of manufacturing in NSDP for different States is given in column 4 of Table 3. Four out of eight States in the forward group have a share of manufacturing above the national average of 16.7 per cent and none of the States in the backward group has a share of manufacturing above the national average. Gujarat with 27.1 per cent share of manufacturing in NSDP has the highest level followed by Maharashtra (24.1%) and Tamil Nadu (23.7%). Indeed, these States have emerged as the major manufacturing States in the country, together accounting for about 45 per cent of the NSDP from manufacturing. In the first group Kerala has the lowest manufacturing share at 11.6 per cent followed by Punjab at 13.4 per cent. Among the group of backward States, Madhya Pradesh has the highest percentage share of manufacturing in the NSDP at 16.5 per cent and Orissa has the lowest at 9.0. An interesting point to be noted here is that the share of manufacturing in West Bengal's NSDP has been steadily declining over the years. It was as much as 24.4 per cent in 1980-81, which came down to 21.2 per cent in 1985-86, to 19.9 per cent in 1990-91 and further to 14.1 per cent in 1996-97. It is a clear sign of deindustrialisation of that State. At the same time it may be clarified that lower share of manufacturing may not necessarily imply that a State is getting more agrarian. It could very well be possible that while the share of manufacturing comes down the share of other non-agricultural activities including services may go up. In other words a State could experience a decline in the share of agriculture and manufacturing simultaneously.<sup>3</sup>

22. In the last column of Table 3, the percentage share of the poor in different States are presented. The all India average is 36 per cent. Only one State viz. Maharashtra among the forward States has a percentage share of poor above the national average. In contrast, five out of the eight States in the backward group have levels of poverty above the national average and a sixth State viz. West Bengal has a level of poverty almost equal to the national average. Only one State in this group viz. Rajasthan has poverty level significantly below national average. The highest poverty is recorded for Bihar where 55 per cent of the population is below poverty line. This is close to five times the poverty level in Punjab where the share of poor population is the least among the States at 11.8 per cent. Since the poverty is measured in terms of the head count method here, the intensity of poverty in different States could not be captured. For example, the share of destitutes whose level of income/consumption is less than say 75 per cent of the poverty line, cannot be ascertained using the present data. Sen's index and other sophisticated measures of poverty can be used to capture such information which may be of relevance for policy purposes. An aspect of the data in Table 3 which needs special mention is the fact that Maharashtra's poverty level is above the national average even though the State enjoys very high level of per capita income and is high in the hierarchy in terms of most of the indices of development including social development. Maharashtra is, indeed, an interesting case study of intra-State disparities. This aspect will be taken up for some detailed analysis in a subsequent section.

### State Government Expenditure

23. An important public policy instrument for economic and social development of a State is the level of government expenditure. In the Indian context the public expenditure could be by the Central Government or the State Government. The present discussion is restricted to an analysis of the expenditure of the State Governments. The expenditure of the State Government could be developmental or non-developmental in character. Expenditure on items like maintenance of the organs of the State, administrative services, pensions, interest payments etc.. are non-developmental in nature. Expenditure on education, health, various other social services and economic services are categorized as developmental in nature. Data on State-wise per capita expenditure on development and non-development for two periods viz., 1980-81 and 1995-96 are presented in Table 4.

**Table 4: Developmental and Non-developmental Revenue Expenditure of the State Governments**  
(Rs. In 1980-81 prices)

Sl. No.	State	1980-81		1995-96		Development expenditure as a multiple of non-development expenditure	Development expenditure as a multiple of non-development expenditure
		Development expenditure per capita	Non-development expenditure per capita	Development expenditure. Per capita	Non-development expenditure per capita		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Andhra Pradesh	207.7	54.8	3.8	392.0	141.0	2.8
2	Gujarat	253.0	80.1	3.2	483.4	164.5	2.9
3	Haryana	314.3	79.0	4.0	522.5	396.1	1.3
4	Karnataka	208.8	74.3	2.8	423.5	155.7	2.7
5	Kerala	246.1	66.0	3.7	386.5	212.1	1.8
6	Maharashtra	259.8	104.8	2.5	491.2	178.9	2.7

7	Punjab	283.7	94.1	3.0	445.5	391.3	1.1
8	Tamil Nadu	188.7	67.7	2.8	407.0	165.9	2.5
9	Assam	166.9	54.3	3.1	313.5	139.2	2.3
10	Bihar	128.0	43.5	2.9	160.5	100.1	1.6
11	Madhya Pradesh	195.7	47.3	4.1	275.8	109.5	2.5
12	Orissa	223.5	54.8	4.1	295.3	134.6	2.2
13	Rajasthan	194.1	63.8	3.0	403.3	204.2	2.0
14	Uttar Pradesh	152.2	46.5	3.3	206.2	152.6	1.4
15	West Bengal	163.7	56.6	2.9	253.1	123.8	2.0
All States		207.4	64.9	3.2	367.3	177.2	2.1

Source: Planning Commission, Government of India.

24. In 1980-81 the average per capita development expenditure for all States was Rs.207.40. All States in the first group except Tamil Nadu had above average per capita development expenditure. In contrast only Orissa in the second group had above average per capita development expenditure. Indeed, the level of development expenditure in Orissa in 1980-81 was almost double that of Bihar and higher than that of three developed group.

25. The per capita non-development expenditure in 1980-81 for different States may be seen in column 3 of Table 4. The per capita expenditure in all the States in the first group except in Andhra Pradesh is above the all States average of Rs.65. In contrast, the corresponding expenditure in all the States in the second group is below the all States average. The highest per capita non-development expenditure in 1980-81 was almost double that of Bihar and higher than that of three in the developed group.

26. The relative magnitude of development and non-development expenditure in 1980-81 is indicated in column 4 of Table 4 where the ratio of development expenditure to non-development expenditure is presented. The ratio varies from the highest level of 4.1 each for Madhya Pradesh and Orissa to the lowest level of 2.5 in Maharashtra. The all States average is 3.2 and there is hardly any quantitative differences in this ratio between the two groups of States.

27. Moving over to the latest year for which actual expenditure figures are available, column 5 presents the State-wise development expenditure for 1995-96. Since all figures are at 1980-81 prices, intertemporal comparison is also possible. The all States average of Rs.367 is more than 50 per cent higher than the corresponding figure for 1980-81. The highest per capita development expenditure in 1995-96 is in Maharashtra, where it is as much as Rs.491 and the corresponding lowest per capita expenditure is in Bihar where it is as low as Rs.161. The per capita development expenditure in 1995-96 in all the States in the first group is above the all States average while the corresponding expenditure in just one State in the second group viz., Rajasthan is above the all States average. It is also noteworthy that three States viz., Karnataka and Tamil Nadu in the first group and Rajasthan in the second have more than doubled the per capita development expenditure in real terms in 1995-96 as compared to 1980-81.

28. Per capita non-development expenditure in 1995-96 at 1980-81 prices, State-wise, is given in column 6 of Table 4. The all States average at Rs.177 is almost three times the figure for 1980-81. It is important to note that the real per capita non-development expenditure has grown much more faster than

the corresponding development expenditure which increased only 1.5 times over the last fifteen years. Five out of the 15 States considered in our study have non-development expenditure higher than the all States average, four of them in the group of forward States and the remaining one in the group of backward States. The highest per capita non-development expenditure in 1995-96 at Rs.396 was in Haryana which was followed by Punjab at Rs.391. Among the backward States the highest per capita non-development expenditure was in Rajasthan at Rs.204. The least expenditure per capita was in Bihar at Rs.100 followed by Madhya Pradesh where it was Rs.110.

29. The relative magnitude of development expenditure with respect to non-development expenditure in 1995-96 is given in column 7 of Table 4. It is significant to note that the ratio of development expenditure to non-development expenditure for all States taken together has come down steeply to 2:1 in 1995-96 from 3.2 in 1980-81. Indeed, in the case of every State except Maharashtra, the ratio has come down during this period. The implication is obvious. In 1995-96 as compared to 1980-81, the relative importance of development expenditure vis-a-vis non-development expenditure has come down as far as the State governments are concerned. While both development and non-development expenditure have gone up in real terms in every State during this period, the growth in the latter was faster in every State except Maharashtra where the relative share of non-development expenditure was quite high in the base year.

30. An analysis of the consolidated budgetary position of all the States taken together (not given in the table) reveals that there was a steep decline in the share of development in the total revenue expenditure from 72 per cent in 1980-81 to 63 per cent in 1995-96. Correspondingly the non-development expenditure has gone up steeply from about 28 per cent to 37 per cent. The major reason for this increase in non-development expenditure has been the steep increase in the interest burden of the States during this period. Interest payment which accounted for just 30 per cent of non-development expenditure of all States taken together in 1980-81 has increased to 40.5 per cent in 1995-96. The steep increase in the interest liability has been partly due to increase in the quantum of borrowings of the States and partly due to the considerable increase in the cost of borrowings in the wake of financial sector reforms as a result of which State governments have to pay market related interest rates.

31. So far our concern in this Section was to examine the relative importance of development and non-development expenditure in the total revenue expenditure across the States and over time. Now we shall turn to a brief examination of the level and structure of plan expenditure across the States. Table 5 gives the State-wise data on the State-wise Eighth Plan expenditure per capita and the share of important sectors in this expenditure.

**Table 5: Eighth Plan Outlay and Its Sectoral Distribution**

Sl No	State	Per capita anticipated exp. (In Rs)	Percentage share of expenditure			
			Agriculture	Energy	Transport	Social services
	(1)	(2)	(3)	(4)	(5)	(6)
1	Andhra Pradesh	1858	28.4	25.5	12.2	19.9
2	Gujarat	2700	36.1	20.4	6.7	24.0
3	Haryana	2838	25.9	24.0	6.0	35.2
4	Karnataka	3138	28.6	20.3	6.0	29.6
5	Kerala	2370	26.4	24.8	8.1	19.5
6	Maharashtra	3101	27.2	20.5	8.2	21.0
7	Punjab	2951	16.7	41.1	4.1	26.8
8	Tamil Nadu	2427	15.9	22.0	9.8	36.0
9	Assam	2066	20.3	13.6	8.1	41.1
10	Bihar	592	26.8	10.4	8.6	20.3

11	Madhya Pradesh	1742	25.7	30.1	2.7	26.2
12	Orissa	2123	28.4	18.4	10.1	25.5
13	Rajasthan	2548	24.7	26.2	7.6	25.9
14	Uttar Pradesh	1372	20.1	26.9	10.9	24.8
15	West Bengal	1144	14.0	38.9	7.3	19.3
All India		1965	24.0	23.6	8.6	26.2

Source: Planning Commission:

Note: Per capita expenditure figures are in current prices.

32. The Eighth Plan average per capita expenditure at current prices was Rs.1965. All the States in the first group except Andhra Pradesh achieved an expenditure level higher than the all-India average. Three out of the seven States in the second group also achieved expenditure level higher than the all India average. The four States where the per capita expenditure was below the national average are Bihar, Madhya Pradesh, Uttar Pradesh and West Bengal. Bihar has the least per capita plan expenditure at Rs.592 which is just 30 per cent of the all India average. The level of plan expenditure in West Bengal and Uttar Pradesh also have been quite low, 58 per cent and 70 per cent respectively of the all India average. It may be of some interest to note that Andhra Pradesh is the only State in the forward group where the average plan expenditure was below the all-India I average. Indeed there is a specific reason for this. During the first two years of the Eighth Plan, the per capita average expenditure in Andhra Pradesh was well above the all India average. The two populist measures viz. 'Two rupee rice' and 'total prohibition' introduced by the newly elected State Government in early 1994 eroded the resource base of the State considerably. As a result, there was a perceptible decline in the per capita plan expenditure of Andhra Pradesh in the subsequent three years of the Eighth Plan. The very low plan expenditure in Bihar has been due to a combination of very poor resource mobilisation efforts on the one hand and steep increase in the non-plan expenditure on the other. The lackluster performance of West Bengal and Uttar Pradesh are also due to similar reasons.

33. Percentage share of four important sectors in the Eighth Plan outlay in different States are presented in columns 3 to 6 of Table 5. The combined share of agriculture and irrigation which includes agriculture and allied sectors as well as irrigation and flood control is 24 per cent of the total at all India level. There is considerable variation in the percentage share of plan outlay devolved by different States to this sector. Six States in the first group and four States in the second group have a share higher than the national average. Low share of plan expenditure in Punjab and Tamil Nadu can be explained by the fact that both the States have almost reached the saturation level as far as irrigation development is concerned. The very high share of Gujarat is on account of the considerable outlay on Narmada Project.

34. The share of State Plan outlay on energy during the Eighth Plan works out to 23.6 per cent at the all India level. The principal component of this is the investment in the power sector. The figures given in column 4 indicate that there has been considerable variation across the States as far as the importance given to energy sector by the different State governments. The highest share of 41 per cent was given by Punjab. This was followed by West Bengal at about 40 per cent. The other States with considerable share of Eighth Plan outlay in energy sector are Madhya Pradesh (30%), Uttar Pradesh (27%) and Rajasthan (26%). The lowest share to energy sector was in Bihar where it was as low as 10.4 per cent. Considering the fact that Bihar's Eighth Plan outlay itself was the lowest in per capita terms the fact that only ten per cent of it is devoted to energy implies that very little investment in energy sector has taken place in Bihar during the Eighth Plan period. This along with the fact that Bihar has the lowest per capita energy consumption in the country leaves a very uncomfortable feeling in the minds of those who are concerned about the future of that State.

35. The State-wise share of Eighth Plan outlay in transport sector is given in column 5 of Table 5. The all India average is 8.6 per cent. Considering the fact that outlay in transport sector includes those in

State road network, minor ports and water ways as well as the various State transport services, this share appears to be rather modest. The States which have provided significantly higher share to transport sector are Andhra Pradesh (12.2%), Uttar Pradesh (10.9%), Orissa (10.1%) and Tamil Nadu (9.8%). The lowest share to Transport Sector was in Madhya Pradesh where it was just 2.7 per cent. This was followed by Punjab with 4.1 per cent. Since Punjab has a fairly well-developed road network and transport system, a lower share of plan outlay in this sector is understandable. In the case of Madhya Pradesh, however, in view of the relatively underdeveloped transport net work the meager share to transport sector is a matter of concern.

36. The share of Eighth Plan expenditure in social services is presented State-wise, in the last column of Table 5. Social services include education, health, water supply and sanitation, housing and various other services. Social development and human resources development critically depend on the public investment in social sector. Therefore, plan outlay in social services sector has an added significance. The all India average share of social services in the Eighth Plan was 26.2 per cent. Six States including four from the first group and two from the second group had expenditure share more than or equal to the all India average. The highest share was provided by Assam (41.1%) followed by Tamil Nadu (36%), Haryana (35.2%) and Himachal Pradesh (34.9%). Among the group of forward States low share in Kerala (19.5%) and Maharashtra (21.0%) are understandable in view of the fairly well developed social services, but the low share in Andhra Pradesh ( 19.9%) is difficult to comprehend in the light of comparatively low level of social services, especially elementary education. Similarly, among the group of backward States very low share for social services was provided in Bihar (20.3%) and West Bengal (19.3%) where significant gaps exist in the provision of social services.

### **Resource Transfer from the Centre to the States**

37. There is an inbuilt imbalance between the expenditure responsibilities and the revenue sources of the State governments. The founding fathers of the Indian Constitution were aware of this fact and ensured a comprehensive scheme of devolution of Central Tax revenues through the mechanism of Finance Commissions. The sharing of Personal Income Tax and Excise duties collected by the Centre with the States is periodically reviewed by the Finance Commission appointed every five years.<sup>4</sup> The Commission also decides the principles and the formula by which the allocable funds are to be distributed among the States.

38. An important aspect of the devolution of Central tax revenues under Finance Commission dispensation is that it has inbuilt bias in favour of fiscally weak States. Population and per capita income of the State get high weightage in the distribution formula. A State with larger population and lower per capita income gets a higher share in the Central tax revenues. The gap between revenue receipts (other than the Central tax revenues) and revenue expenditure is another parameter which decides the level of a State's share. As a result the Central tax share constitutes a major revenue source for the backward States. While it constitutes about one-third of the total tax revenues of all the States taken together; it accounts for more than 50 per cent of the total tax revenues of less developed States like Bihar and Orissa; but its share is less than 20 per cent of the total tax revenues of more developed States like Gujarat, Haryana, Maharashtra and Punjab.

39. A second channel of resources flow from the Centre to the States is Central Assistance for State Plans. The State plans are financed partly by States own resources and the balance by Central Assistance. Central assistance is provided as a block assistance of which 30 per cent is grant and the remaining 70 per cent is a long term loan. The rationale for this grant-loan proportion is imbedded in the fact that about 30 per cent of the plan expenditure was of revenue nature and 70 per cent was of capital nature when this proportion was decided in the late Sixties. Since plan expenditure of revenue nature is not expected to yield any financial returns for servicing the loan, this share was provided as grant by the Centre. In the case of fiscally weak States categorised as ' Special Category States' the grant component is, indeed, 90 per cent.

40. The distribution of Plan assistance to the States has been governed by 'Gadgil Formula' since the Fourth Five Year Plan (1969-74). As in the case with Finance Commission devolution, 'Gadgil Formula'

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

41. In the wake of the foreign exchange crisis, the Centre has been encouraging States to seek and absorb more and more external aid for development projects. The external aid to the States is routed through Central budget and devolved as additional Central Assistance for State plan. From the early Nineties, there has been a substantial increase in aid flows to the States. However, the major share of such flows have been absorbed by a few developed States. As a result, during the Eighth Plan period, there has been an apparent increase in the Central assistance to the more developed States. While 'Gadgil Formula' based normal Central assistance continued to be positively discriminating towards backward States, additional Central assistance for externally aided projects was skewed towards better off States. Indeed, external aid accounted for 40 to 60 per cent of Central Plan assistance to some of the developed States, while such assistance contributed less than 20 per cent of the Central Plan assistance to most of the backward States.<sup>5</sup>

42. As noted in the preceding paragraphs, resource flows through the Finance Commission and Planning Commission account for a substantial share of State resources. Though their overall effects are highly beneficial to the fiscal health of the States, there are certain adverse effects of such flows on the State finances. First, since the Finance Commission approach to revenue deficit is basically a gap-filling approach, this diminishes the incentive of the States to raise revenue receipts and reduce revenue expenditure. In other words, there is an implicit premium on fiscal profligacy. Second, continuing expenditure on plan schemes beyond the Five Year Plans became the committed expenditure of the States and add to their fiscal burden. Since there is a premium on plan expenditure, State governments have a tendency to under-fund maintenance expenditure to inflate the plan size. This results in poor maintenance of public assets created in the past and poor quality of public services which are outside the plan. A further complication is due to steep increase in the revenue component of plan expenditure over the years. While the grant-loan ratio of Central assistance is still 30:70, the revenue share of State Plan expenditure has crossed 50 per cent. As a result, the debt servicing burden of the States has gone up significantly.

### **Pattern of Private Investment.**

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

44. The total investment proposals received by all the States and UTs since the inception of economic reforms in August 1991 till the end of December, 1998 are worth Rs.757316 crore.

**Table 6: Investment Proposals and Disbursal of  
Financial Assistance for Investment**

Sl. No.	State	Percentage share of investment proposals between August 1991 and December 1998	Cumulative share of financial assistance disbursed by all India Financial Institutions (upto March end 1997)	Cumulative financial assistance disbursed by State Financial Corporations (upto March end 1997)
	(1)	(2)	(3)	(4)
1	Andhra Pradesh	8.3	7.2	7.8
2	Gujarat	18.7	13.5	9.3
3	Haryana	3.6	2.5	4.8
4	Karnataka	5.6	6.1	15.5
5	Kerala	1.1	1.7	4.4
6	Maharashtra	18.0	21.0	11.5
7	Punjab	3.4	2.4	3.6
8	Tamil Nadu	7.2	9.0	10.6
Sub-total (1 to 8)		65.9	63.4	67.5
9	Assam	0.7	0.5	0.5
10	Bihar	1.2	1.4	2.0
11	Madhya Pradesh	7.4	5.1	3.2
12	Orissa	2.2	1.8	3.7
13	Rajasthan	3.9	4.5	6.1
14	Uttar Pradesh	9.4	7.9	11.1
15	West Bengal	3.3	3.9	2.5
Sub-total (9 to 16)		28.1	25.1	29.1
All India		100.0 (757316.0)	100.0 (312502.0)	100.0 (20896)

Source: 1. Annual Report 1998-99, Ministry of Industry, Govt of India

2. RBI, Report on Currency and Finance 1997-98, Vol. 1

Note: 1. Investment proposals include Industrial Enterprises, Memorandum (IEM) Filed for items under delicensed sector and letter of indent in respect of items under licensed sector.

2. All India Financial Institutions include IDBI, IFCI, ICICI, UTI, LIC, GIC, IRBI and SIDBI.

The percentage share of different States in these investment proposals are given in column 2 of Table 6. The disparities are obvious. The group of forward States accounted for about two-third of the amount while the group of backward States accounted for just about 28 per cent of the amount. Indeed, Gujarat and Maharashtra received together 36.7 per cent of the investment proposals which is significantly more than the total investment proposals received by all the States in the second group. While Gujarat which accounted for less than 5 per cent of the population of the country received about 19 per cent of the private investment proposals, Bihar which accounts for more than 10 per cent of the population of the country received just little over one per cent of such proposals. This is a clear pointer to the direction of private investment in the coming years.

45. The cumulative share of financial assistance disbursed by all India Financial Institutions upto March end 1997, State-wise, are given in column 3 of Table 6. The great divide between forward and backward States is clear. Maharashtra alone received almost as much financial assistance as all the States in the second group put together. It may, however, be noted that Mumbai being the headquarters of large number of private companies in the country, it is possible that some of the financial assistance accounted for as Maharashtra's may be actually flowing into other States for actual investment. Here again, the share of States like Assam, Bihar and Orissa are far below their respective population shares. These figures give a clear indication as to where the resources mobilised through the all India financial institutions are flowing into.

46. The last column of Table 6 gives the share of cumulative financial assistance provided by the State financial corporations during 1991-96. The pattern is not any different from the other sources of financing private investment as far as the State-wise distribution is concerned. While over two-thirds of such assistance is provided by the financial corporations in the forward States, just 29.1 per cent is accounted for by all the States in the backward group.

47. The State-wise details of banking operations in the country as on the last Friday of March 1998 are presented in Table 7. Column two gives the State-wise distribution of bank branches in the country. It is obvious that, by and large, the bank branches are fairly distributed across the States without any major bias towards the group of forward States. It may need mention that this could be attributed to the banking sector policies pursued after nationalisation of the major commercial banks in the country in 1969.

**Table 7: Bank Branches, Deposits and Bank Credit (As on last Friday of March, 1998)**

Sl. No.	State	Bank Branches	Share of bank deposits	Share of bank credit	Credit-deposit ratio
	(1)	(2)	(3)	(4)	(5)
1	Andhra Pradesh	4956	5.3	6.9	72.1
2	Gujarat	3562	5.9	5.1	48.2
3	Haryana	1423	2.1	1.6	42.9
4	Karnataka	4572	5.4	6.6	68.2
5	Kerala	3165	4.6	3.7	44.3
6	Maharashtra	6071	19.9	25.9	72.3
7	Punjab	2427	4.6	3.2	38.6
8	Tamil Nadu	4676	6.6	11.5	96.1
Sub-total (1 to 8)		30861 (48.0)	54.4	64.5	
9	Assam	1241	1.0	0.6	32.8
10	Bihar	4981	4.3	2.1	27.5
11	Madhya Pradesh	4449	3.9	3.6	51.4
12	Orissa	2170	1.5	1.2	45.2
13	Rajasthan	3259	2.8	2.4	47.4
14	Uttar Pradesh	8810	9.9	5.1	28.6
15	West Bengal	4352	7.5	6.2	46.1
Sub-total (9 to 15)		29262 (45.5)	30.9	21.2	
All India		64267	100.00	100.0	55.5

Source: RBI, Report on Currency and Finance, 1997-98, Volume I.

48. The total bank deposits and the share different States as on last Friday of March 1998 are given in column 3 of Table 7. The inter-State and regional disparities are obvious from these data. The group of forward States account for over 54 per cent of the bank deposits while the group of backward States accounts for only about 31 per cent of the bank deposits. Maharashtra alone account for about 20 per cent of the bank deposit.

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

50. The last column of the Table gives the credit-deposit ratios for different States. Credit-deposit ratio captures the discrepancy in credit absorption vis-a-

vis deposit mobilisation. Exceptions apart, credit-deposit ratios are much more favourable to the group of forward States as compared to the backward States.

### Level of Infrastructure Development

51. Availability of adequate infrastructure facilities is an important pre-condition for sustainable economic and social development. Broadly, infrastructure can be physical, social or financial in nature. Energy, transport, irrigation, finance, communications, education and health are some of the more important infrastructural facilities. While private sector may provide some of these facilities, market forces may not always ensure adequate supply of a variety of infrastructure facilities. Data on a few important infrastructure facilities in different States are presented in Table 8. The relative infrastructure development index given in column 6 of the Table is a combined index of physical, social and financial infrastructure as developed by Centre for Monitoring of Indian Economy. (CMIE).

**Table 8: Level of Infrastructure Development**

Sl No.	State	Consumption of power per capita (kwh) in 1996-97	Registered Vehicles per 1000 persons as on 31.3.97	Telecom lines per 100 persons as on 31.3.99	Percentage of irrigated area in gross cropped area as at end of 1994-95	Relative infrastructure development index
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Andhra Pradesh	332	42.1	2.36	39.6	96.1
2.	Gujarat	686	91.5	3.75	28.9	122.4
3.	Haryana	508	64.6	3.18	77.2	141.3

4.	Karnataka	338	56.5	3.25	23.9	96.9
5.	Kerala	236	46.5	4.66	13.6	157.1
6.	Maharashtra	557	57.2	4.93	15.3	107.0
7.	Punjab	790	103.2	5.34	94.8	191.4
8.	Tamil Nadu	469	56.9	3.84	49.5	144.0
9.	Assam	108	19.9	0.95	15.0	78.9
10.	Bihar	145	16.4	0.58	43.2	81.1
11.	Madhya Pradesh	368	38.8	1.38	22.3	75.3
12.	Orissa	447	22.9	1.05	25.8	97.0
13.	Rajasthan	295	45.1	2.11	29.1	83.0
14.	Uttar Pradesh	194	22.7	1.21	62.6	103.3
15.	West Bengal	197	19.8	1.86	28.7	94.2
All India		338	44.0	2.55	36.5	100.00

Source: Planning Commission and CMIE - Profiles of States, March, 1997

52. Consumption of power per capita as given in column 2 is an indicator of the level of energy availability and energy consumption in different States. It is noteworthy that the level of consumption of power per capita in all the States in the first group except Andhra Pradesh and Kerala, is well above the all-India average, while it is below the national average in all the States in the second group except Madhya Pradesh and Orissa.<sup>6</sup> Further, the highest power consumption per head in Punjab at 790 kwh is more than seven times the level in Assam at 108 kwh. While, to a large extent, the consumption level of power in a State is an indicator of the level of economic activity and the level of prosperity it may also reflect its availability and cost. The important point, however, is the fact that there is substantial inter-State variability in the power consumption per capita among the Indian States.

53. State-wise vehicle density per 1000 persons is given in column 3 of Table 8 which is an indicator of the level of development of road transport across the States. This may be only a partial indicator of transport development as railways are not included. Similarly, road length per unit area or the quality of road may also be important indicators of transport development. Nevertheless, the vehicle density is an important indicator of overall quality of transport service in a State. While the all India average was 44.0 vehicles per 1000 persons in 1997, it varied from a low of 16 in Bihar to a high of 103 in Punjab. While among the group of forward States, only Andhra Pradesh has a vehicle density lower than the national average, all States in the backward group except Madhya Pradesh had a vehicle density lower than or equal to the all India average.

54. Telecommunication lines per 100 persons is a universally used indicator of the level of development of communication. The State-wise telecom density per 100 persons, as on 31<sup>st</sup> March 1999, is given in column 4 of Table 8. The all India average of 2.55 telecom lines per 100 persons is very low as per international standards; most of the east Asian countries have reached a level of 10 lines or more per 100 persons. The data indicate that there is considerable difference among the States in terms of telecom density. While all States except Andhra Pradesh in the first group have telecom density above the national average, none of the States in the second group has telecom density above the national average. It is also noteworthy that in recent years considerable expansion of telecom facility has taken place in the country. As a result, the telecom density in the country increased from 0.90 per hundred persons in March 1994 to the present level of 2.55 per 100 persons over a five year period. The ongoing expansion programmes are likely to ensure a much higher telecom density in the coming years. Another point to be noted is that most of the existing telecom lines are in the major cities. For example, the high telecom density of 4.93 for 100 persons in Maharashtra may very well imply a very high density of, say, 20 in Mumbai -Pune belt and a below 2.00 density in the rest of the State. The real task is to develop an efficient rural telecom system in the country.

55. The share of irrigated area in gross cropped area is an important indicator of the level of agricultural development of a region. Assured irrigation being a pre-condition for modern agricultural practices, the level of labour absorption and productivity will critically depend on the quality of irrigation. State-wise percentage of irrigated area in gross cropped area are given in column 5 of Table 8. As compared to all India average of 36.5 per cent, six States have higher percentage share and 9 States have lower percentage share. Punjab has the highest share of about 95 per cent irrigated area, followed by Haryana (77.9%) and Uttar Pradesh (62.6%). It is to be noted that some of the forward States like Gujarat, Karnataka and Maharashtra, have lower level of irrigation mainly because of the comparatively lower irrigation potential in these States. Similarly, though the irrigation level in Tamil Nadu is only about 50 per cent, the State has almost exhausted its irrigation potential. The situation in AP is not much different. On the other hand, in States like Assam, Bihar, Orissa and UP, much more irrigation potential remains unexploited. Since a significant increase in productivity of agriculture in these States is essential for reduction of rural poverty, the importance of fully exploiting the irrigation potential in these States need special mention. Indeed, removal of rural poverty in most areas of eastern India critically depends on raising the productivity of agriculture, especially the productivity of rice from one to one-and-a-half tonnes per hectare to 3 to 4 tonnes per hectare. This requires considerable public and private investment in irrigation.

56. The composite index of infrastructure development constructed by CMIE includes the following items with their respective weights in brackets. Transport facilities (26%), Energy consumption (24%), Irrigation facilities (20%), Banking facilities (12%), Communication infrastructure (6%), Educational Institutions (6%) and Health facilities (6%). The value of index is normalised at 100 for all India. The State-wise indices are presented in the last column of Table 8. Except two States viz. AP and Karnataka, all other States in the first group have the value of the index above 100. However, all the States in second group except UP have indices below the national average. Punjab has the highest level of infrastructure development with the index at 191.4, followed by Kerala at 157.1 and Tamil Nadu at 144.0. The lowest level of infrastructure is in Madhya Pradesh with the index at 75.3 followed by Assam at 78.9. Bihar and Rajasthan also have low indices at about 81 and 83 respectively. It is clear that considerable investment in infrastructure sectors in these States will be essential for them to catch up with the forward States where the indices are considerably higher. Of course, the ranking of the States is influenced by the relative weights assigned to different items of infrastructure.<sup>7</sup>

### Intra-State Disparities

57. In the foregoing sections, we have examined the various dimensions of interstate disparities. An important aspect of regional disparities in India, which could not be covered by this approach, is the significant level of regional disparities which exist within different States. An important cause of regional tensions which lead to popular agitations 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 agitations based on perceived neglect of certain backward regions in some of the bigger States. The best examples of such cases are the creation of Andhra Pradesh and Gujarat in the Fifties and creation of Punjab, Haryana and Himachal Pradesh in the Sixties. The past experience, by and large, is that when two or more States are carved out from an existing one or a new State is created by combining parts from more than one State on the basis of some homogeneity criterion like language or some other common heritage, the newly created States develop faster than the prepartition States.

58. A number of States included in our analysis have clearly identifiable regions which are at different stages of development and which have distinct problems to tackle. Creation of new States, certainly, may not be a solution to such regional disparities. At the same time, it is important to recognise such intra-State regional disparities explicitly and tackle them through special efforts. As we have noted in an earlier section, Maharashtra is a typical example of a State where overall development is quite good in terms of almost all indicators, but extreme regional disparities exist.<sup>8</sup> AP has three distinct regions which are at different stages of socio-economic development, viz. Coastal Andhra, Telangana and Rayalaseema. Similarly, North Bihar and South Bihar are at different stages of development with entirely different problems. UP 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.

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

60. An important question, however, is why after 50 years of planned development efforts, such intra-State disparities remain unattended? Often, the answer depends on whether it is given by people who are the victims of underdevelopment or not. The representatives of the backward regions often attribute the cause of the backwardness as neglect on the part of the rulers of the State, who are often from the well heeled regions. The ruling class may come up with any number of explanations for the underdevelopment of backward regions which are beyond their control. Indeed, there are specific institutional arrangements for development of backward regions in some of the States. Maharashtra and UP are two such examples. In Maharashtra, there are separate regional plans for the backward regions. In UP, there is a separate regional plan for the hill region which is characterised as Uttarkhand.

61. Besides the State-specific efforts for reducing intra-State regional disparities, a number of Centrally Sponsored Programmes have been in operation for the last two to three decades for taking care of specific aspects of backwardness of such regions. The Tribal Development Programme, the Hill Area Development Programme, the Western Ghat Development Programme, the Drought Prone Area Programme and Desert Development Programme are examples of such ongoing efforts. The evaluation studies of some of these programmes have indicated clearly identifiable benefits of such programmes, though at the same time criticised these programmes for their cost-ineffectiveness due to various drawbacks in their design, planning and implementation. Often they are conceived, planned and implemented by the bureaucracy without any involvement of the local people.

62. More often, discontent and agitations on the basis of perceived neglect of the backward regions by the rulers at the State level and at the Centre are led by local leaders who demand some form of autonomy to determine their own destiny. Even those who demand separate State for their region are often willing to settle for autonomous regions within the existing State with considerable financial and administrative powers. The problem, however, is that the State level rulers are generally unwilling to part with their own power of patronage. Those who demand more autonomy for the States from the Centre are often unwilling to share power, either administrative or financial, with the elected local bodies. Indeed, with the 73rd Amendment Act of the Constitution, the Panchayat Raj Institutions are expected to function as local governments with sufficient finances and functions to take care of most of the developmental functions. If they are allowed to function as responsible self-governing local governments, considerable ground can be covered to reduce the regional disparities within the States.

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

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

## Concluding Discussion

64. The data presented in the earlier Sections and the analysis so far clearly establish that there are considerable disparities in socio-economic development across the Indian States. Efforts through the planning process during the first three decades of the Indian Republic had only partially succeeded in reducing regional disparities. The accelerated economic growth since the early Eighties with increased participation by the private sector appears to have aggravated regional disparities. The on-going economic reforms since 1991 with stabilisation and deregulation policies as their prime instruments and a very significant role for the private sector seem to have further aggravated the inter-State disparities.

65. A marked dicotomy between the forward and backward groups of States has been emerging. The forward States are characterised by better demographic and social development higher per capita incomes and more developed economies, lower level of poverty, higher level of revenue receipts and State government expenditure on plan and non-plan, higher per capita resource flows and private investment and significantly better infrastructural facilities. On the other hand, the backward States are characterised by lower level of demographic and social development, lower per capita incomes and backward economies, higher level of poverty, lower level of revenue receipts and lower State government expenditure on plan and non-plan, lower per capita resource flows and private investment and underdeveloped infrastructural facilities.

66. The pressing requirement of the backward States is more investment in their social and infrastructural sectors. To improve the level of social services massive investment in primary education and primary health services are required. Improvement in literacy especially female literacy and health indicators like infant mortality and expectation of life at birth will bring down the rate of growth of population. Stabilisation of population, especially in the 'BIMARU' States is an important pre-condition for the sustained economic growth of that region. The experience of Kerala and to a considerable extent that of Tamil Nadu clearly indicate that even at comparatively lower level of economic development measured in terms of per capita income, a State can enjoy comparatively higher level of social development. Again, one of the major reasons for the fast economic growth of east Asian economies in the recent decades has been their higher level of investment in human capital development in the preceding decades. Further, it is argued that equitable sharing of the gains of economic growth in the east Asian societies has been facilitated by the universal literacy and better health standards attained by all the citizens in those countries.

67. Improvement in the basic infrastructural facilities like power, irrigation, transport and telecommunication in the backward States is a precondition of improving the quality of life of the people and to usher in sustainable economic development in those States. Availability of assured power supply, developed transport system and modern telecommunication facilities are important factors to attract private investments into these States. Similarly, development of the irrigation potential fully will go a long way in improving the productivity of agriculture and fully engaging the underemployed rural labour productively which in turn will improve the rural incomes substantially and reduce the rural poverty significantly. A major problem, however, is the lower user charges for power, transport and irrigation which lead to heavy losses to the State exchequer. Further, the State Electricity Boards, State Transport Corporations and State Irrigation Departments are starved of essential funds for even proper maintenance of their facilities. Competitive populism practised by State governments often lead to this

sad situation. Because of the very poor fiscal health of SEBs, private power producers are also reluctant to invest in those States because they have to face insolvent SEBs as monopoly power purchasers.

68. The recent trends in investments, both public and private, indicate that left unaltered by effective public intervention inter-State disparities are likely to further aggravate. The current situation can be stylised as follows. There is need for higher level of investment in social services and infrastructure in backward States as compared to forward States. The governments of backward States are fiscally weak and as such they are unable to find enough resources to meet these investment requirements. Forward States are fiscally better off to improve their comparatively better social and economic infrastructure further. The better off States are able to attract considerable amount of private investment, both domestic and foreign, to further improve their development potential because of the existing favourable investment climate including better socio-economic infrastructure. The backward States are unable to attract private investments because of unfavourable investment climate including poor infrastructure. They are unable to improve the investment climate by improving the existing poor infrastructural facilities due to lack of resources. Their lack of resources is linked to their poor development. Thus, they are truly in a vicious circle. The solution lies in breaking this vicious circle.

69. In the past, especially during the first three decades of planned development, a major catalyst for development of backward regions was the massive Central investment in key sectors. Though such investments might not have invariably triggered regional development, such Central interventions had tremendous positive impact in transforming the face of a number of backward regions in various States. Since the early 1980s, the scope and role of such central investment have been steadily coming down. The liberalisation process and the various reforms in financial and industrial sectors have further reduced the scope of such central investments. Further, the Centre has a severe budget constraint which will not allow any sizeable investments in backward regions. The Centre is hard pressed even to take care of critical infrastructural and social sector investments. While resource flows to the States via Finance Commission awards and Planning Commission dispensation will continue and are likely to remain positively discriminating in favour of the backward States, direct public sector investments by the Centre in the States are likely to dry up gradually.

70. An important factor which influences the speed of socio-economic progress of a State is the quality of governance. It is not a coincidence that, by and large, the States which are in the forward group are better administered as compared to the States in the backward group. A better administered State is more efficient in raising revenues and putting the revenues to better use. Such States are quick in responding to opportunities which enable them to attract more private investment both from domestic and foreign investments. Again, such States are often able to prepare viable projects and successfully bid for Central assistance or for external funding. Surveys carried out among the private investors clearly indicate that it is efficiency of administration and availability of infrastructural facilities which are more attractive to them rather than the various tax concessions and incentives offered by the State governments. In the backward States, things move slowly. Private sector is willing to deal with political and bureaucratic corruption as long as things move faster. In the backward States, often corruption and inefficiency coexist and this is a deadly combination.

71. To conclude, if the existing trends in differential rate of socio-economic development continues, regional disparities in India are bound to accentuate. Therefore, it is imperative that the present trends are arrested and preferably reversed. This will require concerted efforts on the part of the concerned State governments and the Centre. Resources may be a major constraint, but not necessarily the only or not even the most important one. The determination on the part of the State government, the ruling elite and the people at large is even more important. Centre's helping hand in the form of focused investment, especially in social sectors and key infrastructural sectors will facilitate the tasks of the concerned States. Meaningful decentralisation of decision making and financial powers with appropriate accountability at all levels will facilitate faster socio-economic development of the backward regions where people are likely to take up considerable share of the developmental responsibilities.

## NOTES

(The views expressed in this Paper are strictly those of the author. The author is grateful to the participants of the seminars at Delhi School of Economics, Institute of Social Studies and National Council of Applied Economic Research, where some of the main findings have been presented and significant suggestions have been received).

1. These are (i) convergence of Incomes across Indians States – A Divergent View by M.G. Rao, R.T. Shand and K.P. Kalirajan, (ii) Trends in Inter-State Inequalities of Income in India by Nirupam Bajpai and Jeffery D. Sachs and (iii) Widening Inter-State Economic and Social Disparities in India by Fahrettin Yagci. The first study was published in EPW, March 27, 1999. The other two were presented in a seminar organized jointly by World Bank and Institute of Social and Economic Change at Bangalore in May, 1999.
2. These percentage shares are based on 1991 Census. Indeed, the subsequent varying State-specific growth of population might have resulted in a reduction of the share of the forward group to about 40 per cent and an increase in the share of the backward group to about 56 per cent.
3. Indeed, in the case of West Bengal the share of agriculture in NSDP has gone up somewhat over the last two decades. This is mainly on account of the impressive growth performance of agriculture in that State since the late Seventies. The production of paddy, the principal crop of the State, more than doubled during this period.
4. The Tenth Finance Commission recommended an alternate formula for devolution of a fixed share of the pooled tax revenues from all major taxes including customs duty and corporation tax. This was to be made effective from April, 1996 which required an amendment to the Constitution. Though the Government has accepted alternate formula, in principle, the required Constitutional amendment is yet to be carried out.
5. Of the total external aid absorbed by the States during the Eighth Plan period, more than 70 per cent was accounted for by just five States of which four were in the developed group. Uttar Pradesh was the only exception.
6. Orissa figure is somewhat out of tune with the ground realities of that State. Apparently the per capita average power consumption got inflated on account of inclusion of high tension industrial users like the aluminum industry in that State.
7. For example, it is apparent that the index for Uttar Pradesh got somewhat inflated by a relatively high level of irrigation and a substantial weight attached to irrigation. In comparison, the index is very low for Madhya Pradesh on account of very low level of irrigation. The reality is that the irrigation potential in Madhya Pradesh is significantly lower than that of Uttar Pradesh.
8. An important characteristic of Maharashtra's development is its regional concentration. Most of the high income activities are concentrated in Mumbai-Pune region. Further, a substantial share of income accrues to migrants who transfer part of their earnings to their places of origin. These factors may partly explain the paradox of high per capita NSDP and high share of population below poverty line in Maharashtra.

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