



Economic Reforms and Inter-Regional Disparities

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SECTION: I

INTRODUCTION:

At the time of independence, considerable difference in economic and social development of different regions of the country existed. One of the main objectives of the planning process initiated in the early 1950s was to reduce these regional differences and to achieve, regionally balanced development. Various policy instruments including direct public investment by the Central in infrastructure, guided private investment and building up of capacity enhancing institutions have been tried to achieve this objective. These policies were continued during the first three decades of planning. Though these measures were not highly successful, they ensured that disparities were not getting aggravated during this period. With the initiation of economic reforms in the early 1980s, which culminated in full-fledged deregulation, liberalisation and globalisation in the early 1990s, has brought about a paradigm shift in Indian economy. The Indian economy had entered a path of rapid economic growth. There was acceleration in the growth rate of GDP and per capita income after 1991. As a result of large base and continuous growth of the economy for over two decades, India claims to have emerged as the 4th largest economy in the world in terms of ppp and the second fastest growing economy in the world. The on going reform process has completed its 17 years, now it is relevant to ask whether economic reforms have promoted the objective of regionally balanced development.

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The impact of India's economic reforms on economic performance has been the subject of much academic study and public debate in India, but the focus has been largely on the performance of the economy as a whole or of individual sectors. The performance of individual states in the post-reforms period has not received comparable attention and yet there are very good reasons why such an analysis should be of special interest.

The study focuses on the issue of inter-state disparities of the 14 major states in the post-reform period beginning from the 1991-92 to 1998-99 and further from 2000-01 to 2005-06.

The coefficient of variation of year – to – year growth rates for a state is used as a measure of inter-state disparities.

Section II presents the estimated growth of GSDP and Per Capita GSDP of the 14 major states in the pre-reform period 1980-81 to 1990-91 and in the post-reform period 1991-92 to 1998-99. This section also compares the performance of these states during these two decades. Section III presents the estimated growth of GSDP and Per Capita GSDP of the 14 major states in the period of 2000-01 to 2005-06. This section also compares the performance of these states during these periods of time. Section IV finds casual factors of the slow growing states. Section V suggests policy measures, which need to be addressed to improve the growth rate of slow growing states. Section VI offers some concluding remarks.

OBJECTIVES:

1. To present the estimated growth of GSDP and Per Capita GSDP of the 14 major states in the pre-reform period (1980-81 to 1990-91) and in the post-reform period (1991-92 to 1998-99) and also compare the performance of these states during these two decades.
2. To present the estimated growth of GSDP and Per Capita GSDP of the 14 major states in the period of 2000-01 to 2005-06 and also compares the performance of these states during these periods of time.

METHODOLOGY:

The present study basically being secondary data based exclusively relies on the publications and the reports of the study terms and committees of the government of India and from individual researches. Along with, the various journals of education have been taken into consideration for the purpose.

SECTION: II

INEQUALITIES IN GROWTH RATE OF GROSS STATE DOMESTIC PRODUCT:

Table 1 presents the estimated growth rates of GSDP in the 14 major states in the pre-reform period 1980-81 to 1990-91 and in the post-reform period 1991-92 to 1998-99.

The following conclusions are worth noting.

1. The growth rate of the combined GSDP of all the 14 states taken together increased from 5.2% in the pre-reform period to 5.9% in the post-reform period. This acceleration in the combined GSDP is similar to the picture that emerges from the national accounts, except that the post-reforms acceleration of GDP in the national accounts is much sharper. GDP grew at 5.5% per year in the first period, which was only marginally faster than the 5.2% growth recorded by the combined GDP of the 14 states. However, GDP growth accelerated to 6.5% in the second period, which was much faster than the 5.9% growth in the combined GSDP. The faster growth recorded in the national accounts probably reflects the impact of the revision in the national accounts GDP series introduced from 1993-94 onwards. It is possible that if the GSDP data were revised similarly, the growth rates of GSDP of the different states in the second period would be correspondingly higher.

Table – 1 Growth Rate of Gross State Domestic Product

No.	State	1980-81 to 1990-91	1991-92 to 1998-99
1	Bihar	4.66	2.88
2	Rajasthan	6.6	5.85
3	U.P	4.95	3.58
4	Orissa	4.29	3.56
5	M.P.	4.56	5.89
6	A.P.	5.65	5.2

7	Tamil Nadu	5.38	6.02
8	Kerala	3.57	5.61
9	Karnataka	5.29	5.87
10	W.B.	4.71	6.97
11	Gujarat	5.08	8.15
12	Haryana	6.43	5.13
13	Maharashtra	6.02	8.01
14	Punjab	5.32	4.77
	Combine GSDP Of 14 States	5.24	5.90
	GDP	5.47	6.50
	Co. Var	16	28

Source: Ahluwalia, M.S²

2. There is variation in growth performance across states in both periods, with some states growing faster than others, but the degree of dispersion in growth rates increased very significantly in the 1990s. The coefficient of variation of the growth rates increased from 16 in the first period to 28 in the second. The range of variation in the first period was from a low of 3.6% per year for Kerala to a high of 6.6% in Rajasthan, which gives a ratio of 1.8 between the highest and the lowest. In the second period, the range increased from a low of 2.9% per year for Bihar to a high of 8.2% for Gujarat, increasing the ratio to 2.8.
3. Only four states achieved relatively strong growth with growth rates of GSDP in the 1990s above 6.0 per cent in the second period. These states are Gujarat (8.2%), Maharashtra (8.0%), West Bengal (7.0%) and Tamil Nadu (6.0%) In addition, Madhya Pradesh, Rajasthan and Karnataka all grew at 5.9%, which is almost at the 6% level.
4. An interesting feature of the performance in the 1990s is that the popular characterisation of the so called BIMARU states (Bihar, Madhya Pradesh, Rajasthan and UP) as a homogeneous group of poor performers, a grouping originally proposed in the context of observed commonalities in demographic

² State Level Performance Under Economic Reforms in India,” Paper presented at the Centre for Research on Economic Development and Policy Reform Conference on India Economic Prospects: advancing Policy Reform, May 2000; Stanford University

behaviour, does not hold as far as economic performance in the post-reforms period is concerned. Bihar and UP performed very poorly, growing much more slowly than the average, but the other two members of this group, Rajasthan and Madhya Pradesh have performed reasonably well. Rajasthan shows a deceleration in growth of GSDP compared with the 1980s, but it remained a good performer in the 1990s growing at about the average for all states. Madhya Pradesh on the other hand, which had grown more slowly than the average in the 1980s, accelerated significantly in the 1990s.

INEQUALITIES IN GROWTH RATE OF PER CAPITA GROSS STATE DOMESTIC PRODUCT:

Table 2 presents the estimated growth rates of GSDP and combine GSDP of the 14 major states during 2000-01 to 2005-06.

Table – 2 Per Capita Gross State Domestic Product at Current Price (%)

No.	State	1980-81 to 1990-91	1991-92 to 1998-99
1	Bihar	2.45	1.27
2	Rajasthan	3.96	3.48
3	U.P	2.6	1.28
4	Orissa	2.38	2.08
5	M.P.	2.08	3.67
6	A.P.	3.34	3.67
7	Tamil Nadu	3.87	4.78
8	Kerala	2.19	4.35
9	Karnataka	3.28	4.08
10	W.B.	2.39	5.14
11	Gujarat	3.08	6.37
12	Haryana	3.86	2.85
13	Maharashtra	3.58	6.19
14	Punjab	3.33	2.93
	Combined GSDP 14 States	3.03	4.02
	Co. Var	22.01	42.70

Source: Ahluwalia, M. S.

The following conclusions are worth noting.

1. The growth rate of the combined Per Capita GSDP of all the 14 states taken together increased from 3.03% in the pre-reform period to 4.02% in the post-reform period.
2. There is variation in the growth of Per Capita GSDP across states in both periods. The degree of dispersion in growth rates increased very significantly in the 1990s. The coefficient of variation of the growth rate of Per Capita GSDP increased from 22 in the first period to 42 in the second.

SECTION: III

PERFORMANCE OF GSDP IN RECENT YEARS:

Table 3 presents the state-wise annual growth rate of GSDP for the period of 2000-01 to 2005-06.

Table 3
Growth Rate of Gross State Domestic Product at Current Price (%)

No.	State	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	Average
1	Bihar	14.1	0.92	12.65	2.83	10.2	7.98	8.3
2	Rajasthan	-0.34	11.33	-3.51	26.04	3.3	7.75	6.7
3	U.P.	3.64	4.95	8.71	9.65	8.6	13.44	7.8
4	Orissa	11.36	7.94	6.98	22.3	16.29	9.95	11.9
5	M.P.	-1.16	9.52	0.1	18.43	4.32	8.43	6.1
6	A.P.	12.12	8.31	7	13.52	10.25	12.16	10.4
7	Tamil Nadu	9.45	1.51	6.24	11.07	14.15	11.33	8.5
8	Kerala	5.14	7.27	11.49	11.29	11.5	11.16	9.4
9	Karnataka	6.99	4.83	8.86	9.42	15.55	14.95	9.6
10	W.B.	6.18	9.48	6.94	12.53	10.3	13.17	9.4
11	Gujarat	1.16	11.19	14.53	18.76	10.77	16.37	11.7
12	Haryana	13.28	12.76	10.75	13.68	13.53	13.63	12.8
13	Maharashtra	1.29	8.24	10.32	12.77	12.25	14.14	9.4
14	Punjab	11.22	6.67	3.32	9.08	8.5	12.6	8.4
	Combine Average GSDP	6.7	7.5	7.5	13.7	10.7	11.9	9.7

	All-India GDP	7.4	8.6	7.6	12.6	11.4	13.8	10.2
	Co. Var	78.1	46.7	65.4	43.7	35.1	22.2	

Source: Economic Survey 2007-08

The following conclusions are worth noting.

1. The growth rate of the all India GDP increased from 7.4% to 13.8% during 2000-01 to 2005-06.
2. The average growth rate of the all India GDP was 10.2% during this period of time.
3. The growth rate of the combined GSDP of all the 14 states taken together increased from 6.7% to 11.9% during 2000-01 to 2005-06.
4. The average growth rate of the all India GDP was 9.7% during this period of time.
5. The study shows that in recent years the coefficient of variation of the growth rates decreased from 78.1 in the 2000-01 to 22.2 in the 2005-06.
6. There is only one exceptional year i.e. 2002-03 in which the coefficient of variation of the growth rates increased 65.4 from 46.7 compare to previous year.
7. During this period of time also richer states are doing better then the poorer states.
8. Four states achieved very high growth rates of GSDP above 10 per cent (higher than all India GDP growth rate) in this period of time. These states are Haryana (12.8 %), Orissa (11.9%), Gujarat (11.7%), and Andhra Pradesh (10.4 %).
9. An interesting feature of the performance in this period of time is that, the so called BIMARU states (Bihar, Madhya Pradesh, Rajasthan and UP) as a homogeneous group of poor performers, has performed poorly compare to richer states. These all the states achieved lower growth rate of GSDP compare to all India GDP growth rate.
10. Haryana achieved the highest average growth rate i.e. 12.8% during this period of time. While the average growth rate of M.P. is the lowest i.e. 6.1% during this period of time.

PERFORMANCE OF PER CAPITA NSDP IN RECENT YEARS:

Table 4 presents the state-wise annual growth rate of Per Capita NSDP for the period of 2000-01 to 2005-06.

The following conclusions are worth noting.

1. The growth rate of the Per Capita NSDP (Net State Domestic Product) increased from 5.1% to 12.1% during 2000-01 to 2005-06.

2. The average growth rate of Per Capita NSDP was 8.45% during this period of time.
3. The growth rate of the combined Per Capita NSDP of all the 14 states taken together increased from 3.5% to 9.8% during 2000-01 to 2005-06.
4. The average growth rate of the combined Per Capita NSDP was 7.53% during this period of time.
5. The study shows that in recent years the coefficient of variation of the growth rates of the Per Capita NSDP decreased from 162.7 in the 2000-01 to 31.5 in the 2005-06.
6. There is only one exceptional year i.e. 2002-03 in which the coefficient of variation of the growth rates of the Per Capita NSDP increased 71.2 from 9.8 compare to previous year.

Table 4
Per Capita Net State Domestic Product at Current Price (%)

No.	State	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	Average
1	Bihar	10.9	-3.1	11.8	-0.2	8	5.5	5.5
2	Rajasthan	-4.3	9.8	-7.3	27.3	0.6	6.3	5.4
3	U.P	1.4	2.5	6.7	7.8	6.1	11.1	5.9
4	Orissa	-1.1	6	6.4	20.9	14.4	6.1	8.8
5	M.P.	-4.2	7	-3.1	16.3	1.6	7.7	4.2
6	A.P.	11.2	8	5	12.6	7.7	10.5	9.2
7	Tamil Nadu	8	0	4.2	10.5	12.6	10.4	7.6
8	Kerala	3.2	5.7	10.3	10.5	8.7	10.1	8.1
9	Karnataka	4.2	1.8	7.1	7.7	18	12.8	8.6
10	W.B.	4.4	7.9	5.2	11	8.2	12	8.1
11	Gujarat	-2.5	7.8	14.4	18.7	9.5	15.9	10.6
12	Haryana	9.9	8	8.4	11.5	11.2	10.8	10.0
13	Maharashtra	-1.5	6.3	9.2	11.5	10.8	12.4	8.1
14	Punjab	8.8	3.9	1.7	5.9	5.6	6	5.3
	Combine Average Per Capita GSDP	3.5	5.1	5.7	12.3	8.8	9.8	7.53
	All-India GDP	5.1	6.9	6.2	10.8	9.6	12.1	8.45

	Co. Var	162.7	71.2	99.8	55.5	52.8	31.5	
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Sources: Economic Survey 2007-08

7. During this period of time also richer states are doing better than the poorer states.
8. An interesting feature of the performance in this period of time is that, the so called BIMARU states (Bihar, Madhya Pradesh, Rajasthan and UP) as a homogeneous group of poor performers, has performed poorly compared to richer states. These all the states achieved lower growth rate of Per Capita NSDP compared to all India NSDP growth rate. The growth rate of NSDP of all these states was 5.5%, 4.2%, 5.4% and 5.9% respectively.
9. Gujarat stood first with 12.8% growth rate of NSDP during this period of time. While the average growth rate of M.P. is the lowest i.e. 4.2% during this period of time.

SECTION: IV

WHY DIFFERENTIAL PERFORMANCE:

Two major factors seem to be operating. Firstly, efforts towards high growth with emphasis on private decision makers have been lopsided. Rational private decision makers tend to concentrate around centres where facilities and ready markets are available. High inequality in infrastructural facilities and market conditions led to concentration of private players in few regions – both during the Green revolution in the agricultural sector and in the post-reform liberalised industrial sector. This has accentuated regional disparity in the respective sectors.

Secondly, to counterbalance rising social and political unrest against regional disparity, the authorities have gone slow on the growth front lest things go ‘out of control.’ Efforts for achieving high growth have been half-hearted and the ‘Big Push’ thus never came. The economy thus remained trapped within a moderate long run growth rate but with an increased disparity. Against this backdrop, the current Tertiary sector revolution has to be thus monitored cautiously lest it brings about a fresh wave of Inequality among states.

Major Findings:

The paper finds that the inter-state disparities in the growth of Gross State Domestic Product (GSDP) have increased from 16 to 28 in the post-reform period beginning

from the early nineties when compared to the eighties. In general, the richer states have grown faster than the poorer states. The inter-state disparities in the growth of Per Capita Gross State Domestic Product have also increased from 22.01 to 42.70 in the same period of time. The paper also finds that the inter-state disparities in the growth of Gross State Domestic Product (GSDP) and in the growth of Per Capita Net State Domestic Product have decreased from 78.1 to 22.2 and 107 to 26.8 respectively in the recent years i.e. from 2000-01 to 2005-06.

SECTION: V
POLICY INITIATIVES FOR BALANCED REGIONAL GROWTH:

A few possible solutions to this problem may also be indicated. It is now accepted that henceforth the State will have a less active role to play. It should therefore turn its attention, resources and emphasis towards being a facilitator rather than a producer. Providing adequate infrastructural facilities in the hitherto lagging regions will work better rather than directing investors to those places. This in itself will be a major step towards equitable regional development.

Secondly, there must be a shift from Central Planning to Multilevel Planning. The District Development Authorities must be made fully functional with the responsibility and power to draw up local plans, arrange for finance and implement those projects. The potential of these local bodies for effective implementation of development programmes can be realized only when the local information base and decision-making capacities are substantially improved. The national development agencies must, therefore, accord priority to supporting 'citizen participatory processes'. Investment in training and motivating the people managing these institutions is as important as the creation of infrastructure and human capital. Well-focused, well-managed and pro-active local institutions would be best placed to eradicate inequality. Devolution of political, administrative and financial power to the grass-root level is the need of the hour.

Thirdly, the backward regions should be clearly identified, along with their capabilities and potentialities so that separate strategies may be adopted for each type of backward districts as drought-prone, industrial development in some areas of the districts cannot spread to the rest of the districts due to inbuilt constraints.

Naturally, incentives alone are not adequate to bring about dispersal of industries. Instead, agricultural development becomes significant in the growth process. There is, therefore, the necessity to co-ordinate the dispersal process and the development of agriculture through a chain of agro-based industries.

SECTION: VI

CONCLUSION:

The solution of regional imbalance does not lie in backtracking from reforms, or even slowing them down. On the contrary, the compulsions of globalization are such that India must look to every possible means of enhancing efficiency in resource use in order to increase competitiveness. Unless this is done, it will certainly not be possible to sustain the growth achieved in the post-reforms period, let alone accelerate it further. The better positioned states must therefore be allowed, and indeed even encouraged, to perform up to their full potential and the lessons learned from their success should be spread elsewhere. However, the states which have not benefited from the reforms, and indeed may even have suffered because of a reallocation of investment resources towards other better endowed states, must be assisted by addressing the specific deficiencies which are holding them back. To do this, we need to have some idea of what are the critical determinants of growth at the state level, given the existing framework of national policy, and how these determinants can be influenced through policy.

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