Growth and Disparity during Post-Reform Period : Interstate Comparisons

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Abstract

The decade of 90s, following reforms, witnessed acceleration in economic growth in the country as a whole. However, the performance of states varied considerably during this period. The RBI data on capital flows shows that Private investments have increasingly gone to relatively developed regions that have better social, economic and physical infrastructure and better governance, especially in terms of speedy decision-making processes. Five major states, viz. Gujarat, Maharashtra, Tamil Nadu, Andhra Pradesh and Karnataka, that together account for less than one-third of our population, accounted for almost two-third of the private investment proposals over the last 15 years since August, 1991. On the other hand, the states with inadequate infrastructure are not able to attract foreign investment. Also, domestic investment in poorer states has fallen because historically these states mobilized resources for public investment mainly through grants and assistance from the centre, which declined during 1990s due to fiscal constraints. This has pushed down their relative position vis-à-vis other states and sharpened inter-state disparities.

This paper analyses the differential economic performance of Indian states under the forces of Globalization and Privatization in 1990s as compared to that in Pre-Reform Period. Gross State domestic product (GSDP), per capita GSDP, Level of social and economic infrastructure and per capita flow of investment and Foreign Direct Investment have been taken as the most crucial set of indicators to measure the economic performance of states.

Keywords: *Gross State domestic product, Foreign Direct Investment, Globalization, Privatization, Liberalization*

Introduction

The decade of 90s, following reforms, witnessed acceleration in economic growth in the country as a whole. However, the performance of states varied considerably during this period. In the new era, due to deregulation, the degree of control of the central.

Government declined in many sectors. State Governments can now take more initiatives for economic development than ever before. Also, the role of private sector is becoming more important as compared to the public sector. In the changed economic scenario, where competitiveness is the key parameter, the unspoken declaration of the new policy is that those states will grow which have the capacity and willingness to do so. This is particularly true as far as attracting investment from both domestic and foreign is concerned. The RBI data on capital flows shows that Private investments have increasingly gone to relatively developed regions that have better social, economic and physical infrastructure and better governance, especially in terms of speedy decision-making processes. Five major states, viz. Gujarat, Maharashtra, Tamil Nadu, Andhra Pradesh and Karnataka that together account for less than one-third of our population, accounted for almost two-third of the private investment proposals over the last 15 years since August, 1991. The same set of states benefited from over 60% of the commercial bank credit and financial flows from national level financial institutions like IDBI, IFCI etc. In contrast, another set of seven major states, viz. Uttar Pradesh, Bihar, West Bengal, Madhya Pradesh, Rajasthan, Orissa and Assam together accounting for 55% of the population received less than 30% of the private investment proposals and a similar share of bank credit and other institutional finances during the last decade. These states

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with inadequate infrastructure are not able to attract foreign investment. Also, domestic investment in poorer states has fallen because historically these states mobilized resources for public investment mainly through grants and assistance from the centre, which declined during 1990s due to fiscal constraints. This has pushed down their relative position vis-à-vis other states and sharpened inter-state disparities.

This paper analyses the differential economic performance of Indian states under the forces of Globalization and Privatization in 1990s as compared to that in Pre-Reform Period. Gross State Domestic Product (GSDP), per capita GSDP, Level of social and economic infrastructure and per capita flows of investment and FDI constitute the most crucial set of indicators to measure the economic performance of states. Hence, we concentrate on these different indicators for our analysis. Technically, market-oriented economic reforms in India were initiated from July, 1991. However, in view of data constraints for recent years (2001-06) and for analytical convenience, Pre -Reform Period refers to the 1980s (1980-81 to 1990-91) and post reform period to the 1990s (1993-94 to 2000-01) throughout the paper.

Regional Disparities in Growth: Growth of Gross State Domestic Product (GSDP) and Per capita GSDP:-

We find considerable variations in the performance of individual states, with some states growing faster than the average and others slower. It may be seen from table.1 that GSDP growth rates show a fair degree of variation. While some states witnessed rapid and phenomenal growth, the rest lagged behind the all-India average growth rate. We have included 15 major states in our analysis. Jammu and Kashmir is excluded because of political disturbances during 1990s. Pondicherry and six smaller states of North-East are excluded because they are too small to reflect general economic behavior of states in India. Three newly created states, namely Chhattisgarh, Jharkhand and Uttaranchal are also excluded because there is no time-series data available for them. Bihar, Madhya Pradesh (MP) and Uttar Pradesh (UP) therefore refer to undivided states.

Table1: Growth Rates of Gross State Domestic Product (GSDP) and Per Capita Gross State Domestic Product (%)

State	Growth .rate in GSDP (%)		Growth. Rate in per capita GSDP (%)	
	1980-81 to 1990-91	1993-94 to 2000-01	1980-81 to 1990-91	1993-94 to 2000-01
Andhra Pradesh	5.50	5.31	3.33	4.04
Assam	3.51	2.59	1.37	0.98
Bihar	4.55	4.50	2.42	2.81
Gujarat	4.96	5.98	3.00	4.39
Haryana	6.23	5.57	3.81	3.68
Karnataka	5.16	7.92	3.20	6.41
Kerala	3.51	5.17	2.13	4.05
Madhya Pradesh	4.46	4.33	2.10	2.36
Maharashtra	5.85	5.75	3.56	4.30
Orissa	4.20	3.22	2.39	2.00
Punjab	5.18	4.96	3.30	3.01
Rajasthan	6.39	6.26	3.84	4.22
Tamil Nadu	5.24	6.04	3.80	4.99
Uttar Pradesh	4.83	5.26	2.54	3.10
West Bengal	4.60	6.88	2.41	5.32
All India	5.37	6.13	3.24	4.38
Coefficient of Variation	0.18	0.27	0.25	0.43

Source: Domestic Product of States of India, 1960-61 to 2001-02, June, 2003.

Growth Rate in Gross State Domestic Product:

The overall scenarios evident from table 1 are:

- Except for a few states-Madhya Pradesh, Orissa, Assam and Bihar- all the other major states recorded over five percent growth during the 1990s as against the all-India growth rate of 6.13 percent per annum. Karnataka, West Bengal, Rajasthan and Tamil Nadu progressed rapidly during the 1980s with over 6 percent per annum growth, with Karnataka recording the highest at over 7.92 percent. In general, regional growth was comparatively balanced during the 1980s, even though disparity widened across the states.

- The 1990s belong to the relatively developed states. Karnataka grew at 7.92%. Among other major states, West Bengal, Rajasthan, TamilNadu and Gujarat performed well with over 5.5 per cent growth.

- It is interesting to note that West Bengal which is not considered a pro-market state, has grown not only faster than the all India average, but also many Pro-Reform states, such as Andhra Pradesh (5.31per cent) and Punjab (4.96 per cent), during the Reform Era. These two states have in fact grown much slower than the all India average, particularly the latter. The poor performance of both Punjab and Andhra Pradesh during the Reform Era came as a surprise. These states have comparatively better infrastructure and are known to have a pro-market attitude. Punjab's slow growth may be attributed to stagnation in agriculture and fiscal mismanagement. However, the reasons for slower growth in Andhra Pradesh needs careful scrutiny. It appears that Pre-Reform policies in Andhra Pradesh are yet to bear fruits in terms of SDP growth.

- An interesting feature of the performance in the 1990s is that the popular characterization of the so-called BIMARU States (Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh) as a homogeneous group of poor performers does not hold as far as economic performance is concerned. Assam and Orissa performed poorly, growing much more slowly than the average, but the other two members of this group –Rajasthan and Uttar Pradesh have performed reasonably well. Rajasthan actually had a good performance in the 1980s-it was the fastest growing state and its growth rate in the 1990s was marginally higher than the national average. Madhya Pradesh's growth in the 1980s was below the average and it decelerated marginally in the 1990s. Apart from the lack of investment, poor infrastructure combined with poor governance (and terrorism in the case of Assam) might have also restrained growth in these states.

- Kerala's performance in the 1990s showed a marked improvement compared with the 1980s.From an SDP growth rate at 3.51 percent per annum during 1980s it accelerated to a growth rate of 5.17% during 1990s. And because of the low population growth, its performance in the 1990s was actually much better than the average.

Growth of Per Capital GSDP:

For better analysis of regional disparities, we should analyze not merely aggregate growth rates but also the growth of capita GSDP as shown in Table. It can be seen from the table that

- Regional disparities in the standards of living, as measured by per capita GSDP accentuated in the 1990s. In the 1980s, Assam recorded the lowest per capita SDP growth at 1.37 percent as against the all India growth rate of 3.24 per cent. In the 1990s, the range of disparity widened with Assam at 0.98 percent and Karnataka at 7.92 percent .In comparison, the all India SDP per capita growth rate improved to 4.38 percent in the 1990s against 3.24 percent in the 1980s.

- We observe from the figure that while the standard of living improved faster in the 1990s as compared to the 1980s in most states, the opposite happened in Assam, Orissa, Punjab and Haryana. The main reason for this could be the comparatively higher growth of population in these states. Punjab, which was the richest state in India in the 1980s, performed relatively worse in terms of per capita income growth in the 1990s. As a result, it is no longer the richest state.

- Maharashtra accelerated very significantly in the 1990s and grew at rates marginally lower than the national average. Gujarat's performance is particularly noteworthy, as its growth rate jumped from a moderate 3.00% in the 1980s to 4.39% in the 1990s. Karnataka and West Bengal managed to push up their per capita income growth tremendously. In Karnataka, per capita income growth rate jumped significantly from 3.24% in 1980s to 6.41% in the 1990s.

- Thus, we see that in general the Western States (Gujarat, Madhya Pradesh and Maharashtra) and Southern States (Andhra Pradesh, Karnataka, Kerala, Tamil Nadu) have performed better than the Eastern , North-Eastern (Bihar, Orissa and Assam) and northern states (Haryana, Punjab, Rajasthan, Uttar Pradesh) in terms of per capita GSDP as compared to their performance in Aggregate GSDP. Standard of living in the southern states increased faster in the 1990s due to a combination of slackening of population growth and acceleration of SDP growth. Even in Andhra Pradesh, despite a below national average SDP growth, per capita SDP growth accelerated in the 1990s beyond its level in the 1980s due to a significant fall in population growth rate. In the western states however, per capita SDP growth accelerated mainly due to a higher SDP growth rate.

Physical and Social Infrastructure

An important indicator to measure economic growth and higher human development is the level of Physical and social infrastructure in different states. Generally there is positive correlation between infrastructure and growth. The reports of the 10th and 11th Finance Commissions provide an index of social and economic infrastructure for major Indian states. The index was much higher than all India average in seven states viz., West Bengal, Maharashtra, Gujarat, Haryana, Tamil Nadu, Kerala and Punjab in both 1995 and 2000 (Table 2). However, there are some exceptions.

Table 2 : Index of Social and Economic Infrastructure

States	*1995*	*2005*
Andhra Pradesh	99.19 (10)	103.3 (9)
Assam	81.94 (12)	77.72 (13)
Bihar	92.04 (11)	81.33 (11)
Gujarat	123.01 (6)	124.31 (5)
Haryana	158.89 (3)	137.54 (4)
Karnataka	101.20 (9)	104.88 (8)
Kerala	205.41 (2)	178.68 (2)
Madhya Pradesh	65.92 (14)	76.79 (14)
Maharashtra	121.70 (7)	112.80 (6)
Orissa	74.46 (13)	81.00 (12)
Punjab	219.19 (1)	187.57 (1)
Rajasthan	70.46 (15)	75.86 (15)
Tamil Nadu	149.86 (4)	149.10 (3)
Uttar Pradesh	111.80 (8)	101.23 (10)
West Bengal	131.6 (5)	111.25 (7)
All India	100.00	100.00

Source: GOI, 1995 and GOI, 2000.

Data in brackets represent the ranks of respective states in social and economic infrastructure

Detailed data in Table.2 show that seven major states with developed key infrastructure sectors of power, roads, telecommunications, posts and banking have experienced higher growth rate of above five percent viz. West Bengal (6.88%), Maharashtra (5.75), Gujarat (5.98%),Haryana (5.57%), Tamil Nadu (6.04%) and Kerala (5.17%) as compared to poorer States (see GOI, 2003). However, Punjab and Rajasthan are major exception as it did not record high growth in spite of high level of infrastructure while Rajasthan registered high growth despite low infrastructure. Similarly, Karnataka and Andhra Pradesh have similar levels of infrastructure but the former recorded much higher growth than the latter.

Evolving state ranks measured by per capita State Domestic Product and per capita Investment and capital flows

The rankings of states have remained almost unchanged over the two periods (pre and post-reforms) as far as per capita income levels are concerned. Maharashtra Punjab, Haryana and Gujarat still top the per capita income standings. Bihar, Orissa, UP, MP and Rajasthan are still at the bottom in an ascending order of rank. Kerala despite topping the human development index for India has a relatively low per capita income.

In the new era of privatization, liberalization and globalization, Public investment in the form of plan expenditure as percent of GSDP declined in both the better performing states as well as the poor performing ones. The lack of correlation between state plan ratio and growth rate of GSDP indicates in the post-liberalization period, private, institutional and external investments have increasingly tended to become market determined and comparatively more important than state public expenditure.

The GOI report on per capita capital flows to different states indicates that there are significant inter-state disparities among the five indicators (Per capita NSDP, Per capita public and private investment, Per capita plan- outlay, Per capita institutional Investment, Per capita total credit utilization, Per capita per annum externally aided projects and Share in total foreign direct investment approved) . The per capita public and private investment in Gujarat (Rs 33,875) was 10 times more than that of Bihar (Rs 2,852) and U.P. (Rs 3304). If we take per capita plan outlay and institutional investment, the disparities are lower than those for total investment.

The per capita total credit utilization in Maharashtra was more than 20 times that of Bihar and nine times of UP.

There seems to be a positive relationship between FDI inflows and physical and human infrastructure. The states ranking higher in respect of social and economic infrastructure could attract greater Foreign Direct Investment (FDI). Between 1991 and 2003, the top five states in terms of attracting FDI, viz., Maharashtra, Delhi, Tamil Nadu, Karnataka and Gujarat, accounted for 52% of total FDI approvals in the country (Table III). Despite its reforms, Andhra Pradesh managed to attract only about 4.6% of total FDI in the country.

An amazing impression imparted by GOI data is that there has been little change in the relative position of states in their rankings during the past two decades. In particular, the composition of the top five states and that of the bottom six states have generally remained unchanged (criteria being one of unchanged positions). Significantly, even the relative ranks of the top five states(Punjab, Maharashtra, Haryana, Gujarat and Tamil Nadu) in that order - have generally stayed (except for some minor shuffling) put as between the early 1990s and the end of that decade. Likewise, it is equally revealing that at the bottom end, the same six states, namely, Rajasthan, Madhya Pradesh, Assam, Uttar Pradesh, Orissa and Bihar, have remained stuck at the bottom position during the four period intervals except for some minor shuffling (like Assam and Uttar Pradesh exchanging their 14th and 15th positions in the last two periods as per capita GSDP).

The top five leading states in the selected indicators on capital flows as shown in Table reveal that there is a positive relationship between higher levels of infrastructure/income and capital flows, particularly the per capita total investment. The table shows that Karnataka and Goa figure in four, Orissa and Punjab in three and Gujarat, Tamil Nadu and Maharashtra in two out of five categories (GOI, 2003).There are some exceptions like Orissa. In the case of Orissa, relatively high levels of external aid and higher levels of private investment in the power sector could be responsible for its figuring in three categories. Rajasthan with lower infrastructure, only figures in one category. On the other hand, Andhra Pradesh appears in one category due to very high per capita level of externally aided projects (EAPs). The correlation between

Table 3: Leading States in Per Capita NSDP and Per Capita Flows

Indicators	*Top five among major states*
Per capita Net State Domestic Product	Maharashtra, ,Punjab,, Haryana, TamilNadu, Gujarat
Per capita flows of	
1. *Plan outlays*	Goa, Karnataka, Gujarat, Punjab, Maharashtra
2. Public & private investments	Goa, Gujarat, Tamil Nadu, Orissa, Karnataka
3. Institutional investment	Goa, Kerala, Punjab, Orissa, Rajasthan
4. Credit utilization	Maharashtra, Goa, TN, Punjab, Karnataka
5. Additional central assistance	
for externally aided projects	AP, Gujarat, Karnataka, Orissa, Haryana

Source: GOI, 1995 and GOI, 2000.

per capita EAPs and infrastructure/income levels is weak. It shows that there is a large scope for getting funds through additional central assistance in the form of EAPs. The per capita capital flows in states like Assam, Bihar, Jharkhand, Madhya Pradesh and Uttar Pradesh are relatively too low in terms of all the selected indicators as compared to the indicators in developed states.

Growing Inequality

Finally, the relative changes in the ranks of different states apart, there is no denying the fact that overall inequality in the levels of real per capita income has risen over the past two decades. This is evident from the year-to-year steadily rising Gini coefficient worked out for the distribution of average per capita GSDP amongst states, separately for the individual years from 1980-81 to 1996-97 based on 1980-81 price series and for those from 1993-94 to 2000-01at 1993-94 prices (Table 3). Gini coefficient measures only the degree of inequality in the total population, which arises solely because of inequality among states. Three key results that emerge in the measures of Gini coefficients for individual years are: (I) both the series show a rise in inequality over the years, though during the 1980s, the coefficients were generally stable up to 1986-87 (ii) the measure of inequality according to per capita GSDP, based on the revised 1993-94 series, seems to have declined somewhat though the rising trend between 1993-94 and 2000-05 has persisted; and (iii) it is found, based on both the series, that Gini coefficients appear significantly lower for the 16 major states (possessing 90 per cent of the population) than for all the 27 states and union territories, suggesting the presence of wider disparities amongst the smaller states and union territories.

Table presents the resulting estimates of the interstate Gini-coefficient**.** The same is presented graphically in the following figure. We observe that the pattern of growth in 1990s has led to an increase in inter-state inequality. The coefficient was fairly stable up to about 1986-87, but began to increase in the late 1980s and this trend continued through the 1990s. The increase in the Gini coefficient from about 0.167 in 1980-81 to 0.236 in 1996-97 at 1980-81 prices and from 0.201 in 1993-94 to 0.224 in 2000-01 at 1993-94 prices is a substantial increase and fitting a time-trend to the series shows a statistically significant positive slope in the figure.

Table 5 : Gini Coefficients for the Annual Series of State wise Real Per Capita GSDP

At 1980-81 prices			At 1993-94 prices		
Year	**All states**	**Major States**	**Year**	**All states**	**Major States**
1980-81	0.209	0.167			
1981-82	0.202	0.168			
1982-83	0.211	0.171			
1983-84	0.200	0.163			
1984-85	0.205	0.173			
1985-86	0.211	0.181	1993-94	0.239	0.201
1986-87	0.214	0.181	1994-95	0.248	0.201
1987-88	0.217	0.182	1995-96	0.250	0.209
1988-89	0.216	0.182	1996-97	0.262	0.213
1989-90	0.220	0.190	1997-98	0.264	0.209
1990-91	0.224	0.190	1998-99	0.276	0.213
1991-92	0.228	0.191	1999-00	0.278	0.216
1992-93*	0.244	0.206	2000-01	0.292	0.224
1993-94*	0.237	0.209			
1994-95*	0.250	0.215			
1995-96*	0.251	0.220			
1996-97	0.258	0.236			

Source: GOI, 1995 and GOI, 2000.
www.mathworld.wolfram.com/GiniCoefficient.html (March11)

Note: # 16 Major states as listed in Table 8.3,EPWRF,2003

* Data with respect to Sikkim, Andaman and Nicobar Island, Chhattisgarh, Jharkhand, and Nagaland are not available.

Gini Coefficients have been worked out for individually years based on the distribution of real per capita GSDP amongst all states as specified in Exhibits 8.B

Conclusion

An analysis of the growth performance and structural changes in the domestic product of Indian states during the pre-reform and post-reform periods reveals that the development process has been uneven across states. While advanced industrial states have tended to leapfrog in the reform years, other states have lagged behind. The regional disparity in the growth rates became sharper in terms of per capita income. The poorer states have not only performed poorly but their failure to stem population growth has left then in an even worse position. There has been little change in the relative position of states in terms of rankings during the past two decades. In particular, the composition of the top five states and of the bottom six states have remained almost unchanged as far per capita SDP levels are concerned. We also note that the tertiary sector, rather than industry, has become the engine of growth during 1990s.

The growing regional disparity during post-reform period is a matter of serious concern. With deregulation of private investment, faster growth will induce more investment in rich states, and this in turn will further accentuate regional disparities. The problem is compounded by the negative relationship between population growth and income growth. Unfortunately, backward states with higher population growth are not able to attract investment-both public and private-due to a variety of reasons, like poor income and infrastructure and probably also poor governance.

In view of above results, the government should adopt a proactive public policy to induce more investment in backward states either through public investment or through fiscal incentives. Simultaneously, efforts should be made to restrain population growth and also to improve quality of governance. If the inverse relation between income and population growth persists, sooner or later there will be a serious conflict between states in terms of sharing of resources. The social consequences of migration could become an additional sourced of conflict. The solution, however, does not lie in curbing growth in fast-growing and market friendly states, but in accelerating reforms in backward states to attain balanced regional growth.

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