

Growth and Inter-State Disparity in India

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Abstract: The study attempts to examine the growth performance and inter-state disparity across India by analyzing growth rates in terms per capita GSDP. The disparity in terms of GSDP per capita widened across the states. The advanced states like Andhra Pradesh, Delhi, Gujarat, Karnataka, Tamil Nadu and West Bengal have performed well in term of per capita GSDP growth over 5 per cent per annum, with West Bengal recording the highest at over 6.15 per cent while the backward states like Bihar, Chhattisgarh, J&K, Jharkhand, Madhya Pradesh, Odisha and Uttar Pradesh have performed below average during 1993-94 to 2002-03. This shows that the disparity in terms of their GSDP per capita has widened across the states during the reform period. During the Post-Reform period 2003-04 to 2012-13 the performance of some of the poorly performing states has improve like Bihar, Odisha Maharashtra and Haryana etc. but disparity has further widened. However, the overall performance during 1993-94 to 2012-13 shows that there is high degree of disparity across states in terms of growth in GSDP per capita. The disparity was higher during 20s as compared to 90s as the value of coefficient of variation during the period of 1993-94 to 2002-03 is 0.46 and during 2003-04 to 2012-13 it is 0.34 which means that the disparity during post-reform period has widened across states and is a matter of serious concern.

Keywords: Growth, Disparity, Post-Reform, GSDP per capita, Backward States, etc.

I. INTRODUCTION

The 20th century has witnessed unequalled success in improving the living standard of people in most part of the world. There is a significant decline in poverty and inequality in developing countries over the past twenty years because of growth in their respective economies but the progress has been uneven. Economic growth is considered to be a powerful tool for reducing poverty and income disparity. High and sustained economic growth increases the labour demand and wages which in return will reduce poverty and income disparity. Similarly, better earnings as a result of reduction in poverty and fair income distribution lead to increase productivity and growth. But the extent of disparity and poverty reduction as a result of economic growth depends on how the distribution of income changes with economic growth and on initial Inequalities in income. If income inequality increases, then economic growth does not lead to a significant poverty reduction. Many developing countries achieved high growth rates in different periods but poverty does not reduce significantly in these periods due to increase in income inequalities. The differences in income inequality at a given rate of growth require that efforts to reduce poverty by stimulating growth are not sufficient and need to be complemented by efforts to reduce income inequalities.

The study income distribution and its links with economic growth is a good example of fashion of trends in economics. Already presented in Ricardo's work, this topic was at the centre of the economic debate in the 1960's. But, like the miniskirt, income distribution went out of fashion in the mid 1970's, and for more than a decade, it found very little space in the academic literature. The 1990's however, witnessed a resurgence of interest of the subject. The main reason for this renewed interest comes from the experience of the East Asian countries where the low level of income disparity seems to have played role in economic growth. [1] The scope of the study is restricted to comparative analysis of 19 major states in term of their growth performance and inter-state disparity during reform and post-reform period.

II. REVIEW OF LITERATURE

In order to gain background knowledge of problem and to identify appropriate methodology, research design, methods of measuring concepts and techniques of analysis or to be able to formulate the problem precisely, it seems logical to present a brief review of the available literature relating directly or indirectly to the field under study.

Ahluwalia (1976) examined the relationship between the distribution of income and the economic growth on the basis of cross country data on income inequalities. The study concludes that there is strong support for the proposition that relative inequality increases substantially in the early stages of development, with the reversal of this tendency at the later stages of development. [2] Sinha et al (1979) based their study on consumption expenditure and per capita income on NSS consumption expenditure and CSO's income accounts has found that consumption expenditure is more equally distributed in both rural and urban sectors, than incomes. [3]

Bhattacharya B. and Sakthivel (2006), concluded that the growth performance and structure changes in the domestic product of Indian states in the last two decades has been uneven in terms of development process. The advanced industrial states have tended to leapfrog in the reform years, other states have lagged behind. The regional disparity in the growth rates becomes sharper in terms of per capita income. The poorer states have not only performed poorly but their failure to stem population growth has left them in an even worse position. [4]

Shaban A. (2006), found that the overall high economic development, Maharashtra suffers from acute regional disparity. About a half of the total income in the state is accounted for only by the Konkan region, comprising the districts of Greater Mumbai, Thane, Raigad, Sindhudurg, and Ratnagiri. After the Konkan, western Maharashtra is the next highest developed region and is followed by Vidarbha and Marathwada. Four highly urbanised districts of Greater Mumbai, Thane, Pune and Nagpur also account for about one-half of the total state income, and about 60 per cent of tertiary sector income. There has been marked stability in the ranking of regions in economic development over the years in almost all the sectors. The Konkan region has been the highest developed region, followed by the western Maharashtra, Vidarbha and Marathwada. The findings further show that giving a boost to economies of interior and backward districts like Parbhani, instead of Greater Mumbai, Pune or Nagpur, would be more beneficial for balanced regional development of the state, as beneficial effects generated due to the shocks are propagated mainly to backward districts. The study shows that it is likely that most of the benefits due to investment and development in Greater Mumbai and Pune would remain concentrated in the Konkan and western Maharashtra region, already relatively highly developed regions in the state. [5]

Pal Parthapratim and Ghosh Jayati (2007), concluded that the analysis of data substantiated that inequality has increased in the post-liberalization period. Comparable estimates of the 50th (1993-1994) and 55th (1999-2000) rounds of National Sample Survey data reveal that inequality increased both in rural and urban India. They also found that, both at the national and the state levels, income disparities between the rural and urban sectors increased during this period. State-level data also showed that not only had the income gap between the poorest and the richest states increased during the 1990s, but urban inequality increased for all the 15 major states in India. Inequality also alarmingly increased in the North-Eastern part of the country, where all the states experienced increased rural and urban poverty during this same period. [6]

Nayyar G. (2008), conclude that states in India are converging to very different steady states and attributes to increasing interstate disparities in levels of private and public investment and an insignificant equalising impact of centre-state government transfers. They identified that per capita private investment, literacy rate, infant mortality rate, and per capita public investment as important determinants of a state's steady state level of income and came to conclusion that the first three to be significantly influenced by the fourth, which is a policy-driven variable, thereby implying that state governments can play an important role in enhancing their own growth prospects. [7]

Krishna Pravin and Sethupathy Guru (2011), in their combined study found that overall inequality varied modestly over the period of the study, falling between 1988 and 1994, rising between 1994 and 2000, but falling again by 2005. Hence, the evolution of inequality since 1994 has been non-monotonic. Furthermore, a similar non-monotonic inequality trend has been seen within most states. While rural-urban inequality and across state inequality have risen slightly from 1994-2005, they constitute an extremely small portion of overall inequality. More than 60% of overall inequality is found at the micro-level within urban blocks and rural villages. The change in inequality across households within states is found to un-correlated with the change in state-level measures of tariff and non-tariff protection. [8]

Bakshi, S. et al (2015) , has found that among the various axes of inequality in India, regional disparities have acquired greater salience in recent times, with demands being made for special status for certain states on this basis. What has been completely overlooked in the process is that regional backwardness in India is a moving frontier with the most intense forms of poverty and deprivation getting increasingly concentrated within enclaves of backwardness. They further found the relationship between growth rates from 2001-10 and log of initial per capita income i.e. per capita NSDP is upward sloping means that States with higher initial per capita NSDP on average grew faster, suggesting that the inequality across states is actually increasing. It is important to clarify that although we see no unconditional convergence (reducing dispersion of income), there still might be conditional convergence. Conditional convergence can be consistent with divergence in PCIs over a certain period of time. It is possible that Indian states are converging to increasingly divergent steady states. [9]

III. DATA AND METHODOLOGY

The present study is based on the secondary data and the main sources of data used comes from CSO (Central Statistical Organisation) and is based on per capita GSDP of 19 major states. These states have a combined population accounting for more than 90 per cent of India's population and the area covered by these states is 2.7 million sq. km., accounting for 83 per cent of India's total land area. The Central Statistical Organisation has revised the GSDP series with base year 2004-05. The SDP series for states have also been revised accordingly. It may be noted that 2004-05 base year GDP series (and corresponding SDP series) are based on the United Nations system of national accounts (SNA) 1993. The data on GSDP per capita was available on two different constant prices i.e. 1993-94 and 2004-05 prices and an adjustment factor method has been used to convert the data on same base year prices of 2004-05. For the analysis of data different methods have been used such as Annual average growth rates, coefficient of variation etc.

IV. DATA ANALYSIS AND RESULTS

Rising inequality has emerged as one of the most important problems confronting societies across the world. Within the Asian region, South Asia has experienced rapid increases in income/consumption disparity during the recent period of its rapid growth. This is quite evident in case of India, the largest economy in the region with over a billion people. Inequalities in India are observed in terms of income, health, education and other dimensions of human development as well as between the states, rural and urban areas and different social groups. Besides economic factors, there are certain sociological factors that affect inequalities in India. Since independence Indian economy has thrived hard for improving its pace of economic development. For half a century before independence, the Indian economy was stagnant.

After independence during first three decades of meagre progress, the country's economy grew at 6 per cent a year from 1980 to 2002 and at 7.5 per cent a year from 2002 to 2005 making it one of the world's best performing economies. It is well recognised that the avowed objectives of our social planners immediately after independence of our economy were the ending of poverty, ignorance and the inequality of opportunities. There has been an evolution of policy strategies from time to time since independence towards this direction. But ironically even after the elapse of sixty eight years after independence about one-third of our total population still suffer from abject poverty and a large section of poverty afflicted people is entangled by the poverty trap i.e. they suffer from chronic poverty. The incidence as well as intensity of poverty has also been reflected in its various dimensions viz. the social, regional, occupational, ethnical etc. in both rural and urban areas of our economy albeit with some degree of variations. [10]

The pattern of growth and distribution across states has always remained as a subject of interest both to academics as well as policy makers. The existence of wide inter-regional variations in a vast country like India is well recognized. Regional disparity in India is now a matter of serious concern. Reducing such disparities is essential for the success of a federal structure. This has been really an important challenge in India.

Economic reforms have been initiated at different levels across states. Most of the economic reforms have been pursued in the industrial sector, the spread and growth of which show considerable regional variations. In the post-reform period, due to deregulation, the degree of control of the central government declined in many sectors. The private sector, which was controlled and contained in various ways, has since then been encouraged to play a more important role. Now, market forces, rather than government directions, decide the investment decisions like where to invest, what to produce, whom to sell to, and so on. Also, the role of private sector is becoming more important as compared to the public sector. [11] In the changed economic scenario, it would be interesting to examine the economic performance of states in the post-reform period.

The annual growth rates across states have been calculated for the reference period of 1993-94 to 2012-13 and for accurate analysis the study period has been further sub-divided into three periods, i.e., from 1993-94 to 1999-00, 2000-01 to 2006-07 and 2007-08 to 2012-13. The annual growth rates are based on GSDP per capita of all individual states. The comparative average growth rates of GSDP per capita for 30 states at 2004-05 prices for the decades of 1993-94 to 2002-03 and 2003-04 to 2012-13 and as well for the overall period of 1993-94 to 2012-13 are given in the table.

TABLE 4.5: STATE-WISE ANNUAL GROWTH RATE OF PER CAPITA GROSS STATE DOMESTIC PRODUCT

States	1993-94 to 2002-03 (Percent per annum)	2003-04 to 2012-13 (Percent per annum)	1993-94 to 2012-13 (Percent per annum)
Andhra P.	4.69	8.66	9.76
Bihar	2.67	10.59	6.66
Chhattisgarh	1.33	6.17	5.44
Delhi	4.73	8.60	9.59
Gujarat	5.05	9.33	11.45
Haryana	3.45	8.17	8.04
H. Pradesh	5.24	7.98	9.57
J&K	1.99	4.45	3.90
Jharkhand	2.38	6.30	5.35
Karnataka	5.82	7.72	9.51
M. Pradesh	0.92	6.82	5.45
Maharashtra	3.23	9.30	8.58
Odisha	2.02	7.99	7.31
Punjab	2.39	6.22	5.49
Rajasthan	2.83	5.75	7.48
Tamil Nadu	4.56	10.95	10.64
Uttar Pradesh	1.79	5.14	4.15
Uttaranchal	3.25	16.04	13.95
West Bengal	6.15	4.44	7.23
Combined GSDP per capita of 19 states	3.39	7.93	7.87
CV	0.46	0.34	0.33

Source: Author's Calculations are based on Central Statistical Organisation

The table depicts that except the states –Andhra Pradesh, Chandigarh, Delhi, Gujarat, Himachal Pradesh, Karnataka, Tamil Nadu and West Bengal –all other states witness below average growth during the period 1993-94, against the combined growth rate of 3.84 per cent per annum. Gujarat, Himachal Pradesh, Karnataka, and West Bengal progressed rapidly during the period of 1993-93 to 2002-03 with over 5 per cent per annum growth, with West Bengal recording the highest at over 6.15 per cent. In general states growth rate is comparatively balanced during the period of 1993-94 to 2002-03, even though disparity widened across the states. However, during the period of 2003-04 to 2012-13 the states like Uttaranchal, Tamil Nadu, Bihar, Maharashtra and Gujarat progressed at higher growth rate while as states like Andhra Pradesh, Haryana, Delhi, Goa, Himachal Pradesh, and Odisha also shows high growth as against the combined average growth rate of all 19 states. The value of coefficient of variation during the period of 1993-94 to 2002-03 is 0.46 and during 2003-04 to 2012-13 it is 0.34 which means in 1990s there were less dispersion among the states as it was during 2000s.

In the following figure the growth rate of three different periods have been presented and on the horizontal axis states territories have been taken while as on the vertical axis the growth rate of these states have been taken for the different time periods. The dark red colour line show the growth rate of 19 Indian states for the period of 1993-94 to 2002-03 while as the yellow colour line shows the growth rate of same states for the period of 2003-04 to 2012-13. The third line i.e. green colour line shows overall growth of these 19 Indian states from the whole period 1993-94 to 2012-13.

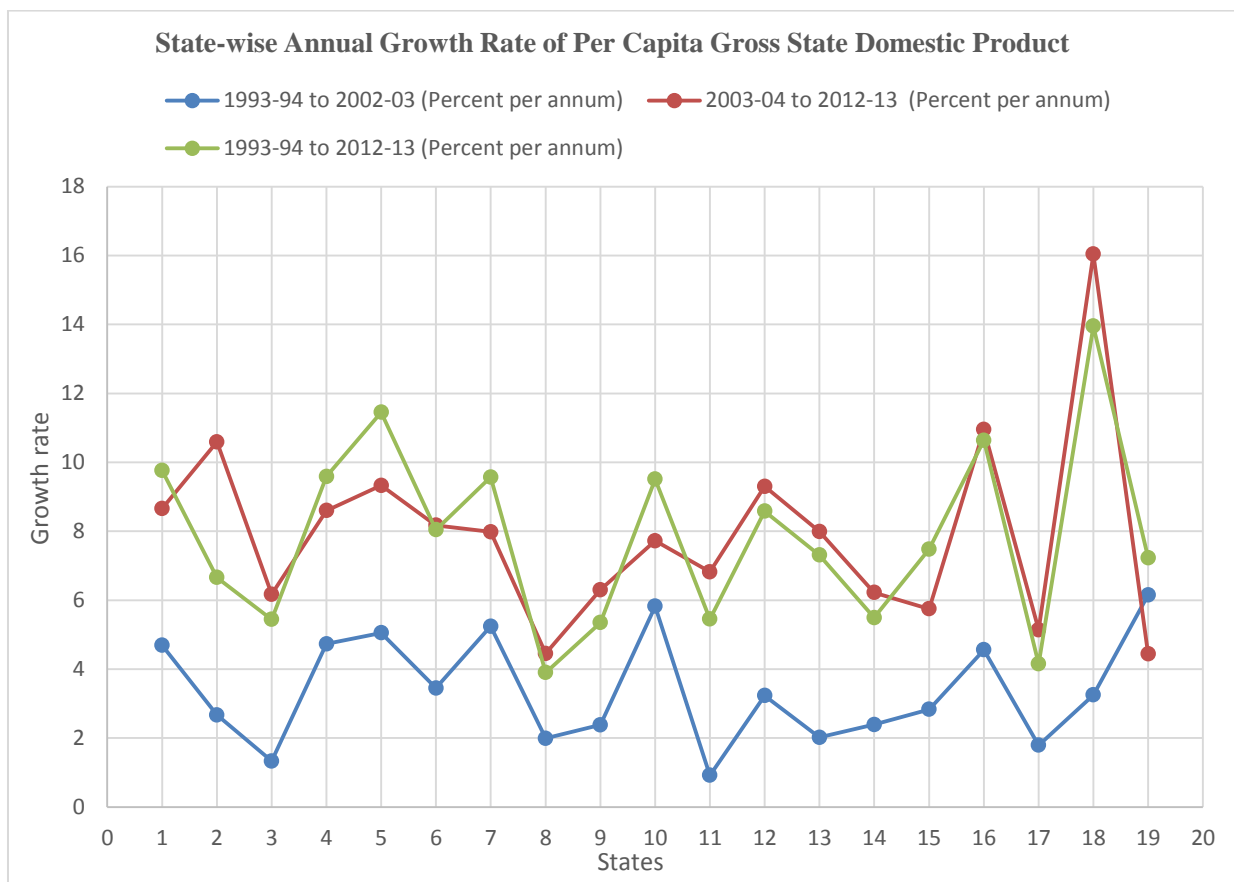


Fig.1

It is evident from the above figure that during the period of 1993-94 to 2002-2003 for some states was lower than 2 percent and during the period of 2003-04 to 2012-13, these states performed well in term of their growth rate. The advanced states like Andhra Pradesh, Delhi, Gujarat, Karnataka, Tamil Nadu and West Bengal have performed well in term of per capita GSDP growth over 5 per cent per annum growth, with West Bengal recording the highest at over 6.15 per cent. While the backward states like Bihar, Chhattisgarh, J&K, Jharkhand, Madhya Pradesh, Odisha and Uttar Pradesh have performed below average during 1993-94 to 2002-03. This shows that the disparity in growth in terms of their GSDP per capita widened across the states. During the period of 2003-04 to 2012-13 the performance of some of the poorly performing states has improve like Bihar, Odisha Maharashtra and Haryana etc. However, the overall performance during 1993-94 to 2012-13 shows that there is high degree of disparity across states in terms of growth of per capita GSDP.

V. CONCLUSION

The focus of the present study was to examine growth and inter-state disparity across states in India and for this purpose we have used annual growth rates across states have been calculated for the reference period of 1993-94 to 2012-13 and for accurate analysis the study period has been further sub-divided into three periods, i.e., from 1993-94 to 1999-00, 2000-01 to 2006-07 and 2007-08 to 2012-13. The annual growth rates are based on GSDP per capita of all individual states. The advance states performed well during whole period under study because the environment in these states were conducive for investment like infrastructure, strong proactive public policies, etc. while the performance of poor states were below average due to poor income and infrastructure and probably also poor governance. By way of conclusion we can say that in terms of growth performance of per capita GSDP there is wide disparity across Indian states and the disparity was higher during 20s as compared to 90s as the value of coefficient of variation during the period of 1993-94 to 2002-03 is 0.46 and during 2003-04 to 2012-13 it is 0.34 which means that the disparity during post-reform period has widened across states and is a matter of serious concern.

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