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ROLE OF THE SOCIO –ECONOMIC DEVELOPMENT OF REGIONAL DISPARITIES IN INDIA

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Abstract

India has had a glorious past. Our cultural heritage is comparable to that of China or Egypt. We had great kings and kingdoms. Half of the major world religions had their origin in India. We had produced great thinkers and philosophers who contributed to several branches of knowledge.But most of our history before 1500 AD is in oral traditions. Indians, by and large, were not good at record keeping. This is especially true about hard facts and data relating to various aspects of life. Even for the period 1500 to 1750 AD data are rudimentary. The historical trends discussed in this section, by and large, are based on Cambridge Economic History of India edited by Dharma Kumar with editorial assistance by Meghnad Desai and TapanRaychaudhuri and IrfanHabib

Key words: Digital economy, Goods and Services Tax, Uniform Tax Rate, and Retailer.

I. INTRODUCTION

India during Akbar's time was considered as prosperous a country as the best in the world. Though mainly agrarian, India was a leading manufacturing nation at least at par with pre-industrial Europe. She lost her relative advantage only after Europe achieved a revolution in technology.The economy was village-based. Though under Muslim rule for over 500 years, the society continued to be organised in Hindu traditions. Caste system was intact. The social disparity often added another dimension to economic exploitation. While the Jajmani system ensured social security, the caste system ensured social immobility.

However, flexibility of the Jajmani system ensured that the artisans working under it were not completely cut off from the market. They were free to sell outside the village the surplus goods left after the fulfillment of community obligations. The traditional economic system based on agriculture and small-scale industries was not disrupted either by the activity of native capital or by the penetration of the foreign merchant capital. There is historical evidence to indicate that there were food surplus and deficit regions as trade in food grains between regions took place. In comparison to the rural rich, the urban rich especially the merchants in coastal towns were much wealthier. Some of the merchants of Bengal and Gujarat had stupefying wealth. The pattern of life of the nobility and the upper class in Mughal India has become a byword for luxury and ostentation. There is hardly any evidence to show that the puritan style set up by Aurangzeb had any marked effect on the lives of the nobility. Of course, this consumerism created demand for a horde of luxury items which generated employment, income and general prosperity.

The British Period (1857-1947)

The debate concerning the level of India's economic development in the pre-colonial era is unlikely to ever reach a satisfactory conclusion as the basic quantitative information is absent .Dadabhai Naoraji was the first one to make an attempt to estimate national and per capita income in India. He placed per capita income of India at Rs.30 in 1870

compared to that of England of Rs.450. However, since necessities in India cost only about one-third as compared to England at that time, the real difference in terms of purchasing power parity was not fifteen times but only five times.The statistical reporter of the 'Indian Economist' ran a series of articles on the standard of living in India in 1870. One of the items which was given region wise was value of per capita agricultural output for 1868-69. According to that it varied from Rs.21.7 in Central Province to as low as Rs.11.1 in Madras. Others were Bombay (Rs.20.0), United Provinces (Rs.12.1), Punjab (Rs.17.4) and Bengal, including Bihar and Orissa (Rs.15.9).

Table 1Region wise birth rates, death rates and life expectancy at birth are given in the table below for the period 1901-1911

Region	Birth rate	Death rate	Life expectancy	
			Male	Female
East	52.8	45.8	22.4	22.8
West	48.1	42.1	24.8	23.8
Central	46.6	31.3	31.7	32.7
North	48.6	48.7	21.7	19.2
South	40.3	32.2	29.8	32.3
All India	47.7	41.7	24.7	24.4

In 1901, there were 2093 towns in the Indian Sub-continent and about ten per cent of the population was urban. There was considerable variation in the level of urbanization across the country, it varied from 18.8 per cent in Bombay Presidency to five per cent in Bengal Presidency, including Bihar and Orissa.The dependence on agriculture for livelihood varied considerably across the regions.

While the share of cultivators in the male working force in Assam, Bihar, Orissa and Uttar Pradesh was 55 per cent or more, it was less than 40 per cent in Gujarat, Maharashtra, Kerala and West Bengal in 1911.Industrialization in India, from the beginning, had been experiencing a duality. European entrepreneurs invested more and more in industries which were mainly export-oriented whereas Indian entrepreneurs concentrated on industries mainly for the Indian markets. Thus jute, tea, etc. were mainly in European hands whereas textile, sugar, etc. were mainly Indian. Apart from other factors, one main reason was that Indian market offered higher profit margins which Indian industrialists found easier to penetrate. Not surprisingly this tendency continues even today.

The benefit of irrigation development was mainly concentrated in northern, western and southern provinces during British period. Central and Eastern India were relatively neglected. This has had serious implications in the post-independence period also. While the former areas were ripe for benefiting from the green revolution package, the latter could not.From its beginning in 1853, India's railway system expanded rapidly to become, by 1910, the fourth-largest in the world. This network which covered most of the Sub-continent, radically altered India's transportation system.Railways vastly increased the speed, availability and reliability of transportation, reduced the cost, allowed regional specialization and expansion of trade. For attracting private investors, Government of British India assured guaranteed return. Under this scheme, which was used in other parts of the world to build railways, if a company did not attain a minimum rate of return of five per cent, it received compensation for the difference from the Government. Stimulated by an assured rate of return, British investors swiftly made their capital available to the private railway companies. By 1947 all but a few remote districts in far-flung remote regions were served by railways.

The fiscal system during the British rule gradually evolved into a federal system from a highly centralized control. Over the years relations between the centre and the provinces were made more elastic but not much more systematic. In particular, there was no attempt to equalize provincial levels of public services, or the tax burdens on similar classes of tax payers in different States. There were enormous differences in tax incidence and standards of public services in the beginning, and these differences were perpetuated since precedent was followed rather than any principle.The main source of differences in tax burdens was the variation in the system of land revenue, the largest source of public revenue. This also explained one source of difference in expenditure. Bombay spent much more per head on nearly every head of expenditure than the others. The other provinces clamored for less inequality but to little effect. Bombay continued to spend far more on every major head than the other provinces, and Bihar and Orissa far less. The poverty of these provinces became evident when they were separated from Bengal in 1912-13.

Table 2 Relative Provincial Expenditure per head on selected services

1876-77 and 1927-28, Bengal = 100

Province	General Administration		Education		Health	
	1876-77	1927-28	1876-77	1927-28	1876-77	1927-28
Bombay	374	411	325	345	285	141
Central	185	169	197	131	142	53
Madras	159	193	112	166	139	98
Punjab	244	103	145	199	135	126
United	140	103	110	123	78	51
Bengal	100	100	100	100	100	100
Assam	159	136	117	120	82	121
Burma	470	292	295	276	260	201
Bihar & Orrisa	---	75	---	83	---	51

Many critics also argued that the system did not even encourage economy, but rather extravagance, since the actual expenditure in one period formed the basis of allocations from the centre in the next. For the same reason, the provinces had little incentive to try to raise their tax revenues. A more or less similar situation exists in India even today when the Finance Commissions assess the revenue gaps of the States and try to fill such gaps by increased transfers.

Post-Independence Period

Government's economic policies during the colonial period were more to protect the interests of the British economy rather than for advancing the welfare of the Indians. The primary concerns of the Government were law and order, tax collection and defence. As for development, Government adopted a basically laissez-faire attitude. Of course, railways, irrigation systems, road network and modern education system were developed during this period. Railways and road network were more to facilitate movements of goods and defence personnel and to facilitate better administrative control. Irrigation canal system was mainly to fight repeated droughts and famines and to boost land revenue. Education, to begin with, was developed mainly to train lower-ranking functionaries for the colonial administration.

Particularly lacking was a sustained positive policy to promote indigenous industry. Indeed, it is widely believed that government policies, far from encouraging development, were responsible for the decline and disappearance of much of India's traditional industry.Altogether, the pre-independence period was a period of near stagnation for the Indian economy. The growth of aggregate real output during the first half of the twentieth century is estimated at less than two per cent per year, and per capita output by half of a per cent a year or less.

There was hardly any change in the structure of production or in productivity levels. The growth of modern manufacturing was probably neutralised by the displacement of traditional crafts, and in any case, was too small to make a difference to the overall picture.Along with an impoverished economy, independent India also inherited some useful assets in the form of a national transport system, an administrative apparatus in working order, a shelf of concrete development projects and a comfortable level of foreign exchange. While it is arguable whether the administrative apparatus built by the British helped or hindered development since 1947, there is little doubt that its existence was a great help in coping with the massive problems in the wake of independence such as restoring civil order, organising relief and rehabilitation for millions of refugees and integrating the Princely States to the Union.

By the time of Independence several of these were already under way or ready to be taken up. They included programmes and projects in agriculture, irrigation, fertilizer, railways, newsprint and so on. Though the first Five Year Plan began in 1950-51, with the establishment of Planning Commission, a well-rounded planning framework was in place only with the second Five Year Plan after five years. By and large, the basis of the first Five Year Plan was the groundwork done before independence. Most of the principal projects were continuations and major efforts were made to complete them early.

Recent Trends

Indian economy has experienced an average annual growth rate of around 6 per cent during the last two decades. 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. Even the growth rate of 3.5 per cent experienced during the first three decades of the republic had been spectacularly better that the virtual stagnation of the Indian economy during the first half of the Twentieth Century. 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 has been somewhat lower in the subsequent three years. In contrast to stagnation/negative growth of most of the East Asian economies India's performance, however, is remarkable. The World Bank and other international agencies have characterized India as one of the fastest growing economies of the world.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 asecular 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 this secular downward trend:

Year	1977-78	1983	1987-88	1993-94	1999-2000
Percentage of poor	51.3	44.5	38.9	36.0	26.10

The last two decades had seen the introduction/expansion of several anti-poverty programmes and public intervention policies in favor of the poor including public distribution of subsidized 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.The scope of analysis in this section 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 have a bearing on gender and equity issues. The fifteen States together account for 95.5 per cent of the population of India. The remaining 4.5 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.

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 account for about 40.4 per cent of the national population, the backward group accounts for as much as 55.1 per cent of the population of the country according to 2001 census. In terms of natural resources including mineral wealth, water resources and quality of soil, the latter has definite edge over the former.

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

As noted earlier, the group of eight forward States together accounted for 40.4 per cent of the population of the country whereas the group of seven backward States together accounted for as much as 55.17 per cent of the population of the country according to 2001 census. However, the contribution of the group of forward States to the country's population growth during the last decade was much higher at 59.2 per cent. On the other hand, the contribution of the group of backward States was as low as 33.8 per cent. All the States, except Assam and Orissa, in the backward group had a higher contribution to population growth than their share in population. Thus, Uttar Pradesh's contribution to

population growth was 18.8 per cent against its population share of 16.2 per and Bihar's contribution was 10.1 against its share of population of 8.17 per cent.In contrast, out of the eight States in the forward group, all except Maharashtra, Gujarat and Haryana had a lower contribution to population growth during the last decade than their respective shares in the population. Indeed, Kerala's contribution to population growth was as low as 1.5 per cent against its share in the population of 3.1 per cent and Tamil Nadu's contribution to population growth was as low as 3.4 per cent against its share in the population of 6.1 per cent.

To broadly characterise, the two groups of States are at different stages of demographic transition. States like Kerala and Tamil Nadu which have already reduced their birth rates to levels which are comparable to those of developed countries and achieved the replacement level of total fertility rate (TFR) of 2.1. All the remaining six States of the forward group are expected to reach the replacement level of TFR by 2025, one year in advance of the projected year of attainment of replacement level of TFR by the country. On the other hand, the seven States in the backward group are at different stages of demographic transition. Some of them like Uttar Pradesh, Bihar, Madhya Pradesh and Rajasthan continue to experience high rate of birth rates and fairly low levels of death rates and a significantly high level of TFR. On the other hand, States like Assam, Orissa and West Bengal have somewhat moderate birth and death rates and relatively moderate TFR. These three States are expected to reduce their TFR to replacement level well before the country's TFR comes down to that level. As against this, Bihar is expedited to reduce TFR to replacement level by 2039, Rajasthan by 2048, Madhya Pradesh by 2060 and Uttar Pradesh beyond 2100.

According to 2001 census, the literacy rate for the country is 65.4 per cent. All States in the forward group, except Andhra Pradesh, have literacy rates above the national average. Their rates vary from 90.9 per cent in Kerala to 67.0 per cent in Karnataka.

Census 2001 indicates that the gender gap in literacy has come down for the country from 24.8 percentage points in 1991 to 21.7 percentage points in 2001. Now the male literacy is 76.0 per cent and female literacy is 54.3. On the whole, the literacy gap is lower in the forward group of States as compared to the backward group of States. Six out of eight States in the first group, except Haryana and Gujarat, have literacy gaps below the national average. On the other hand, all States except Assam and West Bengal have gender gap in literacy higher than the national average. The gender gap in literacy is as low as 6.3 percentage points in Kerala and as high as 32.1 percentage points in Rajasthan. There appears to exist a strong inverse relationship between the gender gap in literacy and the status of women in society. Also, there is a fairly well-established inverse empirical relationship between the female literacy and TFR. The national as well as international experience is that with higher female literacy rate, birth rate come down irrespective of the social backgrounds, religious beliefs and income levels.

Income and Property

The most common indicator of the economic development of a society is the per capita annual income generated by it. 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.Per capita gross state domestic product (GSDP) as a percentage of per capita GDP of the country at four time periods since 1980-81 for forward and backward group of States are presented in the table below:

Table 3
Per capita GSDP as a percentage of GDP
(Three-year average of incomes at current prices centered on)

States	1981-82	1985-86	1990-91	1997-98
Forward group				
Andhra Pradesh	87.4	82.4	92.5	92.9
Gujarat	125.3	124.4	118.8	137.4
Haryana	146.5	139.9	146.6	139.4
Karnataka	92.8	93.7	95.4	107.2
Kerala	90.5	90.9	87.8	116.4
Maharashtra	143.0	134.7	144.7	167.5
Punjab	168.6	165.0	169.7	146.5
Tamil Nadu	92.8	97.0	100.0	119.5
Backward group				
Assam	83.6	92.1	83.1	62.2
Bihar	58.8	60.6	53.5	44.2
Madhya Pradesh	80.8	74.8	78.1	73.5
Orissa	75.0	74.7	66.9	61.8
Rajasthan	76.6	74.0	79.3	81.1
Uttar Pradesh	75.8	71.9	70.6	64.4
West Bengal	103.3	102.9	91.7	85.1
All India	100	100	100	100

This table is based on table 2 in SaumitraChaudhuri.

The table sharply focuses the differential growth in per capita incomes of the two groups of States over the last two decades, especially during the last decade. All the States in the forward group, except Haryana and Punjab have improved their relative position over the last two decades. Further, these improvements were more spectacular since 1990-91, especially in Gujarat, Kerala, Maharashtra and Tamil Nadu. It is noteworthy that the relative decline in per capita incomes of Haryana and Punjab was a phenomenon of the 1990s.Percapita incomes of four out of eight States in the group were below the national average in the eighties. But by late nineties, all except Andhra Pradesh, have gone above the national average.

In contrast, all the States except Rajasthan in the backward group experienced relative deterioration in terms of per capita income. And the deterioration was more marked after the reforms. This especially is true of Assam, Bihar, Orissa, Uttar Pradesh and West Bengal. Indeed, West Bengal was the only State in this group, which had above national average per capita income to begin with. Though that State experienced significant growth in agriculture, especially in the eighties, because of the deterioration of industrial sector in the State the overall relative performance came down in the nineties.

Intra-State Disparities

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 agitation and at times militant activities is such regional disparities in economic and social development which exist within some of the States. Indeed, creation of some of the States in the past was in the wake of popular agitation based on perceived neglect of certain backward regions in some of the bigger States. The best examples of such cases are the creation of Andhra Pradesh and Gujarat in the Fifties and

creation of Punjab, Haryana and Himachal Pradesh in the Sixties.

The latest example is the creation of three new States caved out from an existing larger State viz., Madhya Pradesh, Bihar and Uttar Pradesh respectively. 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 somehomogeneity criterion like language or some other common heritage, the newly created States develop faster than the pre-partition States.

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. Andhra Pradesh 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 before State reorganisation in 2000 were at different stages of development with entirely different problems. Uttar Pradesh, even after caving out Uttaranchal, has at least three 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.

Impact on political, social and economic stability

It comes out clearly from the discussions in the preceding section that if the past trends, especially those of the recent past continued for the next two decades or so; India will be a highly uneven nation in terms of various dimensions of public life. Incomes and living standards will vary considerably across the nation. People in most of the southern and western parts of the country will be enjoying fairly high per capita incomes, which may be comparable to those of middle income developed countries today. More than half of the people in this part of the country will be living in cities and towns with all modern facilities. Even in rural areas amenities of modern life and reasonably efficient civic facilities will be available. Almost all the children of school-going ages will be attending schooling. There will be hardly any difference between boys and girls in school. The gender difference in literacy will have almost disappeared. Population growth might have come down below replacement level in all the States in this region. A few States like Kerala and Tamil Nadu might have reached stable population level. The average health and nutrition level might have increased significantly. Life expectancy in all States of this region might have crossed 70, both for men and women.

The sectoral employment and incomes will have changed considerably. The share of agriculture in the State domestic product will be 10 to 20 per cent in different States and the population dependent on agriculture will be 20 to 40 per cent.[13] The share of tertiary sector in employment and income will have increased significantly and accounting for 30 to 40 per cent of employment and 50 to 60 per cent of incomes. Secondary sector will account for the balance. On the whole, productivity of labour will be increased substantially in all the sectors mainly on account of new technologies and skill-endowed labour forces. As a result of secular economic growth of 8 to 10 per cent for over two decades and negligible population growth, per capita incomes in the region will have nearly quadrupled as compared to today. Even in agriculture, which would have been

highly diversified and market-oriented, incomes will have gone up significantly. Also, because of effective watershed management, even in the drought prone areas, yearly fluctuations of agricultural output will have been minimal.Abject poverty and deprivations will be unheard of. An effective food security and social security administered by the village Panchayats takes care of the needs of the poor.

II. Conclusion

Lastly, with divergent trends in various sectors of development, there emerges a resistance to vertical and horizontal fund transfers to the backward regions by forward regions. Immediately after the report of the Eleventh Finance Commission there was an uproar from the so-called 'performing States' against increased tax revenue devolution to the backward States. One of the main arguments was that non-performing States are rewarded for their non-performance. It is imperative that Centre and the leadership of the backward States should evolve institutional arrangements to ensure that funds transferred result in the best use in terms of development.

III. Reference

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4) With the recent reorganization of the States, there are a total of 28 States, besides 7 Union Territories in the Indian Union now. In the absence of the relevant data, for the purpose of the present study, we consider the undivided States of Bihar, Madhya Pradesh and Uttar Pradesh.
5) See for detail : Provisional Population Totals – Paper One of Census of India 2001, Registrar General and Census Commissioner of India, New Delhi.