Essay

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HOW TO FAST FORWARD THE BACKWARD STATES

Figure 1: **Gross State Domestic Product per capita in the bottom five states as a percentage of that in the top five states**

	1980-81	1990-91	2000-01	2010-11
TOP 5	Punjab, Maharashtra, Haryana, Gujarat, West Bengal	Punjab, Haryana, Maharashtra, Gujarat, Tamil Nadu	Punjab, Haryana, Maharashtra, Tamil Nadu, Kerala	Haryana, Maharashtra, Gujarat, Tamil Nadu, Kerala
	100%	100%	100%	100%
BOTTOM 5	Madhya Pradesh, Uttar Pradesh, Odisha, Rajasthan, Bihar	Rajasthan, Madhya Pradesh, Uttar Pradesh, Odisha, Bihar	Rajasthan, Madhya Pradesh, Odisha, Uttar Pradesh, Bihar	Rajasthan, Odisha, Madhya Pradesh, Uttar Pradesh, Bihar
	56.3%	53.4%	44.2%	39.4%

Figure 2: **Per capita income in the poorest state as a percentage of that in the richest state**

	1980-81	1990-91	2000-01	2010-11
RICHEST STATE	Punjab	Punjab	Punjab	Haryana
	100%	100%	100%	100%
POOREST STATE	Bihar	Bihar	Bihar	Bihar
	35.2%	32.9%	26.8%	25%

Source: EPW Research Foundation, India Time Series, based on CSO statistics

EXPERT VIEW

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The recent Bihar election was a fierce contest for political space. The stakes were high, and there were national implications. The campaign sought to focus on development, but it was also about caste and religion. Even so, development outcomes over the past decade, attributed to the Nitish Kumar-led governments, probably did exercise a significant influence on the election verdict.

Yet, in 2015, Bihar is among the poorest and least developed states of India. Its larger neighbour Uttar Pradesh, which goes to the polls in 2017, is about the same. So is Odisha. This group also includes Madhya Pradesh and Rajasthan, despite some change for the better. Once upon a time, the five were described as BIMARU states, which is no longer politically correct. It is, in effect, the Hindi heartland plus Odisha. For India to progress fast, and more evenly, these states need to catch up with the richer ones.

Taken together, Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan and Odisha, account for 45% of India's population and 35% of its land area. But they contribute only 28% of national income and are home to 53% of the people who live below the official poverty line in India. This represents an underutilization of our most abundant resource, people, and also our most scarce resource, land. It also suggests that there is a vast potential for development, which could transform India if only it can be mobilized.

Observers and analysts have highlighted the impressive growth performance of these states since the early 2000s, as average annual output growth rates, in real terms, were close to double-digit levels, until the downturn in the national economy. Did this help them reduce the wide income gap with other states? The answer is a clear no, at least partly because they grew from low bases.

Figure 1 compares the population-weighted Gross State Domestic Product (GSDP) per capita in these five states with that in the top five states, at decadal intervals, from 1980-81 to 2010-11. For the purpose of comparison over time, in this exercise, Bihar includes Jharkhand, Uttar Pradesh includes Uttarakhand, and Madhya Pradesh includes Chhattisgarh. This comparison also excludes the small states in the North-east and the Union territories. Bihar, Uttar Pradesh, Odisha, Madhya Pradesh and Rajasthan were the bottom five throughout the period. The top five included Haryana and Maharashtra throughout, Punjab, Gujarat and Tamil Nadu thrice, and Kerala twice, in the four selected years. It reveals a widening gap. Output per capita in the bottom five states as a percentage of that in the top five states dropped from 56% in 1980-81 to 39% in 2010-11.

Similarly, figure 2 shows that per capita income in the poorest state, Bihar throughout the period, as a percentage of that in the richest state, Punjab thrice and Haryana once, in the four selected years, fell from 35% in 1980-81 to 25% in 2010-11.

There are two reasons for this divergence in incomes between rich states and poor states, despite rapid growth in the latter. For one, output growth was rapid even in the richer states, while population growth rates were significantly higher in the poorer states so that the growth in their income per capita was distinctly lower, leading to the widening gap. For another, the distribution of increments in output attributable to growth was unequal between regions.

This is neither surprising nor altogether new. It is in the logic of markets, accentuated by liberalization, which tends to widen regional disparities because of a cumulative causation that creates market-driven virtuous or vicious circles. Regions that are better endowed with natural resources, physical infrastructure, skilled labour or educated people, experience rapid growth. Like magnets, they attract resources and people from elsewhere. In contrast, disadvantaged regions tend to lag behind and become even more disadvantaged. Over time, the gap widens through such cumulative causation. This has happened in most developing countries that have experienced rapid growth, whether China and Indonesia in Asia or Brazil and Mexico in Latin America.

> Supportive governments are an imperative to kick-start development in the least developed states

Growth matters because it is cumulative. If output growth, in real terms, is 10% a year, output doubles in seven years. If per capita income growth, in real terms, is 7% (or 5%) a year, per capita income doubles in 10 or (14 years). But the complexity of economic growth cannot be reduced to a simple arithmetic of compound growth rates. It is also important to consider what drives and sustains economic growth.

In this context, it might be interesting to consider international development experience. There are rich and poor countries in the world economy, just as there are rich and poor states in India. The laggard states in India are large enough in terms of population size (and geographical size) to be countries. Uttar Pradesh (200 million people) compares with Brazil (205) million or Nigeria (180 million). Bihar (104 million) compares with the Philippines (105 million) or Vietnam (93 million). Madhya Pradesh (73 million) and Rajasthan (69 million) are comparable with Turkey (76 million) or Thailand (70 million). Odisha (42 million) is comparable with South Korea (48 million) or Argentina (40 million).

My research on developing countries in the world economy reveals some catching up by Asia, Latin America and Africa taken together, with the industrialized world, which gathered momentum circa 1980, in terms of their share in world output, manufacturing and trade. The divergence in per capita incomes stopped and a very modest convergence started after 2000. But this process was distributed in an unequal manner between regions and between countries within regions. Even so, there are lessons that emerge from this experience.

There were three common factors underlying the success of latecomers to industrialization and development: initial conditions, enabling institutions and supportive governments. I believe that these are important pointers from which the underdeveloped states of India can learn something about how to kick-start development.

There are two aspects of initial conditions. The first is the creation of a physical infrastructure, led by the government, through public investment in power, roads, transport and communications. The infrastructure that exists is simply inadequate if not verging on collapse. The second is the spread of education in society, where primary and secondary education should be the focus, with an emphasis on learning outcomes. This will need a massive overhaul of public schooling systems that have atrophied with the passage of time.

Institutions are not pre-conditions that can be created in a vacuum but evolve in the process of development. Yet, some enabling institutions and institutional changes are essential to break the stranglehold of inertia and the status quo.

The most important, perhaps, is the administrative systems of government. Corruption and rents, patronage and exploitation, or arbitrariness or inefficiency, are deeply embedded flaws. These can be controlled and must be minimized by making ministers, legislators and administrators responsive and accountable to people, so that performance is rewarded and incompetence is penalized. This means preservation rather than subversion of the rule of law. This means transparency in information and decisions. This means introducing institutionalized checks and balances.

The other sphere, almost as important, is the agricultural sector and rural development. It cries out for attention after prolonged neglect. In Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan and Odisha, the share of the rural population in total population, even now, is in the range of 75-90%. There is a desperate need to rejuvenate or establish institutions that can provide extension services (administrative reform), access to credit (agricultural bank), or irrigation facilities (in mission mode), for farmers. The availability of energy and credit in rural areas would also foster rural industrialization and non-agricultural employment through entrepreneurship.

Supportive governments are an imperative to kick-start development in the least developed states. This has multiple dimensions. But there are three that deserve emphasis.

Insofar as development is about the well-being of people, these state governments should concentrate on safe drinking water, sanitation facilities, and public health in rural areas, to support social consumption for those who cannot meet these basic human needs through private incomes.

Insofar as development is about transforming the production capabilities of economies, there is a role for these state governments in evolving policies, developing institutions and making strategic interventions, whether as a catalyst or a leader. Given the near zero output elasticity of employment in agriculture, the only potential for creating employment and raising productivity lies in manufacturing or services. But it is only low-productivity consumer services that are likely to be located in such states.

The obvious strategic choice in the medium-term would be to develop manufacturing. For this purpose, the creation of a physical infrastructure and creating a milieu that is conducive to, or attractive for private investment, whether domestic or foreign, are necessary conditions. This quest for industrialization would benefit from imparting vocational education for skill development, setting up an institutional framework, say in the form of a board chaired by the chief minister, to formulate industrial policy, and establishing a state industrial development bank to help finance investment.

The third dimension, good governance, is critical. Governance capabilities do matter. Indeed, the quality of governance is an important determinant of success or failure at development. The most striking illustration of this proposition is provided by the wide diversity in economic performance across states in India, despite common policies, similar institutions, and the economic union. Public perceptions about governance shape electoral outcomes as people re-elect, or oust, incumbent governments.

Some of this might be easier said than done. But a better world is possible for these states and, hence, for India.

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