# PLANNING AND REGIONAL DEVELOPMENT IN INDIA

J. MISHRA

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# Editor's Note

As a natural corollary of 'growth with social justice', balanced regional development has constituted an important aspect of India's developmental objective since the very beginning of her planned endeavours in early 1950. No doubt, we did have the earlier experiences of a developed nation speaking of the trend towards increasing regional imbalances through the growth process; and to guard against such eventualities, we provided for some special area programmes. Yet, our planners very largely believed in the natural 'trickle-down effects' of growth-process, and hoped that such imbalances would be rectified, or at least would not put serious strains on the economy.

But that would not be. The actual experiences in operational domains displayed dangerous disparities in regional development, shaping themselves into distinct trends which continued aggravating with the march of planning over the years. The trends at regional imbalances manifested themselves in two forms, the first culminating in the emergence of select islands of prosperity confined to some few urban and industrial localities sprinkled sparsely over the vast uninviting expanse of rural communities; and, the second, conspiring to bring into sharp focus, the yawning developmental inequalities as between different units of the same Union, popularly called the States, some of which surged fast ahead, while others lagged far behind.

In view of the absence of any organized association representing the interest of sprawling rural areas, the everintensifying rural urban inequalities remain voiceless. But inter-state disparities stand on quite a different footing. For one thing, the states are well-knit administrative units, having their distinct identity coupled with a feeling of separate oneness; are mainly responsible for implementing developmental schemes and are accountable directly to their inhabitants. For another, most of the states, which today occupy the lower rungs of the nation's developmental ladder, were credited with having fairly respectable positions during the pre-planning period, indicating that these had nothing like inherent growth depressors. And, finally, most of the slow-moving states are endowed with comparatively much richer natural and industrial resources, having potentials for large, rapid and diversified development—all these going to strengthen the impression that the states adversely affected in the race of national growth owe their present plight to factors which are largely man-made. This, apart from the evil effects of socio-economic disparities, born out of inter-state imbalances, sharpens the psychological impacts of such imbalances, which are obviously more dangerous in the context of the national integration of a sub-continental land like ours, a fact which stands corroborated by historical experiences in some countries. The situation is fraught with unwholesome implications, and naturally constitutes both a cause for serious concern as well as a challenge to us—our planners, policy-makers, administrators and academicians.

In view, therefore, of the gravity of the problem juxtaposed with the duty of the academic elite towards the country, the L.N. Mishra Institute of Economic Development and Social Change, Patna, organized a national seminar on "Planning For Development and Regional Imbalances in India with Special Reference to Bihar" on September 29-30, 1982. A distinguished galaxy of academicians, administrators, planners and policy-makers participated in the seminar, presented their papers and critically deliberated upon the problem with a view to formulating suitable recommendations in the desired directions.

The volume in hand is a collection of select papers presented and discussed at the seminar, in addition to the inaugural address delivered by me and the keynote address delivered by Dr. C.H. Hanumantha Rao. Thus, there are 21 papers, forming as many chapters, though the number of participants was 53. Of these, some deal with 'Problems of Regional Imbalances in a Developing Economy', while some others are concerned with 'Bihar's Five-Year Plans and Regional Imbalances'. Yet some others pertain to 'Policy Implications'. At the end is the chapter on 'Major Recommendations' which embodies the unanimous recommendations aimed at suitable policy formulation/modification and effective implementation in the field.

Despite variations in the diagnostic tools used by the participants, their findings as well as prescriptions are almost unanimous. The gaps both of inter-regional and intra-regional inequalities in development over these planning years have substantially widened and sharpened as evidenced by the gaping range between the highest and lowest per capita income of States, the coefficients of these incomes and expenditures and the Ginni coefficients of inequalities.

This needs rectificational as well as promotional measures.

That the relative backwardness of a region is a function of the original resource-endowments holds little ground in a federal Union as ours. The consensus of contributors is that the less developed States, like Bihar, deserve special treatment in respect of fiscal transfers, Central assistance, plan outlays and project allocations so as to bring them on a par with their comparatively advanced counterparts. Through purposeful policy-changes and effects implementation, economic and social disparities between regions and the inequitous trends at imbalances are in time identified, rectificational devices are suitably introduced and promotional measures implemented to curb these trends before these assume unmanageable proportions, and substitute instead an abiding process of balanced regional development.

Since every paper initially presented at the seminar was a compact unit in itself, the editor's pen has had to be, of necessity, a little liberal in effecting some clippings and additions here and there in the interest of giving a look of compactness, sequential rationality and continuity of thought in the volume. Despite these marginal adjustments, the soul of every paper remains intact in toto.

The intellectual exercise as embodied in the volume in hand is of immense utilitarian import. It will be amply rewarded if it arouses stirrings of thought for suitable policy-changes and effective implementation in the concerned operational realms along the lines advanced in it. It is hoped that the deliberation contained herein will be of great utility to all those academically or administratively interested in regional development and planning.

JAGANNATH MISHRA
Chairman-cum-Director-General

# Introduction

True to its name, the L.N. Mishra Institute of Economic Development and Social Change, Patna, engages in activities aimed at promoting the process of economic development and social change in the country. These activities are three-dimensional; namely, management teaching, undertaking applied socio-economic research and building a pro-change constructive elitist environment. Towards the fulfilment of the third dimension, the institute organises seminars and symposia on its own campus as well as at other centres of learning in Bihar so that there is continually cultivated a progressive thinking process on the part of the academicians, administrators and policy-makers concerned with the problem of socio-economic upliftment of the nation.

The book is the end-product of one such seminar held at the institute on September 28 and 29, 1982, on "Planning For Development and Regional Imbalances in India: With Special Reference to Bihar", which is a burning topic of the day, and stands as a continuing challenge to our objective of attaining growth with 'social justice'. The articles included in this volume are both diagnostic as well as prescriptive in nature, and they embody the collective thinking of experts on the subject in their respective arenas of impartial academic pursuits, of gainful policy-formulation and of anxious administrative implementation.

The institute is extremely grateful to its Chairman-cum Director-General, Dr. Jagannath Mishra, who has spared valuable time from his bee-busy academic-cum-political life, and taken pains to edit the papers included in this volume. Through his erudite editors' pen, no doubt, a few peripheral changes in original papers have occurred. Yet, the kernel of the contributors' views has been kept almost religiously the same.

What this volume contains is for the readers to put to test. Yet, it will serve a useful purpose in providing the right direction to policy-formulation, and in toning up the tempo of implementation of policies, in addition to widening the arena of knowledge.

CHAKRADHAR SINHA
Director

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# 1

# Regional Disparities and Development

BY

C.H. HANUMANTHA RAO

REGIONAL disparities are a global phenomenon now and regional disparities exist even among various developed countries. We have regional disparities within India and among its different States. There are a number of developed States which have pockets of backwardness from many standards or where there is low level of regional development. These are States like Bihar where almost the whole region is less developed or is economically backward. Even a developed State has some less developed pockets. But backwardness or the low level of development is not so much due to lack of resources; it is essentially due to inefficient allocation of resources to different areas in that State. A richer State, which has sufficient surpluses after meeting its revenue expenditures or non-planned expenditures, is potentially in a position to remove backwardness of some of the regionally backward areas. However, after decades of economic development, these areas continue to be very backward. This only suggests that the resources have not been properly allocated.

The position becomes serious in the case of States like Bihar, where almost the entire region is economically backward, or Uttar Pradesh, where except a few zones, like western districts, a large area continues to remain backward whether it is hill areas or Bundelkhand. Besides, these States are deficient in resources. Apart from lack of planning process, technological organisation and administrative acumen, there are several other factors responsible for this imbalanced development. Resources are only one of the factors accounting for development or lack of these to backwardness. There are many other factors, apart from resources, which are important in trying to understand the genesis of backwardness and factors which promote development.

There is no doubt about the fact that in many of the States, where less developed regions predominate, there is resource constraint. Let us survey the growth in the country in the last 30 years of planning and, even after these 30 years, we are confronted with two very distinct regions with sharp disparities One stands prominently for almost whole of eastern Gangetic plains extending from Uttar Pradesh to Bihar, West Bengal and parts of Tripura and several other north-eastern States. This stretch of land has lagged behind very much in the growth rate for the country as a whole. Not that this region was not benefited at all or has not grown at all in the last 30 years. There has been significant improvement both in irrigation and power potentials. Moreover, the per capita income in this region has grown faster than the population, which was not so in the pre-independence period, but its rate of growth has very much lagged behind the average growth of the country as a whole so that we find disparities in the per capita income in this whole region; in Bihar, in particular, while it has widened in the rest of the country, in general. The disparity between the State average and the all-India average has continued to increase over a period of time. But this region, in fact the whole of the eastern zone, is full of potentialities. If there is any region in the country, where the discrepancy or the difference between the actual achievement and potentialities is the largest or the greatest, is the eastern zone, including Bihar. This only points to the potential for development not available and appropriate strategies are to be found out. The poverty ratio where a portion of the population living below the poverty line is also among the highest in this region, and if you take a region as a whole, this region accounts for a very large proportion of poorer population of the country. Therefore, for a country, the index of development as well as the removal of poverty lies in the progress that has taken place in this region. Unless the rate of growth of economy is accelerated in this region, and the whole of eastern zone, and unless there is a significant reduction in poverty in this region, we cannot say that the country as a whole has made progress or we have been able to reduce poverty in the country.

Now, if one looks at the performance of Bihar in the plan period, it should be clear that, after all, in the case of agricultural performance and rural development, the population line is the disparity between the all-India average and the State average which has been not bad. This is not to speak of the per capita income. The per capita income in Bihar is the lowest in the country. But the rate of growth has not been the lowest, particularly in the sphere of agricultural performance, though it is still low. This only suggests that the response of the population to innovations and to investments is more weighted. Take, for instance, the case of the performance of wheat. The area under wheat has been enlarged and thus the output of wheat has also increased proportionately. This only shows that farmers here have responded favourably to the introduction of technology in agriculture. Labourers in Bihar are as hardworking as any of their counterparts in the rest of the country. In fact, one may even say that, because of the poverty, they are more hardworking than most of the labourers in many parts of the country. I have seen Bihar's labour in far-off places and even in hilly areas as far as Himachal Pradesh and such other places, and observed them working hard at a depressingly low wage.

So there is no doubt that, in terms of the potential to be achieved, this region is very promising and, in terms of the efforts and responses, it is all committedly inspiring. But there have been several historical factors which explain why Bihar, in particular, and the eastern zone, in general, have continued to remain backward. Scholars, who are interested in studying regional disparitities in development, take August 15, 1947, or 1951, when the first five-year plan was started, as the base mark. This is not a fair or foolproof basis, but only meaningful in a certain sense. In trying to understand the backwardness and the factors that account for it, one will have to go deeper in history. Therefore, it is important to understand the historical background of these regions in relation to other regions of the country in order to understand the causes of this backwardness and also in order to formulate the future strategy and to mobilise the resources of the country for the development of the region.

One can illustrate figures collected from the economic history of this country, particularly this region, that in whole of a century and a half before independence, the rate of taxation was very high in this region, i.e., the whole of the eastern zone. And the extraction of surplus from the rural sector was much higher whether in terms of per capita or per hectare than from many other parts of the country. Of course, there had been a significant drain of resources from this country in the colonial period to countries outside. But there is no doubt that there was a significant inter-regional flow of resources after independence, which has not been properly articulated. There are regions wherein the investment made in the infrastructure like transport, particularly in irrigation, in the pre-independence period was much higher than the resources mobilised within that region and certainly the eastern zone was not one of the regions where investment was made significantly in that period. It is agreed by all economic historians that public investment in the whole of colonial period was least employed in this region. In fact, in the whole of a century and a half before independence, there was significant outflow of resources from the whole of the eastern belt which was partly retained in conspicuous consumption and partly invested in another region.

It may not be a question of resources; after all, this extraction of surpluses from the whole of this zone under the permanent settlement system and things like that was associated with the growth of a set of institutions, the land tenure system and the whole set-up which was very different from the Gyakwadi system or Mahalwari system which were conducive to development. So in the institutional set up there, which was also associated with conspicuous consumption by the upper ruling class, the rural area also seems to be an inevitable factor in the post-independence period. Then the traditions are also very important.

Today, the whole region has inherited a very poor resource base in terms of infrastructure. This was under pressure—operation pressure in the last 30 years after independence. And over and above this, the transfer of resources from the rest of the country to this region was not much significant at least up to the end of the Third Plan period. Figures have earlier been quoted that years ago the per capita transfer of resources to Bihar and to some of the States of this region was lower than the all-India average up to the Third Plan period, whether it was on account of the transfer by the Finance Commission or the Planning Commission. But then, more recently, there is transfer of average per capita higher than the all-India average. It is said that as regards the transfer even from the Finance Commission and the Planning Commission, according to the Gadgil Formula, the per capita transfers are higher than the all-India average. But in spite of higher per capita transfers, the per capita plan investment in this region is much lower than investments in some of the developed States and it is also low on the all-India average, as the per capita plan investment is determined not only by the resources, from or according to the Planning Commission formula, but also by the surpluses that the State itself has over the non-planned expenditure. If the surpluses are lower because of lower per capita income, the tax too is lower in per capita terms. Perhaps it is lowest in the country. But that does not mean that it is lowest in backward States. The tax mobilisation or the resource mobilisation depends on the taxable capacity in general and the taxable capacity is determined by the per capita income, the level of urbanisation, how the income is distributed and several other factors.

Taking into account the per capita income, the level of urbanisation and the proportion of income arises essentially from the overall non-economic development. It is not suggested that the transfers which are being made now either according to the Gadgil Formula, the Planning Commission or the Finance Commission or what is the optimal amount. It is not suggested either that there is no scope for better progress. In fact, there is scope for greater progression in both the cases but that will never end up because, ultimately, it is the per capita surplus which becomes important. And, among several other factors, per capita surpluses are determined by the flow of private investments also. When it is the plan of development, one has in mind not only the public investment but also the private investment. There is an outflow of financial resources from financial institutions. The credit-deposit ratio is lower here than what it ought to have been. So again, the infrastructure that has been built up in the pre-independence period in some of the States still has its impact in the resource mobilisation in those States from the private account. The industrially developed States, because of their better infrastructure, because of their better institutional background, which means managerial ability, etc., and because of the whole tradition of industrial development, have been able to attract more from financial institutions all over the country. Therefore, this is also a factor to be taken into account from the point of view of planning, development and policy.

It becomes extremely important as to how to attract more resources from private accounts and private investment and how to induce financial institutions to invest more in the region. So, there has to be a concerted effort to mobilise resources not only on account of federal transfers but also on account of the savings between the region and private investments. But then the savings and resources are not developed so. As cited earlier, the very factors, which explain why the per capita income is lower, elucidate why the per capita revenue is lower. Also the factors, which reveal the institutional framework, show that tradition has not been conducive to rapid economic growth. I had the occasion to study some 10 years ago the land tenure relations in Bihar and I departed with the feeling that there was a greater scope of redistribution of land in certain parts of the State at least. If one wants to implement anti-poverty programmes, many of these programmes require some land base. As is well known, landlessness in Bihar is very high. Therefore, programmes for poverty removal are bound to have a greater land base. If you want to support the poor through a livestock programme, it cannot be successful until some land is there for rearing animals. Similar is the problem in launching poultry projects. Here also land is required for its growth. Homestead programmes also require some land. Therefore, in a situation as it exists in Bihar, where there is so much scarcity of land and so much population pressure on land, there needs to be a greater effort in whatever way for we are acquiring more land for the purposes of poverty removal.

Because of the inherited tradition, which is already explained, there needs to be a greater governmental effort, e.g. decentralisation, voluntary organisations, etc. In fact, there is no dispute about the theory that the people's participation has to be increased. If planning efforts are to be made a success, village panchayats and voluntary organisations have to be involved in these. But there is no doubt that people in Bihar more often than not do not contribute to voluntary efforts and skills in the same way as people in many other developed States do. Thus the role of the State Government in bringing about the change in the people's mind is more important in this region than in many other States. Besides, administrative efficiency is more important in this region than in many other parts of the country. Moreover, education in social development is an important ingredient. Our education system is already lopsided. We have a structure whereby we are adding more of literary knowledge and skills at certain higher levels and little at the lower. But it is there that in the context of under-development of backwardness and to bring about a rapid change both through population control as well as through the pursuit of viable economic activities, the literacy level becomes very important, particularly for girls. This level is certainly the lowest in the country in Bihar. This, of course, means investment and, wherever there is low course of trade in the revision of plans, it is the social services which are drastically affected all over the country and not in Bihar alone. But in this particular region, there is need to tone up the literacy level in which primary education becomes extremely important. Here comes the duty and responsibility of all of us who have been fortunate enough to get higher education and have necessary expertise in various ways to help improve literacy at the lower level.

Where land is scarce and capital resources are scanty, the role of the working class and the educated people becomes extremely important. We have abundant labour resources, i.e. one of the few untouched resources in the country where the situation like this exists. If you want to get the maximum out of deficient capital resources and scarce managerial resources, the mobilisation of labour resources and the administrative set-up or even the educated personnel, whose deployment becomes extremely important, the unending sources of voluntary effort should be employed to solve the problems of the State's people. So far as the labour is concerned, it should imbibe a spirit of best discipline and organisational acumen so that we produce more per unit of time both from government undertakings as well as public sector units. University education has luckily been fairly widespread in Bihar as in many other parts of the country. I have been suggesting that universities and colleges should voluntarily adopt certain villages or certain programmes and the State Government should be too willing to co-operate in this involvement of propagating certai new ideas and in organising the poorer sections of the people in their effort to improve their standard of living.

# 2

# Planning for Development and Reduction in Regional Imbalances with Special Reference to Bihar

BY

JAGANNATH MISHRA

'THE Wealth of Nations', which systematises Adam Smith's view on growth and development, based essentially on the experiences of the British economy during the crucial days of Industrial Revolution, is called 'An Enquiry into the Causes of Wealth of Nations', because such an enquiry aspires to bring to the fore the forces accounting for the development of nations. A celebrated British economist, writing in 1961 or at a time by which leading advanced countries had shown varying rates of growth ranging from moderate as in the USA and France to very rapid, even charismatic, as in Germany and Japan, suggests that the emphasis should now change from absolute to comparative growth rates.[1] And the suggestion seems to be quite in order. It is more so today when even developing countries, all of which have been growing, are registering quite unequal rates of development. Why do nations grow is, of course, a perennial enquiry for economists. But since they grow at very unequal rates causing intra-national and inter-regional imbalances which give birth to various types of problems, tensions and even frustrations, it is time that economists studied the imbalances and their causative factors with a view to suggesting measures for balanced development. This is a pressing demand today at all levels—global, national, or inter-state.

Conceptually speaking, these imbalances are nothing new to us. Even in Smith's time, there were perceptible and growing differences in the levels of economic achievements in different parts of Europe and between Western Europe and the USA and other continents. No doubt, in the absence of statistical measures of these differences, these imbalances did not attract notice. At the same time, in those days, say up to the Great World Depression, economists believed that progress was something like a merry-go-round.[2] The fortunes of nations were believed to revolve in a vast cycle in obedience to the laws of nature and society. The literature on economics long after Smith is strewn with speculations on causes of this cycle. Moreover, the economists then believed in prophesies even of a stationary state of nations in which growth would finally cease to occur under the influences of some limiting factors, such as population growth, the Law of Diminishing Returns, fuel shortages and chronic tendencies to oversave.[3] It could be hardly believed that a nation would enter an indefinite period of cumulative and self-sustaining growth. It would be very difficult then to point to and convince an economist in the nineteenth century or even in the first 40 years of the twentieth century that the imbalances between the countries (and regions) were destined to go on widening.

Even if the imbalances existed, and actually they did exist, they did not catch attention for a number of reasons. For one thing, they were not that sharpened, and, for another, they were within tolerable limits in the sense that even those nations which stood on the relatively lower rung of development, enjoyed, in absolute terms, a level of living and other socio-economic facilities and amenities which kept the average nation satisfied if not contended. The psychological pangs of inequalities did not pinch as much.

Then came the Great Divider, World War II. It opened the floodgates of national freedom, of political consciousness and of economic aspirations; scores of erstwhile colonies became independent nations, all burning with the zeal for economic development, and virtually all embarked upon a sponsored development voyage. These were reinforced in their conviction about the competence for growth. Aided by sophisticated statistical devices, economists ransacked history and brought to the fore the view that all developed countries of the day were once underdeveloped. Growth historians appeared on the scene with their captivating appeal, particularly those led by Prof. Rostow who, through his take-off theory, based essentially on the beautiful aeronautical analogy, convincingly showed how these underdeveloped economies also can rise from their stationary state, attain take-off and continue growing. The merry-go-round concept of growth process was replaced by one of the continual cumulative self-reliant processes. Advanced countries were already on their growth path while backward nations started growing, but on an uneven pace.

Imbalances started showing their hoofs, particularly since early seventies. Their glaring impact was first realised in relation to the global scene as seen between what they now call the North and the South, the living standard levels between which stand at least in the ratio[4] of 10 to 1. Imbalances amongst developing nations, although not so glaring, are yet a cause of inquiry, if not as much of anxiety, for it has to be investigated into as to why growth rates have been averaging at so high a figure as 8 per cent in some developing countries as some Latin American countries and Taiwan, and why only at 3 to 4 per cent per year in the rest of these. But these imbalances, when appearing in relation to the regions of the same developing country, become terribly painful. The reasons thereof are obvious. In the first place, all these countries have adopted a planned process of development with the national governments keen on at least a tolerable level of differences in development of various regions within their respective territories. In the second, disparities in growth rates and living levels of regions of the same country become psychologically frustrating, since those with lower levels have the feeling of being discriminated against. And, finally, since growth and living levels in all the regions of a developing country are already lower than even the minimum indispensable, those in the less advantageously placed regions are deplorably lower. It may be generalised thus: regional imbalances on the global scale are undesirable, those on the inter-state scale in the developing world are regrettable and those between the regions of the same developing country are simply intolerable. Yet these are persistent and are attaining proportions, strangely enough, with the progress of economic development. India's experiences constitute a telling example.

### Inter-State Imbalances[5] in India

With the gradual march of economic development in the country particularly since 1960-61, the differences in growth rates of various states have continued increasing. The figures in the table at constant prices are revealing.

It will be seen from the table that State Domestic Products SDPs ranged from Rs. 99 crores for Jammu & Kashmir to Rs. 1,843 crores for Uttar Pradesh in 1960-61. In 1976-77, the range was Rs 183 crores for Jammu & Kashmir and Rs. 2,812 crores for Maharashtra. Thus, the range of inter-state variation has declined from 1 to 18.6 to 1 to 15.4, showing a certain lessening of inter-state inequality, in spite of basic differences in areas and population. This is also borne out by the figures given in the table of percentage increase in SDPs in

GROWTH OF STATE DOMESTIC PRODUCTS IN STATES

| *States* | *SDP (Rs. crores)* | | *Per cent* | *Rankings* | |
|---|---|---|---|---|---|
| | *1960-61* | *1976-77* | *increase* | *1960-61* | *1976-77* |
| Andhra Pradesh | 983 | 1,499 | 52.5 | 5 | 5 |
| Assam | 336 | 482 | 43.5 | 13 | 14 |
| Gujarat | 738 | 1,214 | 64.5 | 7 | 7 |
| Haryana | 244 | 559 | 129.1 | 14 | 12 |
| Jammu & Kashmir | 99 | 183 | 84.9 | 15 | 15 |
| Karnataka | 667 | 1,433 | 114.8 | 8 | 6 |
| Kerala | 443 | 696 | 60.7 | 18 | 12 |
| Madhya Pradesh | 833 | 1,203 | 44.4 | 6 | 8 |
| Maharashtra | 1,597 | 2,812 | 76.1 | 2 | 1 |
| Orissa | 374 | 701 | 108.8 | 12 | 11 |
| Punjab | 383 | 904 | 136.0 | 11 | 10 |
| Rajasthan | 558 | 950 | 70.3 | 9 | 9 |
| Tamil Nadu | 1,110 | 1,636 | 47.4 | 4 | 4 |
| Uttar Pradesh | 1,843 | 2,504 | 35.9 | 1 | 2 |
| West Bengal | 1,338 | 1,863 | 39.2 | 3 | 3 |

1976-77 over 1960-61. Four of the five top states in terms of their SDPs in 1960-61 had a percentage increase ranging between 36 and 47—Uttar Pradesh with 35.9, Madhya Pradesh with 44.4, West Bengal with 39.2 and Tamil Nadu with 47.4 while four among the five bottom states had a much higher percentage increase in their SDPs—Jammu and Kashmir with 84.9, Haryana with 129.1, Orissa with 108.8 and Punjab with 136. Assam among the bottom states was an exception with an increase of only 43.4 per cent, while Maharashtra among the top states was also an exception with an increase of 76.1 per cent.

This difference in growth has not, of course, made the same difference in their respective rankings in 1976-77 as compared to 1960-61 for obvious reasons such as area population and magnitude of SDPs in the initial year. In fact, the correlation coefficient between inter-state ranging in respect of their SDPs at constant prices in their initial and final year of the period under review is as high as 0.93. This shows that there has not been any significant change in the basic inter-state position. However, there has been some change in the individual rankings of a number of states. Thus, three of the four bottom states referred to earlier for their high percentage growth, viz., Haryana, Punjab and Orissa, have moved up by one place, while Jammu & Kashmir which was last in rank has retained the same position. Of the four top states with low percentage growth, Uttar Pradesh has moved down by one place and Madhya Pradesh by two places, while Tamil Nadu and West Bengal have retained their original places. Karnataka has, among the middle states, moved up by two places and Maharashtra among the top states has moved up by one place. Assam has moved up by one place and Kerala has slid down by two places.

A glance at the compound growth rates of the SDPs during this period is an indication of the variations in their growth performance of the different states. The following table gives the compound growth rates of SDPs at constant (1960-61) prices for the period under review:

COMPOUND GROWTH RATES OF SDP-CONSTANT 1960-61 PRICES

| *States* | | *1960-61 to 1976-77* |
|---|---|---|
| Andhra Pradesh | .. | 2.80 |
| Assam | .. | 2.20 |
| Bihar | .. | 2.60 |
| Gujarat | .. | 2.60 |
| Haryana | .. | 4.6 |
| Jammu & Kashmir | .. | 4.7 |
| Kerala | .. | 3.5 |
| Karnataka | .. | 4.6 |
| Uttar Pradesh | .. | 2.3 |
| West Bengal | .. | 2.1 |
| Madhya Pradesh | .. | 3.0 |
| Maharashtra | .. | 3.6 |
| Punjab | .. | 5.2 |
| Rajasthan | .. | 3.0 |
| Tamil Nadu | .. | 2.6 |
| Orissa | .. | 3.5 |
| All-India | .. | 3.70 |

The table shows wide variations in the compound growth rate of individual states, ranging from 2.1 per cent to 5.2 per cent, as against the Net Domestic Product (NDP) figure of 3.7 per cent. The highest growth rates are those of Punjab (5.2 per cent), Jammu & Kashmir (4.7 per cent) and Karnataka and Haryana (4.6 per cent). The lowest growth rates were those of Madhya Pradesh (2.0 per cent), West Bengal (2.1 per cent), Assam (2.2 per cent) and Uttar Pradesh (2.3 per cent). Maharashtra had a growth rate of 3.6 per cent, Orissa and Kerala of 3.5 per cent, Andhra Pradesh of 2.8 per cent and Gujarat and Tamil Nadu of 2.6 per cent.

So far, we have been dealing with SDPs at constant prices or absolute magnitudes of the domestic products of different states without reference to the differing magnitudes of their population. It is the per capita SDP which gives a nearer approximation to the differences in inter-state levels of economic welfare. The following table gives the figures of the percentage increases in the per capita SDP at constant prices over the period 1960-61 to 1976-77:

GROWTH IN PER CAPITA SDPs-CONSTANT 1960-61 PRICES

| *States* | | *1960-61 to 1976-77* |
|---|---|---|
| Andhra Pradesh | .. | 10.91 |
| Assam | .. | 11.11 |
| Bihar | .. | 10.95 |
| Gujarat | .. | 10.50 |
| Haryana | .. | 47.40 |
| Jammu & Kashmir | .. | 28.25 |
| Karnataka | .. | 52.80 |
| Kerala | .. | 12.36 |
| Madhya Pradesh | .. | 2.69 |
| Maharashtra | .. | 22.00 |
| Orissa | .. | 45.16 |
| Punjab | .. | 72.62 |
| Rajasthan | .. | 12.32 |
| Tamil Nadu | .. | 10.18 |
| Uttar Pradesh | .. | 1.59 |
| West Bengal | .. | 4.10 |
| All-India | .. | 18.98 |

The table shows that, while per capita NDP at constant prices increased by 18.9 per cent over these 17 years, there were four states whose per capita SDP showed a much higher rate of increase. These were Punjab (72.6 per cent), Karnataka (52.8 per cent), Haryana (47.4 per cent) and Orissa (45.2 per cent). Jammu & Kashmir showed an increase of 20.3 per cent and Maharashtra of 22 per cent. As against this, three states have recorded an actual decline in their per capita SDP, these being Assam (−11.1 per cent), West Bengal (−4.1 per cent) and Madhya Pradesh (—2.7 per cent). Close on the heels of these states comes Uttar Pradesh with an increase of only 1.6 per cent in its per capita SDP over the period. The other five states, which all show a significantly lower rate of increase in their per capita SDPs as compared to that of the NDP, are Rajasthan and Kerala (12.3 per cent), Adhra Pradesh (10.9 per cent), Gujarat (10.5 per cent) and Tamil Nadu (10.2 per cent).

While natural factors, such as drought, floods, cyclones, etc., and man-made factors, such as strikes, lock-outs and transport and power breakdowns, may have had their share in accounting for a part of differences in inter-state SDPs, and, therefore, also in per capita SDPs in 1976-77, there can be no doubt about the major role played by the demographic factor in accounting for the differences

PER CENT INCREASE IN SDP AND PER CAPITA SDP AT CONSTANT PRICES, 1960-61—1976-66

| *States* | *SDP* | *Per capita SDP* |
|---|---|---|
| Andhra Pradesh | 52.5 | 10.9 |
| Assam | 43.45 | −11.1 |
| Bihar | 43.20 | 10.95 |
| Gujarat | 64.5 | 10.5 |
| Haryana | 129.1 | 47.4 |
| Jammu & Kashmir | 84.9 | 28.3 |
| Karnataka | 114.8 | 52.8 |
| Kerala | 60.7 | 12.4 |
| Madhya Pradesh | 44.4 | —2.7 |
| Maharashtra | 76.1 | 22.0 |
| Orissa | 108.8 | 45.2 |
| Punjab | 136.0 | 72.6 |
| Rajasthan | 78.3 | 12.3 |
| Tamil Nadu | 47.4 | 10.2 |
| Uttar Pradesh | 35.9 | 11.6 |
| West Bengal | 39.2 | −4.1 |
| All-India | 69.4 | 18.9 |

in the growth of per capita SDPs in that year as compared to 1960-61. This can be seen from the above table which brings together the percentage increases over the period of both SDPs and per capita SDPs of the different states at constant prices.

The conclusion that emerges from the analysis is that there has been no uniformity in inter-state growth rates either with one another or with the NDP. Some have grown faster and others slower and some have moved up in their ranking and others have slid down. The variation across the states can be seen more clearly if we group them together under different categories drawn from the SDP and NDP data. The following groups present the relevant material:

GROUP I

**Norm: 69.40 per cent increase in NDP at 1960 prices:**

A—Distribution:

| *Above 69* | *Between 50-70* | *Below 50* |
|---|---|---|
| Haryana | Andhra Pradesh | Assam |
| Jammu & Kashmir | Gujarat | Madhya Pradesh |
| Karnataka | Kerala | Tamil Nadu |
| Maharashtra | | Uttar Pradesh |
| Orissa | | West Bengal |
| Punjab | | Bihar |
| Rajasthan | | |

B—Movements:

| *High* | *Low* | *Neutral* | *Decline* |
|---|---|---|---|
| Karnataka | Haryana | Andhra Pradesh | Assam |
| | Maharashtra | Gujarat | Kerala |
| | Orissa | Jammu & Kashmir | Madhya Pradesh |
| | Punjab | Rajasthan | Uttar Pradesh |
| | Bihar | Tamil Nadu | |
| | | West Bengal | |

## GROUP II

**North: 18.89 per cent increase in NDP (constant prices)**

A—Distribution:

| *Above 19* | *Between 0 to 19* | *Negative* |
|---|---|---|
| Haryana (47.40) | Andhra (10.9) | Assam (—11) |
| Jammu & | Gujarat (10.5) | Madhya Pradesh |
| Kashmir (28.25) | Kerala (12.36) | (—2.70) |
| Karnataka (52.80) | Rajasthan (12.32) | West Bengal |
| Maharashtra (22.00) | Tamil Nadu (10.20) | (—4.10) |
| Orissa (45.16) | Uttar Pradesh (1.59) | |
| Punjab (72.62) | Bihar | |

B—Movement in rankings:

| *High* | | *Slow* | | *Neutral* | *Declining* | |
|---|---|---|---|---|---|---|
| Haryana | (2) | Kerala | (1) | Rajasthan | Andhara | (1) |
| Jammu & | (3) | Tamil Nadu | (1) | Uttar Pradesh | Assam | (6) |
| Kashmir | | Bihar | | | Gujarat | (2) |
| Karnataka | (4) | | | | Madhya | |
| Orissa | (5) | | | | Pradesh | (2) |
| Punjab | (3) | | | | Maharashtra | (1) |
| | | | | | West Bengal | (4) |

## GROUP III

**Norm: 3.70 per compound growth rate of NDP at 1960-61 prices**

A—Distribution:

| *Above 3.70* | *Between 3.00 & 3.70* | *Below 3.00* |
|---|---|---|
| Haryana | Kerala | Andhra Pradesh |
| Jammu & Kashmir | Madhya Pradesh | Assam |
| Karrataka | Maharashtra | Gujarat |
| Punjab | Rajasthan | Uttar Pradesh |
| | Orissa | West Bengal |
| | | Tamil Nadu |
| | | Bihar |

All the groupings show that Haryana, Punjab, Karnataka, Gujarat and Maharashtra have fared best in their economic progress as judged by different NDP parameters. Next come Orissa, Jammu & Kashmir, Andhra Pradesh, Rajasthan and Kerala. The states which have done really badly are Assam, Madhya Pradesh, Uttar Pradesh, West Bengal, Bihar and to some extent Tamil Nadu.

And amongst these, Bihar has been a very bad, if not the worst, victim of the self-feeding imbalances arising over the planning period since 1951, despite a steady growth rate registered by the State over these years. The total expenditure incurred during the various plans between 1951 and 1978 amounted to more than Rs. 2,166.68 crores, as a result of which its economy shed off its shackles of stagnation and started moving. During the period 1951-77, the State's total income nearly doubled, its per capita income showed a rise of about 30 per cent, and in terms of per capita income and in those of total income, it registered growth rates, respectively, of 1.11 and 2.6 per cent. The period 1977-80 saw the State's economy fall into a virtual coma occasioned by the Janata rule's mismanagement. But when it recovered with the taking over of the nation's administration's reins by our dynamic Prime Minister, the late Mrs. Indira Gandhi, it recorded a growth rate during the financial period of 1980-81 of 2.7 per cent. During the period 1981-82, the food production rose from 42 lakh tonnes to 106 lakh tones, gross irrigated area potential from 22.64 lakh hectares to 26.40 lakh hectares and power-generation capacity from 245.56 Mw to 914 Mw.

In view of the serious handicaps with which Bihar launched its development voyage initially, these achievements, no doubt look impressive, if not satisfactory. But in comparison with the achievements made by other States together with those garnered by the country as a whole, these are certainly smaller. The following is illustrative:

RELATIVE DEFICIENCY IN BIHAR'S PER HEAD INCOME
(at constant prices)

| *Years* | *Per capita Income* | | *Percentage deficiency of (3) to (2)* |
|---|---|---|---|
| | *India (2)* | *Bihar (3)* | |
| 1950-51 | Rs. 253 | Rs. 187 | 26 |
| 1960-61 | Rs. 306 | Rs. 216 | 29 |
| 1970-71 | Rs. 352 | Rs. 234 | 33 |
| 1980-81 (79-80 prices) | Rs. 1163 | Rs. 735 | 38 |

Thus, as compared to the nation's per capita income, Bihar's per capita income was short by 25 per cent in 1950-51, by 29 per cent in 1960-61, by 36 per cent in 1970-71 and by 38 per cent in 1980-81. The deficiency on the part of the State has continued going up. Again, during the planning period from 1951 to 1977, the country's total income growth rate was 3.6 per cent, but Bihar's was only 2.6 per cent; and the per capita income growth rate over these years was 1.6 per cent for the whole country as against only 1.1 per cent in Bihar. In other words, the growth rate over the period in the State was short by 32 per cent as compared to that in the country in terms of total income, and by 33 per cent as compared to its all-India counterpart in terms of per capita income. The conclusion is obvious. The imbalances in growth rates unfavourable for the State have been rising over the planning period. A still more clear picture of these imbalances will appear from the table below which depicts the ranking of State, from the viewpoint of per capita income over the period 1970 to 1979:

RANKING OF STATES FROM PER CAPITA INCOME—VIEWPOINT

| *Name of State* | | *Rankings* | |
|---|---|---|---|
| | | *1970* | *1979* |
| Andhra Pradesh | .. | 8 | 8 |
| Assam | .. | 11 | 12 |
| Bihar | .. | 16 | 16 |
| Gujarat | .. | 3 | 3 |
| Haryana | .. | 2 | 4 |
| Jammu & Kashmir | .. | 12 | 9 |
| Karnataka | .. | 6 | 7 |
| Kerala | .. | 10 | 10 |
| Madhya Pradesh | .. | 13 | 14 |
| Maharashtra | .. | 4 | 2 |
| Orissa | .. | 15 | 13 |
| Punjab | .. | 1 | 1 |
| Rajasthan | .. | 7 | 12 |
| Tamil Nadu | .. | 9 | 5 |
| Uttar Pradesh | .. | 14 | 11 |
| West Bengal | .. | 5 | 6 |

Thus amongst the major States of the Union, Bihar's position is the lowest, i.e. 16th both in 1970 and 1979. From the standpoint of per head income, the State's place amongst these major States was fourth in 1949-50, came down to eleventh in 1960-61 and dropped down to sixteenth in 1979. Obviously, the State's position has been continually going down in relation to other States.

This explains the relative poverty of Bihar. The State has been going ahead but, for a variety of reasons, the extent of poverty has been increasing instead of lessening. Some interesting inferences may be drawn from the table below which gives the percentage of the poor to the total rural population in the various States for the period 1961-62 to 1973-74 for which comparative figures are available:

PERCENTAGE OF RURAL POOR TO TOTAL RURAL POPULATION (1961-62 TO 1973-74)

| *States* | *1961-62* | *1973-74* | *Increase or l ecrease* |
|---|---|---|---|
| Andhra Pradesh | 9.4 | 6.8 | decrease |
| Assam | 2.8 | 2.7 | decrease |
| Bihar | 14.2 | 14.6 | increase |
| Gujarat | 4.1 | 3.3 | decrease |
| Karnataka | 4.3 | 5.1 | increase |
| Kerala | 4.8 | 4.0 | decrease |
| Madhya Pradesh | 7.4 | 9.1 | increase |
| Maharashtra | 8.2 | 8.4 | increase |
| Orissa | 5.4 | 5.7 | increase |
| Punjab-Haryana | 2.2 | 2.1 | decrease |
| Rajasthan | 3.9 | 3.2 | decrease |
| Tamil Nadu | 8.4 | 6.7 | decrease |
| Uttar Pradesh | 15.2 | 17.2 | increase |
| West Bengal | 10.3 | 10.9 | increase |

Thus, of the 14 States listed here, there are seven wherein the proportion of the rural poor to the total rural population has decreased; and there are remaining seven where this proportion has increased. Bihar belongs to the second category, indicating that the poverty of the rural population has increased over these years. A more telling tale is told by the following table giving the comparative level of poverty in different States:

| *States* | *Percentage of population below poverty line* | *Ranking* |
|---|---|---|
| Andhra Pradesh | 42.2 | 11 |
| Assam | 51.1 | 6 |
| Bihar | 57.5 | 3 |
| Gujarat | 39.4 | 12 |
| Haryana | 24.8 | 16 |
| Himachal Pradesh | 27.2 | 15 |
| Jammu & Kashmir | 39.1 | 13 |
| Karnataka | 48.3 | 8 |
| Kerala | 47.0 | 10 |
| Madhya Pradesh | 57.7 | 2 |
| Maharashtra | 47.6 | 9 |
| Orissa | 66 4 | 1 |
| Punjab | 15 1 | 17 |
| Rajasthan | 33.8 | 14 |
| Tamil Nadu | 52.1 | 5 |
| Uttar Pradesh | 50.1 | 7 |
| West Bengal | 52.4 | 4 |

Thus, from the viewpoint of population-proportion percentage living below the poverty line, Orissa (66.4) ranks first; Madhya Pradesh (57.7) second and Bihar (57.5) third. This may give the impression that Madhya Pradesh and Orissa are poorer States than Bihar. But if we go behind these percentage figures and note that Bihar's population is much larger than that of either of these two States individually, it would be manifest that the absolute number of people living below the poverty line in the State is much larger than that in any one of these two States. In this respect, Bihar would be ranked first even from this standpoint.

More statistics could be quoted, and more arguments advanced, to show that during the planning period since 1951, no doubt, the nation, and its different States including Bihar, have made substantial, if not commendable, progress But along with it, regional imbalances in growth and living standards have also continued increasing. And, in this respect, Bihar has been the greatest sufferer, and it has to go a long way to arrest the trend of growth imbalances going against it, to catch up at least with the nation's average speed and to initiate and ultimately perpetuate within its bounds a self-reliant development process.

We have been able to identify the major depressors on the

State's pace in progress. They consist mainly:

1. in its very backward nature of population of which (i) nearly 38 per cent is socially, economically and culturally handicapped as against the corresponding all-India figure of 22 per cent, and (ii) 64 per cent is non-earning dependent compared to the national counterpart of only 60 per cent;
2. a weak infrastructural base as evidenced, for example, by (i) a per capita power consumption in the State of only 79 kwh compared with the all-India average figure of 134 kwh in 1979-80 and (ii) percentage of surface roads to total road length standing at only 25 as against the all-India corresponding figure of about 42; and
3. low per capita investment in development endeavour as revealed by the fact whereas during all the six plans since 1951, the per capita investment on an average for all the States work out at Rs. 256.5, for Bihar, the corresponding investment per head stands at only Rs. 172.5.

These are just illustrative and point to the herculean efforts needed by the State to enable it to join the national progress race with equal competence and grace. It was with this end in view that we prepared for Bihar a long-term (1980-95) perspective plan envisaging an investment of Rs. 67,180 crores at 1979-80 prices and aiming at a growth rate of 8 to 9 per cent. The plan was enmissioned, on the one hand, at eliminating the relative inferiority of the State on the national development canvas and at strengthening and stabilising its growth process, on the other. Its broad objectives consisted in (a) bringing the State's per head real income on a par with its national counterpart, (b) eradication of poverty and attainment of full employment and (c) meeting in full, the minimum indispensable social consumption requirements of the citizens in Bihar.

The Sixth Plan counterpart of this perspective plan needed an investment of Rs. 5,488 crores. But due to internal resource position, the proposal was only for Rs. 4,022 crores. Owing to resources limitations at the Central level, the actually finalised size of the Sixth Plan has come to stay at only Rs. 3,225 crores which is expected to give a growth rate of only 2.7 to 3 per cent per annum.

With this pruned outlay, the deficiencies in the States developmental endeavour will continue. For example, even if all our efforts succeed, we shall be able to lift only 25 per cent of the people above the poverty line; which means that, even after the Sixth Plan is over, the percentage of our people below the proverty line would remain 33, which would be 3 per cent more than its national counterpart.

Again, our growth rate in terms of total income so far is already lower than the national rate by about 33 per cent; and it is apprehended that this gap will be further widened against the State's interest.

However, these are the consequences arising out of the financial constraints both at the State and Central levels which are beyond our control. They constitute a challenge. And thus we have girded up our loins to meet through devices which are directed towards achieving more and more from the limited outlays under the plan. The more important of these devices include:

(a) a new dynamic industrial policy, which, as announced in 1980-81, is aimed at substantially enlarging the scope of concessions, incentives and other wherewithal to boost up industrial activity in the State through opening up of new units; and expansions and fuller utilization of existing ones;

(b) a vigorous 20-Point Programme implementation is of crucial importance. The older 20-Point Programme fashioned the State's economic policy during 1980-82, and the new 20-Point Programme has inspired this policy in 1982-83. Accordingly, the State Government launched a comprehensive new economic programme containing 36 schemes and costing about Rs. 66 crores during 1981-82. These were successfully implemented. In the current year, another programme containing a cluster of 30 schemes has been launched. All these special programmes are opening not only a new chapter in the State's economy, but are also demonstrating that the 20-Point Programme is an operational programme aiming at poverty eradication, production augmentation, employment expansion and social justice promotion; and

(c) a meaningful social security programme for which beginnings were made in 1980-81, towards which vigorous efforts were directed in 1981-82 and in which greater coverage has been proposed in the current financial year. These social security schemes, in their broader interpretation, are expected to cost about Rs. 184 crores during 1980-83 period, and account for roughly 18 per cent of the total expenditure likely to be incurred during these first three years of the Sixth Plan.

Reforms in and decentralisation of administration, special incentives for family-size limitation and extensive measures for upliftment of backward areas and people are some other devices through which citizens of Bihar are trying to get over the hurdles arising out of financial constraints in our planned endeavour. What is significant in this regard is that, in drawing and implementing these programmes and policies, attempts are being made for larger and larger participation of people in development activities. A truly democratic advance consists in participative management of improvement activities. The State's rate of progress, during the first two years of the running plan, has, of course, not been matching the national rate. But it is maching what has been targetted at some of new measures initiated and, being implemented during these early years of the plan, are bound to bear fruit during its later years. And it is confidently hoped that the progress pace of the state will show up.

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# 3

# Centre-State Financial Relations and Regional Imbalances: A Distorted Picture of Fiscal Federalism

BY

M.V. PYLEE

A DISTINGUISHING feature of federalism in India has been the weightage in favour of centralisation. This is not accidental. Fully conscious of the fissiparous tendencies in the country, the framers of the Constitution deliberately invested the Central Government with more powers. And the scheme of division of powers between the Union and the States clearly demonstrates it.

A strong united India was a dream which the National Movement had cherished for decades. That dream, however, was not fully realised. In the wake of Independence in 1947, India was divided and Pakistan carved out of it. This gave a rude shock to the framers of the Constitution. Many in the Constituent Assembly, especially the leading lights, felt that a loose federal set-up would weaken the unity of the nation and might lead to further disintegration. They carried the day and this was reflected in the Constitution.

But there were others who persistently voiced their apprehension against too much weightage in favour of the Centre. They pointed out that a balanced federal system depended as much on strong States as on a strong Centre. And among the ingredients that contributed to the building up of a strong states system, they pleaded, was adequate financial resources for the States. It was difficult to counter this line of thinking by merely advancing the argument in support of national unity. The framers, however, asserted that they had made adequate provisions to safeguard the financial stability of the States. The constitutional provisions dealing with financial relations between the Union and the States are the result of these considerations.

Broadly these provisions can be divided under the following heads:

1. The Union's sources of revenue;
2. the States' sources of revenue;
3. taxes levied and collected by the Union but assigned to States;
4. taxes levied and collected by the Union but shared between the Union and States; and
5. grants-in-aid.

All major sources of revenue come directly under the Union. This has been done by allocating specific items in the Union List of subjects included in the Seventh Schedule of the Constitution. Of the 97 items included in the Union List, there are at least 20 items which provide sources of revenue to the Union. They are also the most important sources for the counry as a whole. Among these are items such as the corporate tax, currency, coinage and legal tender, foreign exchange, customs duties and export duties, foreign loans, post office savings, posts and telegraphs, railways, stamp duty in respect of bills of exchange, the capital gains tax, etc.

Although some 20 items are included in the State List, they are not rich sources of income. The major items among them are: capitation tax, land revenue, excise duty on certain goods produced in States such as alcoholic liquids, opium, etc.; estate duty on agricultural land, agricultural income-tax, octroi, sales tax, profession tax, etc.

Taxes levied and collected by the Union but assigned to States are seven in number. They are: succession duty on property other than agricultural land, taxes on railway fares and freight; taxes other than stamp duties on transactions in stock exchanges and future markets, taxes on the sale or purchase of newspapers and their advertisements; terminal taxes on goods and passengers and inter-state sales tax.

Taxes which are levied and collected by the Union but which are shared between the Union and the States are only two. These are taxes on incomes other than agricultural income and excise duties on items other than medicinal and toilet preparations.

Of the different items of tax included in the State List, sales tax has been the most important source of income for the States. But there are serious limitations in its application. Sales tax by its very nature is regressive. Any disparity in the rates in States adjoining one another would tend to shift the trade across the border. Hence, every State finance minister has to be careful and vigilant both in choosing the items for sales tax and the rate of the tax.

The Centre has always been opposed to inter-State sales tax. Inter-state sales tax hampers the free flow of goods across state barriers. Moreover, it goes against the freedom of commerce and intercourse throughout the country. But the States, eager to bolster up their meagre financial resources, had resorted to inter-state sales tax during the early years after Independence. An amendment to the Constitution (Sixth Amendment) and the passing of a Central law relating to inter-state sales tax, however, completely changed the position and today this subject is entirely under the control of the Centre. The tax collected under inter-state sales tax, although it is distributed among the States, does not a substantial amount at all.

Land which is the main property base for State taxation cannot be expanded as in the case of commercial and industrial property, the exploitation of which is vested in the Centre. Land-holdings in India have been progressively becoming smaller and smaller. The ingenuity with which the large holdings have been able to dodge the land ceilings legislation, has severely restricted the scope of any progressive taxation on agricultural income.

When excise duty is imposed by the Centre on any item, the States feel pre-empted. Tapping the same source by two layers of government authority brings upon the State Government the wrath of the taxpayer who is nearer to the State Government than the Centre. As for liquor excise, a relatively better source, there has always been utter confusion. One of the Directive Principles of State Policy enjoins upon the State to prohibit the use of intoxicating drugs and liquors. And, from time to time, the Centre would formulate policies of varying rigidity for its implementation. A moralistic approach and the dragging in of Mahatama Gandhi's name has always put every State Government on the defensive. The result has been the undependability of this item as a steady source of income.

The role of the State Governments as promoters and underwriters has been exploited by private business by playing one against another in securing concessions. As a result, the States tend to lose heavily in the area of non-tax revenues such as electricity and water rates. Octroi is too outmoded and as such is condemned as unworthy to be given serious consideration in these days of national outlook.

The result of all these is a yawnig gap between the ever-growing financial demands on the States due to the increasing functions they are called upon to undertake and the resources of the States which are more or less inelastic. This is one of the major factors contributing to the weakness of the federal system in India. The increasing dependence of States on Central resources has become a pathetic, yet chronic, feature of the working of the federal system. Since the middle of the sixties, State plans have been languishing for want of funds on account of the impact of the continuing and deepening crisis on the public finances of the country.

Of all the different types of Central assistance, loans account for the bulk of the funds. Net Central loans, which amounted to nearly 90 per cent during the Fourth Five-Year Plan (1951-56), were no more than 45 per cent during the Fifth Five-Year Plan (1961-66). The outstanding debt of the States on account of Central loans at the end of 1952 was only about Rs. 240 crores. By 1978, however, the corresponding figure had shot up to about Rs. 12,333 crores, that is five times. Together with interest payment, the amount due to the Centre by way of repayment constitutes a staggering proportion of about 65 per cent of the Central grants-in-aid earmarked for 1978-79. Significantly, the interest due is more than the statutory grant envisaged for the year under the dispensation of the Finance Commission. This is indeed one of the most glaring and alarming aspects of fiscal federalism in India.

Articles 270, 271 and 275 of the Constitution provide for tax-sharing and statutory grants-in-aid. These are made on the recommendations of the Finance Commission. But the funds that flow from the Centre to States as a result of the recommendations of the Commission amount to hardly a third of the gross Central transfers. This is perhaps shocking because the Finance Commission was the principal agency envisaged by the Constitution to remove the imbalances and the distortions of Centre-State financial relations. In fact, more than two-thirds of the fiscal transfers have been outside the purview of the Commission.

A close look at the role of the Finance Commission:

The constitutional requirement of setting up a finance commission is indeed an original idea. According to this, the President of India should, within two years after the inaguration of the Constitution and, thereafter, on the expiry of every fifth year or at such earlier intervals as he thinks necessary, constitute a finance commission. The commission will consist of a Chairman and four other members who are all to be appointed by the President.

According to Article 280, the Finance Commission has to make recommendations to the President on the two specific matters and on any other matter referred to it by the President in the interest of sound finance. The two specific matters are: (1) The distribution between the Union and States of the proceeds of taxes which are to be shared between them and (2) the principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India.

So far, eight finance commissions have been set up, the last of which has been just constituted and started working. When we consider the terms of reference of all these commissions, the following conclusions emerge: (1) The number of regular terms of reference has been increasing steadily; (2) the number of additional terms of reference have not only been increasing but also been becoming a regular feature; and (3) of the additional terms of reference, the problem of indebtedness of States to the Union has been repeatedly referred to the commission. The commission functions as a quasi-judicial body with all the procedures usually followed by such bodies.

The recommendations of the first two finance commissions of the States: During this period it was noticed that there was an overlap of functions between the Finance Commission and the Planning Commission with regard to the dispensation of Central grants. In an attempt to remove the overlap, the politically powerful Planning Commission assumed greater powers than the Finance Commission to determine the form of loans and discretionary grants to States. This had its impact on the role of the Finance Commission which gradually became a relatively less important body in the realm of Union-State financial relations. Over the years, the resources transferred through the Planning Commission have become larger and larger than those transferred on the recommendations of the Finance Commission.

The setting up of the Planning Commission and the increasingly important role that it assumed during the past 30 years have completely distorted the working of fiscal federalism envisaged by the framers of the Constitution. At the time, when the Constitution was framed, the Planning Commission was not in the picture. In fact, the provisions dealing with the Finance Commission were intended to correct the possible imbalances that might result in the working of fiscal federalism. But once the Planning Commission was set up and it was entrusted with the task of planning the developmental strategy of the nation as a whole, the earlier position had undergone a complete transformation and the vital decisions affecting either the sharing of the resources between the Centre and the States or the transfer of resources to the States became more and more its prerogative than that of the Finance Commission.

The Planning Commission is not a constitutionally created body. It was set up by a resolution of the Central Government in 1950 after the inauguration of the Constitution. As such, it is the creation of the Centre and is, therfore, a subordinate body of the Government of India. There is a federal device in the constitution of the National Development Council of which the Prime Minister is the Chairman and in which are represented all the State chief ministers. But the NDC again has no constitutional status and, in any case, it has been functioning all these years more or less as a rubber stamp of the Planning Commission to give formal approval to its proposals or decisions. It is this development which has perhaps, more than anything else, distorted the working of fiscal federalism in India and made the States feel that they are at the mercy of the Planning Commission, a body which has neither any constitutional status nor any independent position.

Although the dominant role of the Planning Commission as the most important factor in the determination of fiscal federalism was disliked by almost all the States until 1967, not much of an open hostility to its role was evident. This was because of single-party rule that existed in the country both at the Centre and in States. The ruling Congress Party was the deciding facto and, whether a particular State Government liked it or not, the role of the Planning Commission with the Prime Minister as its Chairman was accepted and acknowledged as such almost by everybody. The situation, however, underwent a significant change by 1967 with the emergence of non-Congress governments in a number of States after the General Elections that year.

One of the problems that attracted wide attention soon after, was the Central assistance to plan schemes. Parties other than the Congress, and particularly those in power in the States, began to challenge, for the first time, Central dominance and control in resource allocation. Some of them argued that the entire resources raised by the Government belonged to the people as a whole, irrespective of wherefrom they accrue. The allocation of these resources must be equitably made depending on the needs of each region so that the progress achieved should reflect it. When popular governments are in control both at the Union and the State levels, the former cannot assume an air of superiority or claim superior wisdom. Secondly, when parties with differing ideologies, approaches and priorities occupy positions of authority at different levels of the federal polity, any attempt on the part of the Centre to impose its will over States through politically motivated conditional grants would be undesirable and even intolerable.

This issue generated so much heat that the National Development Council was compelled to take note of it and set up a committee to evolve an equitable formula of plan assistance acceptable to all the States. The recommendation of the committee is now well known as the Gadgil Formula. According to this formula, Central assistance was to be given on the basis of weightage determined as follows: propulation—60 per cent ; continuing major irrigation and power scheme—10 per cent, and the remaining 10 per cent for special problems particular to individual States.

The Gadgil Formula generated great hopes but in practice proved to be a disappointment. This was mainly because the Planning Commission was not the only body dispersing discretionary transfers to State Governments. Transfers outside the view of both the Finance and Planning Commissions began to assume great importance. In fact, non-statutory, non-plan transfers during the Fourth Plan period were larger than plan transfers during the entire 1951-77 period. Also the discretionary transfers outside the plan exceeded the plan transfers by over 70 per cent during the Fourth Plan period. This made a mockery of the Gadgil Formula.

These discretionary transfers systematically undermined the principle of State autonomy by facilitating the Centre to enter the State domain by the back door. Whatever the Central will was, it could prevail in States through the reins of discretionary transfers. Such transfers became a real menace to the autonomy of the States and destroyed the principle of equity in federal fiscal relations. Naturally, Centre-State financial relations cannot be re-established on a rational, balanced federal system until suitable remedial measures are undertaken, including suitable amendments to the Constitution.

In the last two decades, the indebtedness of States to the Centre has grown enormously both in size and relative importance. The fact that all States have outstanding debts has severely restricted their independent access to the internal loan market. It is impossible for them to get over this situation so long as the existing system of Centre-States financial relations continues. The lopsided distribution on tax powers, institutional constraints on State taxation and denial of access to easy sources of finance such as overdraft facilities, deficit-financing or soft loans from abroad, etc. have led to a steadily deteriorating financial position of the States. The interest payment due to the Centre on outstanding loans in 1978-79 was estimated as

Rs. 567 crores. Repayment and interest in the ensuing year would be about 65 per cent of the gross Central loans expected for that year. The developing situation was so desperate that the study team on Centre-State relations of the Administrative Reforms Commission recommended a drastic scaling down of the outstanding debt and a rescheduling of the balance.

What is the way out of this steadily deteriorating situation? If fiscal federalism has to become a meaningful principle so far as India is concerned, if States have to feel reassured of their role as instruments of socio-economic transformation, if fanatical fissiparous tendencies have to be prevented from developing to become more backward and a reasonably viable State system is to be built up as the only solution to ensure unity in diversity in a multilingual, multiracial and multireligious country with wide disparities in regional development, some drastic remedial steps appear essential to be undertaken. In this context the following deserve special consideration:

1. Augmenting independent financial resources of the States.

From this point of view, apart from strengthening the existing sources of income including taxes, a review of the working of the items included in the Concurrent List should be undertaken with a view to ascertaining the feasibility of some of them being transferred to the State List. The possibility of the States being invested with the power of raising finances from the open market also may be favourably considered;

2. Strengthening the role of the Finance Commission.

One of the disappointments in the working of the commission has been that it could not achieve the objectives for which it was designed by the framers of the Constitution. A review of the working of the commission with a view to strengthening its role as an effective instrument of fiscal federalism is called for;

3. Making the role of the Planning Commission advisory.

The Planning Commission was originally conceived of as an advisory body. But because of its structure, its nearness to the centre of power at the Centre and the crucial nature of its functions, it assumed, in course of time, a role totally unexpected of it and unhelpful to the healthy development of fiscal federalism in India. This has to be rectified. This can only be achieved by making the Planning Commission an independent constitutional body and making its role specifically advisory;

4. Making the role of National Development Council effective.

At present, the NDC is only an ornamental apex body with a highsounding nomenclature with little effective role in the field of fiscal federalism. To make its role effective, it should be made a constitutional body with appropriate status and functions. It should become in reality the supreme policy-making and coordinating body in the nation's economic affairs. The unity and integrity of the nation can be ensured only by establishing healthy and harmonious relations between the Centre and the States through a balanced development of the state system. Inter-regional imbalances are bound to weaken the bonds of national unity; and

5. Every new five-year plan should have as one of its objectives reduction of regional imbalances and specific measures for that purpose. Suitable machinery should be built into the planning organisation to review the progress on a regular annual basis.

During the past 30 years, there has been an iniquitous tendency to make greater inroads into the powers of the States with the result that fissiparous tendencies have been allowed to develop endangering the concept of unified and united India which held aloft as its ideal the fullest development of the democratic aspirations and the distinctiveness of the people of the different States. This tendency has not only to be curbed but also reversed. For this, the role of the Centre has to become different from what it has been so far. Its role should be only that of a supreme coordinator. The NDC could facilitate that role by transforming itself into an instrument of change and development. The process of resource allocation should be made to subserve new economic priorities which are implicit in a growing and dynamic economy.

# 4

# Quantification of Distributional Impact of Government Expenditure on Selected Social Services

BY

P.N. MISHRA

IT has rather been taken for granted that government expenditure promotes growth and lately attempts have been made to introduce several such plan schemes that can lead to social justice in economic sense as well. However, the hope of achieving certain goals at the planning stage and actually achieving the same through annual expenditure decisions and realisations has been found, in a recent study by the author (1981), to be tracing divergent paths over the past planning periods. In the same study, optimal solution for such annual expenditure decisions have been provided that could lead to an achievement of best possible targets under the prevailing economic situation and in accordance with chosen goals and objective. Even if these were implemented and realised as envisaged, the distributional impact of such expenditures need not necessarily be of desired type. For example, Gupta (1977) found that the share of poor was below even one-sixth of total benefits of Central Government expenditure during 1973-74. Naturally, if this pattern of distributional impact of government expenditure is to continue, the gap between the rich and the poor is bound to widen further.

The study of distributional impact of government expenditure at the state level has not been paid due attention so far, though it is equally important owing to the developmental role played by constituent States in India. It is believed that expenditure on social services is more labour-intensive than that on economic services. Accordingly, we selected four such major heads, namely; education, health, medical, and family planning for detailed study relating to distributional impact of government expenditure. The expenditure on primary education is excluded from the expenditure on education because details of primary education are found in budgets of zilla and taluka panchayats whereas the study is restricted to data available in state-level budgets only owing to budgets and time constraints. We have studied expenditure data for three consecutive financial years—1975-76, 1976-77 and 1977-78—for Gujarat rather than a single year to generate an average picture of distributional impact of expenditure.

We plan to use three different criteria for analysing the distributional impact. In the first case, we identify the group of poeple who are ultimate recipients of money involved in government expenditure in their capacity as suppliers of goods and services. The second criterion involves estimating that part of expenditure which goes to employees and the remainder that goes elsewhere. The third criterion pertains to the estimation of the proportion of expenditure that goes directly to intended beneficiaries in terms of materials actually received by them.

The first approach for analysing the distributional impact is based upon the fact that whatever is spent by the State is either received by employees or by those who sell goods and services to the government. The employees, in turn, spend their earnings on consumption and saving goods. This expenditure is received by those who are sellers of goods and services. Thus, the entire government expenditure is spent in the first round on goods and services and the recipients of the money thus spent can be identified in the following manner. In what follows, we have done the classification according to producers engaged at primary, secondary and tertiary stages.

**TABLE 1**
**Classification of Beneficiary Groups**

| *Beneficiary Group* | *Consisting of NSS Components of Expenditure* |
|---|---|
| Producers of food crops | cereals, gram, cereal substitutes, pulses and products |
| Producers of cash crops and other items | milk, edible oil, meat, fish and eggs, vegetables, fruits and nuts, spices |
| Agro-based industry | sugar, beverages and refreshments, pan, tobacco and intoxicants |
| Manufacturing industry | salt, fuel and light, clothings, footwear, miscellaneous goods and services, durable goods |
| Property-owners | rents |
| Government | taxes |

Table 1 provides such a classification where items of consumption are the same as in the NSS Table 240, 28th round 1973-74.

The salaried group consists of officers and others. The officers are assumed to follow the urban pattern of consumption. Therefore, for this part of the salaried group, we employed the consumption pattern corresponding to per capita monthly expenditure group of Rs. 200 and above as given in Table (2.4/U) round 28, 1973-74 for Gujarat. For other segment of the salary-earners, the average of rural and urban consumption pattern, corresponding to per capita monthly expenditure group of Rs. 75-200, was considered and the figures were worked out from those given in Tables (2.4/U) and (2.4/R) of round 28, 1973-74 for Gujarat. The expenditure in various categories was apportioned to beneficiary groups as given in Table 1 for three consecutive financial years in the case of aggregate education, aggregate health, aggregate family planning and aggregate medical expenditure figures. The final position in terms of percentage distribution of government expenditure in selected social services is given in Table 2.

**Table 2**

**Distribution of Expenditure on Beneficiary Groups**

| | *Education* | | | *Health* | | |
|---|---|---|---|---|---|---|
| *Beneficiary group* | *1975-76* | *76-77* | *77-78* | *75-76* | *76-77* | *77-78* |
| | *(1)* | *(2)* | *(3)* | *(4)* | *(5)* | *(6)* |
| 1. Producers of food crop | 22.04 | 22.48 | 20.00 | 15.53 | 22.22 | 16.61 |
| 2. Producers of cash crops and other items | 22.27 | 22.68 | 20.59 | 15.32 | 21.92 | 16.36 |
| 3. Agro-based industry | 10.98 | 11.17 | 10.33 | 7.38 | 10.57 | 7.88 |
| 4. Manufacturing industry | 42.20 | 41.12 | 46.68 | 60.05 | 42.84 | 57.32 |
| 5. Property-owners | 2.51 | 2.55 | 2.37 | 1.70 | 2.42 | 1.80 |
| Sub-total of 2 to 5 | 77.96 | 77.52 | 79.97 | 84.45 | 77.75 | 83.36 |
| Government | 0.00 | 0.00 | 0.03 | 0.02 | 0.03 | 0.03 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 |

**Table 2** (*contd.*)

| *Beneficiary group* | *Medical* 1975-76 | 76-77 | 77-78 | *Family Planning* 75-76 | 76-77 | 77-78 |
|---|---|---|---|---|---|---|
| | (7) | (8) | (9) | (10) | (11) | (12) |
| 1. Producers of food crop | 16.65 | 17.95 | 16.81 | 21.77 | 22.92 | 22.69 |
| 2. Producers of cash crops and other items | 16.76 | 18.30 | 17.20 | 21.30 | 22.41 | 22.24 |
| 3. Agro-based industry | 8.24 | 9.10 | 8.60 | 10.18 | 10.71 | 10.64 |
| 4. Manufacturing Industry | 56.43 | 52.54 | 55.39 | 44.39 | 41.47 | 41.97 |
| 5. Property-owners | 1.89 | 2.08 | 1.97 | 2.33 | 2.45 | 2.43 |
| Sub-total of 2 to 3 | 83.32 | 82.02 | 83.16 | 78.20 | 77.04 | 77.28 |
| Government | 0.03 | 0.03 | 0.03 | 0.03 | 0.04 | 0.03 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 |

Treating those involved in activities from serial numbers 2 to 5 as relatively richer group in comparison to those engaged in production of food crops, we can work out proportion of government expenditure going to rich and poor defined in this sense. Average of these over the three years was computed to obtain the result as given in Table 3. The same table also provides ranks according to proportion of benefits going to the poor.

**Table 3**
**Ranking of Expenditure Heads According to Distributional Impact**

| *Expenditure head* | *Share of rich* | *Share of poor* | *Share of Government* | *Rank* |
|---|---|---|---|---|
| Education | 78.48 | 21.51 | 0.01 | 2 |
| Health | 81.85 | 18.12 | 0.03 | 3 |
| Medical | 82.83 | 17.14 | 0.03 | 4 |
| Family Planning | 77.51 | 22.46 | 0.03 | 1 |

Obviously, considering social justice as the proper criterion, the expenditure head that contributes highest in terms of its share going to the poor should be ranked higher than others. Using this criterion, one may rank the expenditure heads as given in Table 3.

The proportion of expenditure going to employees in the form of wages, salaries and other receipts can be considered as another criterion to judge the impact of distribution if the objective is to generate employment through government expenditure. These results are reported in Table 4 together with the ranks of the expenditure areas determined in accordance with the share of expenditure on employees.

**Table 4**
**Percentage Share of Expenditure on Employees**

| *Expenditure head* | *1975-76* | *1976-77* | *1977-78* | *Average* | *Rank* |
|---|---|---|---|---|---|
| Education | 82.83 | 86.60 | 76.98 | 82.14 | 1 |
| Health | 50.45 | 76.91 | 49.83 | 59.06 | 3 |
| Medical | 54.80 | 63.86 | 58.60 | 59.09 | 2 |
| Family Planning | 36.51 | 32.41 | 37.61 | 35.51 | 4 |

The share of expenditure on employees in health is relatively higher during 1976-77 because in that year unusually high proportion of expenditure was incurred on the Malaria Eradication Programme and major part of it is shown to be on wages and salaries.

Looking at the distributional benefits of government expenditure from yet another angle, namely, proportion going to direct beneficiary groups, we get the picture as in Table 5. The expenditure in this table is on the materials and goods in physical sense that are provided to ultimate beneficiaries in education, health, medical and family planning.

**Table 5**
**Percentage Share of Expenditure on Materials for Beneficiary Groups**

| *Expenditure head* | *1975-76* | *1976-77* | *1977-78* | *Average* | *Rank* |
|---|---|---|---|---|---|
| Education | 1.80 | 0.63 | 2.38 | 1.60 | 4 |
| Health | 2.54 | 1.88 | 2.01 | 2.14 | 3 |
| Medical | 3.61 | 3.09 | 3.46 | 3.39 | 1 |
| Family Planning | 2.36 | 3.67 | 1.97 | 2.67 | 2 |

Table 5 shows that only an insignificant amount is spent on beneficiaries in terms of materials and goods. For instance, of Rs. 100

spent by government, Rs. 2.67 reaches the beneficiaries from family planning, Rs. 2.14 reaches the beneficiaries from health programmes, Rs. 3.39 reaches the beneficiaries from medical schemes and so on. The question must be debated whether greater impact could be had by trying to alter this lopsided expenditure pattern. Time may be approaching fast when people would need more of family planning equipment rather than advice from extension workers. The same could be said in the case of other expenditure heads.

All of these results considered together lead us to very important conclusions. Table 3 suggests that most of government expenditure ultimately reaches those in secondary and tertiary sectors and very little goes to producers of food crops who are the actual majority in the country. So far as correcting this imbalance in the economy is concerned, any reallocation of government expenditure as such may make only marginal improvement. A significant change for the better can be brought about by changing to more relevant expenditure mix and bringing about a meaningful pricing policy that can ensure equitable growth in agricultural and industrial sectors. A two-sector analysis of this problem is provided by Misra (1969) where a method of computation of such prices is suggested for a two-sector economy whereby sectoral growth as influenced by prices via distributional route can be made even in future even though past distortions are not touched upon. Classification in Table 3 also suggests that the economy in Gujarat can be easily treated as two-sector economy so far as distributional impact of government expenditure is concerned. Results given in Table 4 suggest varying levels of employment potential of different expenditure heads but this criterion should be used with a pinch of salt. This is because employment in the government can be useful provided it is productive to the economy and capable of providing competitive wages. On the contrary, social welfare schemes should try to minimise expenditure on establishment and maximise physical benefits promoted through these to improve the quality of life. Looking at the expenditure pattern from the angle of material benefits going to the beneficiary group, as given in Table 5, one finds that only a trifling proportion reaches the beneficiaries in each one of the expenditure areas considered here. Thus, it may be a better strategy to modify expenditure mix that improves the gains of the beneficiaries as defined in Table 5 and the poor as defined in Table 3. For this purpose, individual programmes will have to be examined carefully. For instance, let us consider the expenditure on health. In this sector, an increase in home-grown nutritional materials if supplied to deficient groups will directly satisfy both the criteria of distribution. Imported nutritional items do not help the poor in the majority category of producers of foodgrains. Accordingly, an attempt should be made to promote production of enough nutritional food in the agricultural sector and make it available to women and childern of the rural and urban poor and this will lead to better situation relating to the impact of expenditure in respect of the distribution of its benefits.

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# 5

# Inter-Regional Disparities: Country's Experiences, Policies and Strategies

BY

K.V. SUNDARAM

THE spatial configuration of development in the developing countries is undergoing many changes under the impact of planned economic development. In this context, the problem of inter-regional disparities is assuming a great significance, calling for specific interventionist strategies and policies. The problem in the developing countries is vastly different from the one in the developed countries. Whereas in the developed countries the problem is being tackled through readjustments and minor reorientations, in the developed countries major shifts in the development process are involved. These may include opening up of interior areas and initiating major resources and infrastructure development along with shifts in the labour force, thus bringing about vital changes in the 'geographical division of labour'.

An analysis of various country experiences serve to clarify the various policies and strategies involved in the planning for reduction of inter-regional disparities and to consolidate and refine our approach to the problem. The country experiences of five developing countries—Malaysia, Indonesia, Thailand, the Philippines and India—are considered in this paper. All these countries, with the exception of Thailand, have emerged either in the 'forties or the 'fifties from a formal stage of colonial dependence, which contributed, by and large, to their present spatial structure of underdevelopment. Generally speaking, since the 'sixties they are seeking to change their existing spatial structure. In their Plan documents of the 'seventies, regional policies are becoming explicit in varying degrees. There are often glaring differences between policies, plans and

K.V. Sundaram: The Geography of Underdevelopment (The Spatial Dynamics of Underdevelopment), Concept Publishers, New Delhi).

practices in these countries. Till recently, regional issues were evaded by them either because national (i.e. macro-level) issues were dominant or because they deliberately shrank from paying sufficient attention to sub-national problems because of their formidable magnitude, colossal complexity and severe constraints in personnel, institutional and financial resources. The nature of the problem, of course, differs from one country to another, though there may be some parallels and similarities.

In Malaysia, the regional problem is not merely a spatial problem, but a racial, religious and cultural one too. In terms of the levels of development, there is the west coast of Peninsular Malaysia with urban growth and activity concentration in the Klang Valley. There is an interior with vast virgin land and untouched resources. The poor or lagging regions are mainly along the east coast and partly in the north. Indonesia exhibits a 'plonum and vacuum' pattern with developments concentrated in Java, Sumatra and Kalimantan and with the 'outer Islands' remaining in a raw-material extraction and expert stage of development. In Thailand, the problem is one of a primate city and its hinterland characterised by backwash effects. In the Philippines also, development was historically concentrated in the island of Luzon, particularly Manila and its environs, and a few urban centres in the other islands, leaving the rest of the country high and dry in the matter of development. So far as India is concerned, the spatial configuration of development shows that the underdeveloped areas are widely dispersed in the east, centre and middle south. This concentration may be identified as a belt spanning across the 'belly of India', with its extensions to the east and the south.

This is perhaps an oversimplification, for what is striking about the spatial disposition of backward areas in the country is their 'interspersed' distribution, often in juxtaposition with relatively prosperous pockets. Thus the picture is one of pockets and zones of backwardness invariably exclosed by areas of prosperity or spread effect. This is nothing like the North-South polarisation that one finds in Europe or the Americas. Perhaps, the north-eastern part of the country is an exception, where an extensive area of under-development may be distinguished. In other areas of the country, it is a highly interspersed pattern.

The spatial pattern of development has a great bearing on the logistics of development, as it influences the strategy of development. In Indonesia and Malaysia, for instance, where virgin lands are available for settlement, population movement from one region to another by organising and injecting all prerequisites of economic growth becomes a relevant strategy for reducing regional imbalances in development. In India, on the other hand, where pockets and zones of backwardness are interspersed with areas of relative prosperity or spread effect, the problem is one of devising multi-pronged strategies for encircling or mopping up of these pockets.

In all these countries, inter-personal disparities are also striking and income distribution highly skewed with the proportion of people living below the poverty line ranging between one-third and one-half or even more of their total population (Malaysia, Thailand, Philippines, India and Indonesia in ascending order). Thus there are two aspects to the problem of regional backwardness and inequality in these countries : (1) Some regions are less developed than others either because their resources are under-utilised or because they have resource constraints; and

(2) there is also great inter-personal income inequality among the people with a large proportion of under-privileged population who are bound to be marginalised in the normal development process. In order to tackle these twin problems, therefore, a target area as well as a target group approach are called for in the developing countries.

Regional development strategies in Indonesia are being pursued in three directions:

(a) by developing the undeveloped resources in remote regions through trans-migration programmes;

(b) through sectoral development strategies at the provincial level, involving construction of large-scale projects such as dams, reservoirs, road networks etc; and

(c) through a budget allocation strategy by means of subsidies allotted to local governments.

Despite some limited achievements through these measures, the "regional problem" still persists. The transmigration programme is evolving into a 'regional development' programme and, in the settled areas, an integrated approach to rural development with Kecamatan as the unit area of planning is being experimented.

In Malaysia, the national development policy is being guided by the objective of minimising inter-racial and inter-regional socio-economic development imbalances. The regional development strategy takes advantage of the availability of vast undeveloped areas. The primary strategy is either centred around land development (which is not only land clearance and opening up of virgin lands, but also encompasses in its fold agricultural development as well as the setting up of agro-based and forest-based industries) or around some cornerstone projects, e.g. irrigation, by using them as a medium of integration for multi-disciplined and multi-dimensional activities (e.g., Muda irrigation project).

In Philippines, the regional problem has been sought to be tackled by adopting a regionalisation approach, i.e. by dividing the country into different regions and by creating institutions and layers in the government apparatus for the coordination of regional development effort. Thus the country has been divided into 13 regions and regional development councils have been set up for each region. Yet, the Philippine experience shows that solving the 'regional problem' demands more than just structures of organisation and management. It needs, besides supportive budget, organisational efficiency and expertise in both planning and implementation.

In Thailand, the strategies for regional development include:

(i) A strategy for the intensification and diversification of the economy for improving the regional industrial mix and export base;

(ii) a strategy for decentralised urbanisation; and

(iii) a strategy for decentralised infrastructural and social services to the rural areas. Because of the low-base level of development of the rural area, simultaneous "extension strategies" through local-level planning and development are being attempted. But the impact of these measures is slow, as there are a number of obstacles to be surmounted, such as local power structure, dependency syndrome and bureaucratic obstructions.

In India's repertoire of policies and strategies aiming at balanced regional development, there are a number of indirect and direct measures which are of great interest. Five major lines of strategy may be distinguished:

(i) an inter-regional allocation policy for the distribution of Central assistance funds to State Governments, governed by a formula tilted in favour of backward areas;

(ii) incentive policies designed to direct investments to the industrially backward districts;

(iii) action planning based on area regional development approach to tackle identified problem areas—tribal areas, hill areas, drought prone areas, desert areas and problem regions like the north-eastern region;

(iv) integrated approach to local-level planning focussed on the district and the block; and

(v) a basic-needs strategy oriented towards the provision of minimum needs, so that the disadvantaged areas and groups may achieve parity with others in terms of social consumption.

A significant aspect of regional development effort characterising the developing countries, since the beginning of the 'seventies, seems to be the adoption of a new philosophy of "intergrated approach" to regional/rural development. This integrated approach is a strategy that seeks greater and more effective coordination among rural development programmes and projects through a consolidated and synchronised development effort of the different sectors of the government in a given geographical area to attain economic development and social equity. It is too hasty to conclude that this new approach has been fully realised in the actual policy implementation in these countries. The "integration" implied in this approach has been found to be difficult of realisation by governments. The country experiences in this regard point to some "prerequisites" that are called for.

These are : (i) The need to mobilise and train local people prior to or in parallel with the implementation of regional development policies, (ii) the need to pay some attention to the institutional dimensions of regional development (e.g., land development schemes in Malaysia, the compact farming programmes in the Philippines and transmigration projects in Indonesia have afforded clues in this direction) and (iii) the need to bring about adaptations in development administration. The ineffective and inefficient administrative organisation, in particular at the local level, has been realised as the single most important obstacle encountered in implementing regional development policies.

In India, as well as in the other developing countries, where regional disparities are in evidence for various reasons—historical, socio-economic and political—a number of indirect as well as direct policies are being pursued in an effort to keep down inter-regional disparities "within certain tolerance limits", as otherwise they are likely to lead to regional disintegration and political instability. The policy instruments range from indirect to direct and from selective to comprehensive approaches. They include:

(i) capital and technology transfers;

(ii) incentive policies for agricultural and industrial development,

(iii) land development and resettlement with a package of incentives;
(iv) regionalisation strategy;
(v) integrated development focussed on delimited small areas;
(vi) target group approaches;
(vii) Bottom-up strategies and decentralised development; and
(viii) comprehensive regional planning approach.

An aggressive policy aiming at a speedy closure of the regional gap would mean a highly accelerated development of backward areas in the country which will have the effect of pulling down the national growth rate of the economy. In the case of the developing countries, therefore, a middle path is indicated. This will have four major elements of strategy:

(i) arresting "leakages" and changing an "extrovert" economy into an "introvert" one i.e. internalising development,
(ii) adopting a typological approach to the problem,
(iii) initiating a "transition growth" strategy in which regional development is induced in "stages", through a method involving a contrapuntal interplay between "differentiation" and "integration" processes, and
(iv) application of the 'comparative advantage' principle to promote 'inter-dependent development' among the regions.

# 6

# Regional Imbalances and Five-Year Plans: A Case Study of Bihar

BY

CHAKRADHAR SINHA

THE problem of regional imbalances with a country is increasingly becoming a matter of concern to policy makers in most of the developing countries. In a vast and varied country like India, this is a natural phenomenon of the growth process. Looked at analytically, the Indian economy presents a very deplorable picture of inter-regional imbalances reflected in income distribution, urbanisation, agricultural and industrial production and the position of infrastructure in different States. Regional imbalances and lopsided growth are not conducive to the national goal of growth with stability and social justice, and hence there is an imperative need for bringing about a progressive reduction in regional inequalities in the pace of development.

The study is to analyse the problem of regional imbalances in India with the help of select indicators of levels of development. The paper is divided into four parts. The first part presents the theoretical framework, explaining the nature and causes of regional imbalances in a developing economy like India. The second is an anatomy of regional disparities in our country. The third deals with the economic backwardness of Bihar which presents a glaring case of regional disparity in economic development. Finally, an attempt is made in the fourth part to diagnose the problem under study and suggest certain measures within the framework of national objectives, to serve as broad guidelines for evolving a strategy for bringing about a progressive reduction in inequalities in the pace of development and thereby to achieve the goal of balanced regional development in the country.

Every country, whether developed or developing, has economically advanced and backward regions. The idea of regional development originated with Stalin. He wanted to develop each economic region in the Soviet Union in such a way that, in the event of an invasion, the occupation of any region by the capitalist powers might not cripple the economic power of the country. So strategic considerations promoted him to develop all regions equally. It was the German bombardment during World War II which led to the dispersal of industries in England and attention was focused on the development of backward areas. Earlier, the Barlow Commission in 1937 and the PEP (Political and Economic Planning) group in 1939 had stressed the need for dispersal of industries in backward areas. As a matter of fact, all developed countries have their backward areas and pay attention toward their development.[1]

The problem of regional imbalances is increasingly becoming a matter of greater concern to policy-makers in the most of the developing countries. It would, therefore, be useful to outline briefly the genesis of differential growth rates within a country. This will give us a theoretical framework to examine the regional imbalances prevalent in a developing economy like India and the policies which need to be pursued with a view to achieving the cherished goal of balanced regional development of the country.

One of the important problems of Indian economic development is that regional economic imbalance is fast increasing. Some areas are outgrowing their capacities while some others are remaining poor and backward. An increase in national income and wealth does not necessarily mean an automatic reduction in real economic disparity. During all these years of planning, considerable investments have been concentrated at a few places like Bombay, Ahmedabad, Delhi, Kanpur, Calcutta, Madras, Bangalore, Rourkela, Durgapur, Bokaro, etc. on efficiency criteria for obtaining a higher rate of return. Consequently, those places have outgrown their capacities, creating not only problems of congestion, slums, transport, public health, education, housing, etc. for themselves, but also causing brain and resource drain from the adjoining areas. The socio-economic backwardness of north Bihar is largely due to the backwash effects of the growth of Calcutta as a giant metropolitan centre.

According to Prof. Myrdal,[2] the main cause of regional disparities has been the strong backwash effects and the weak spread effects in such economies. The genesis of regional imbalances has a non-economic basis which is associated with the capitalist system guided by the profit motive. The profit motive results in the development of those regions where the prospects of profit are high while other regions remain under-developed. Myrdal attributes this phenomenon to the free play of market forces. The latter tend to concentrate on economic and social overheads in certain regions, leaving the rest of the country in a backwater. These inequalities are accentuated by migration, capital movements and trade. Migration of young and active people from the backward regions will favour the advanced region and depress economic activity in the former, and capital will move into the developed regions, thereby creating capital shortage in the backward regions. The development of industries in former regions may ruin the existing industries of the latter. So the backwash effects being stronger than the spread effects, regional inequalities are accentuated.

Myrdal's theory of 'cumulative causation'[3] largely explains poverty and stagnation in many regions in India which are, otherwise, potentially rich enough to sustain a higher level of economic activities. Myrdal says that an area is poor because it is poor. A poor area cannot provide adequate employment and sustenance to its people. Those who are better off tend to migrate to other places in search of better economic opportunities. The left-outs find no other alternatives but to stick to the soil without any ostensible means of improving their economic conditions. The low productivity of those people is responsible for their low income which causes low capacity for saving and investment. Low investment in the region perpetuates them in a state of low income. Thus they remain caught in the vicious circle of poverty, causing economic and social degradation in their area. Such a trend of economic polarisation is not limited to a nation; it also occurs with greater force in the international field through a process of resource and brain drain to the world centres of growth.

The missing link of a spatial dimension in India's five-year plan has been largely responsible for the regional imbalances in economic development. Hence, a regional approach seems to be the only device for mitigating unevenness of economic development. As a matter of fact, a regional approach to economic development is not a parochial one, which is in contradiction to the national goal. It is an operational technique for keeping the economy of a region moving along with the national growth process, without being adversely affected by growth activities of adjoining regions. Regional planning seeks balance in the growth of economic activities of all regions constituting a nation by providing their basic requirements and mitigating any serious conflict with one another, so that people living in different areas are not pushed to the backyards of economic stagnation and social degradation by the inexorable laws of economic growth. A regional approach thus seeks to restore the missing link in the Indian plans by providing a spatial framework in which people of all regions get an opportunity to make optimum use of what they have, however poorly endowed they may be, and seek elsewhere what they do not possess by exchanging whatever little they can offer. It is through a process of developing fruitful economic linkages with one another, in contrast to the mutually annihilating competition, that a national economy can grow in balance.

Balanced regional development in India has been a major objective since the beginning of the planning era in the country. "In the perspective of long-term development with the economy advancing rapidly towards the stage of self-sustained growth and with steady rise in the living standards of the people, regional and national development are essentially two different facets of a common objective."[4] The Third Five-Year Plan document contained a separate chapter on balanced regional development and stressed that 'balanced development of different parts of the country, extension of benefits of economic progress to the less-developed regions and widespread diffusion of industry are among the major aims of planned development'.[5] But there is growing evidence to show that inter-regional disparities in various dimensions of development have remained undiminished in spite of considerable overall development during the last three decades of planning.

We have taken only a few crucial indicators of levels of development to analyse the problem of growing regional imbalances in a developing economy like India:

(i) indices of income, poverty and unemployment;
(ii) per capita value added by manufacture;
(iii) infrastructure indicators;
(iv) level of urbanisation;
(v) level of literacy;
(vi) resource allocation indicators; and
(vii) agricultural indicators.

Table 1 shows the performance of states in terms of growth rates of State Domestic Product at 1970-71 prices between 1970-71 and 1979-80.

During this period, smaller states with lesser population pressures experienced high growth rates. With the exception of Gujarat, which had the highest growth rate of S.D.P. of 8.1 per cent, it was Jammu & Kashmir with 6.3 per cent, followed by Haryana 5.3 per cent, Tripura 4.9 per cent and Manipur 4.6 per cent with high growth rates of S.D.P. between 1970-71 and 1979-80. Some of the bigger

**Table 1**

**Annual Average Growth Rate of S.D.P. at 1970-71 Prices During 1970-71 to 1979-80**

| *State* | (%) *Annual Average Growth Rate 1970-71 to 1979-80* |
|---|---|
| *1* | 2 |
| Gujarat | 8.1 |
| Jammu & Kashmir | 6.3 |
| Haryana | 5.3 |
| Tripura | 4.9 |
| Maharashtra | 4.8 |
| Punjab | 4.8 |
| Manipur | 4.6 |
| Tamil Nadu | 4.1 |
| Andhra Pradesh | 3.2 |
| Assam | 3.0 |
| Bihar | 3.0 |
| Karnataka | 2.9 |
| Himachal Pradesh | 2.7 |
| Kerala | 2.4 |
| West Bengal | 2.1 |
| Orissa | 1.4 |
| Uttar Pradesh | 1.0 |
| Rajasthan | 0.5 |
| Madhya Pradesh | 0.2 |
| Others | 34.7 |
| Total | 100.0 |

*Source*: Central Siatistical Organisation.

States like Maharashtra (4.8 per cent), Punjab (4.8 per cent) and Tamil Nadu (4.1 per cent) also had fairly satisfactory growth rates. West Bengal fared badly with a growth rate of 2.1 per cent which was below the national growth rate of 2.9 per cent during the same period. Some of the States like Andhra Pradesh (3.2 per cent), Assam (3 per cent), Bihar (3 per cent) and Karnataka (2.9 per cent) either equalled or were just above the national average of 2.9 per cent. At the lowest level were Orissa with the growth rate of 1.4 per cent, Uttar Pradesh 1.0 per cent, Rajasthan 0.5 per cent and Madhya

Pradesh 0.2 per cent which showed little increase in the growth rates of their S.D.P. during the nine-year period. While, on an average, the country witnessed a growth rate of 2.9 per cent during the period under reference, the States showed marked variations.

In Table 2, the States are ranked according to their contributions to Net Domestic Product. The table shows that Maharashtra, Uttar Pradesh, West Bengal, Tamil Nadu, Andhra Pradesh and Gujarat contributed 53 per cent to the NDP in 1979-80. Maharashtra with a share of 13.3 per cent followed by Uttar Pradesh (10.2 per cent) were the highest contributors to the NDP during 1979-80.

Other States in that order were West Bengal (8.7 per cent), Tamil Nadu (7.5 per cent) and Andhra Pradesh (7.3 per cent). Some of

**Table 2**

**Percentage Share of States in NDP**

| *State* | *1979-80* |
|---|---|
| Maharashtra | 13.3 |
| Uttar Pradesh | 10.2 |
| West Bengal | 8.5 |
| Tamil Nadu | 7.5 |
| Andhra Pradesh | 7.3 |
| Gujarat | 6.2 |
| Bihar | 6.1 |
| Karnataka | 5.6 |
| Punjab | 4.8 |
| Madhya Pradesh | 4.3 |
| Rajasthan | 3.6 |
| Kerala | 3.0 |
| Haryana | 2.6 |
| Orissa | 2.5 |
| Assam | 2.3 |
| Jammu & Kashmir | 0.9 |
| Himachal Pradesh | 0.6 |
| Tripura | 0.2 |
| Manipur | 0.1 |
| Others | 10.4 |
| Total | 100.0 |

*Source*: Central Statistical Organisation.

the States which contributed less than 4 per cent were Rajasthan (3.6 per cent), Kerala (3.0 per cent), Haryana (2.6 per cent), Orissa (2.5 per cent) and Assam (2.3 per cent). Lowest in the rank were Manipur (0.1 per cent), Tripura (0.2 per cent), Himachal Pradesh (0.6 per per cent) and Jammu & Kashmir (0.9 per cent).

The main reasons for the larger share in NDP of Maharashtra, Uttar Pradesh, West Bengal, Tamil Nadu, Andhra Pradesh and Gujarat are that they have a strong industrial base and possess infrastructural capability, while Rajasthan, Kerala, Haryana, etc. are still agriculture-oriented, lack in adequate infrastructural facilities and have a low level of industrialisation.

Table 3 shows per capita Net State Domestic Product at current prices. In terms of per capita income, the annual average growth rate during 1970-71 to 1979-80 was the highest in Jammu & Kashmir, followed closely by Maharashtra (2.7 per cent), and

**Table 3**
**Per Capita Net SDP at Current Prices (Rupees)**

| *State* | *1970-71* | *1979-80* |
|---|---|---|
| Punjab | 1,030 | 2,278 |
| Maharashtra | 809 | 1,903 |
| Gujarat | 829 | 1,623 |
| Haryana | 845 | 1,600 |
| Tamil Nadu | 583 | 1,350 |
| West Bengal | 735 | 1,330 |
| Himachal Pradesh | 678 | 1,317 |
| Karnataka | 685 | 1,267 |
| Andhra Pradesh | 586 | 1,176 |
| Jammu & Kashmir | 524 | 1,145 |
| Kerala | 557 | 1,091 |
| Uttar Pradesh | 486 | 981 |
| Assam | 539 | 960 |
| Rajasthan | 620 | 913 |
| Tripura | 502 | 861 |
| Orissa | 482 | 843 |
| Madhya Pradesh | 488 | 828 |
| Manipur | 396 | 822 |
| Bihar | 402 | 773 |
| All-India | 633 | 1,379 |

*Source* : *The economic Times*, March 6, 1982, p. II

Punjab, Haryana and Tamil Nadu (2.6 per cent) each. A large number of States like Madhya Pradesh, Tripura, Uttar Pradesh and West Bengal recorded a negative growth rate.

At current prices, the per capita income of the States varied widely. Punjab led with Rs. 2,278, followed closely by Maharashtra (Rs. 1,903). On the other hand, the lowest per capita income was recorded by Bihar (Rs. 773) and Manipur (Rs. 822), followed by Madhya Pradesh (Rs. 828) and Orissa (Rs. 843). There were as many as 15 States, *e.g.* Bihar, Manipur, Madhya Pradesh, Orissa, Tripura, Rajasthan, Assam, Uttar Pradesh, Kerala, Jammu & Kashmir, Andhra Pradesh, Karnataka, Himachal Pradesh, Tamil Nadu and West Bengal, that had recorded the per capita income at current prices much below the national average of Rs. 1,379 while only four states, *e.g.* Punjab, Maharashtra, Gujarat and Haryana, were above the national average.

Table 3 also shows that the per capita SDP of eight states, *e.g.* Punjab, Maharashtra, Gujarat, Haryana, Tamil Nadu, West Bengal, Himachal Pradesh and Karnataka, was higher than the all-India average in 1970-71 while in 1979-80 the number decreased to only four.

The uneven development of the States is evident from Table 4 which gives data relating to the percentage of population below the poverty line and unemployment rates. We find that as many as nine States have more than 48.13 per cent (all-India average) of their population below the poverty line. These are Orissa, Tripura, Madhya Pradesh, Bihar, West Bengal, Tamil Nadu, Assam, Uttar Pradesh and Karnataka. Most of these States are concentrated in the north-eastern region. Some of the better-off states in this respect are Nagaland with only 4.11 per cent of its population below the poverty line, Punjab (15.13 per cent), Himachal Pradesh (27.23 per cent) and Manipur (29.71 per cent).

The unemployment rate was the highest in Kerala at 25.69 per-cent in 1977-78. As compared with the all-India average of 8.18 per cent, the rate exceeds in Tamil Nadu, Andhra Pradesh, West Bengal and Karnataka. Data available from the 32nd Round of the National Sample Survey (NSS) also show that the poorest house-holds suffer from the highest rates of unemployment. In the house-holds spendings less than Rs. 11 to Rs. 21 and Rs. 21 to Rs. 34 per capita per month on consumption, the unemployment rate was as high as 29 per cent in the urban areas and 22 per cent in the rural. In households spending Rs. 11 to Rs. 21 and Rs. 21 to Rs. 34 per capita per month, the unemployment rates were 10-12 per cent,

**Table 4**
**Percentage of Population below the Poverty Line and Unemployment Rate**

| *State* | *Percentage of population below the poverty line (1977-78)* | *Unemployment rates (1977-78)* |
|---|---|---|
| Andhra Pradesh | 42.18 | 10.67 |
| Assam | 51.10 | 1.81 |
| Bihar | 57.49 | 8.01 |
| Gujarat | 39.04 | 6.24 |
| Haryana | 24.84 | 6.41 |
| Himachal Pradesh | 27.23 | 1.92 |
| Jammu & Kashmir | 34.06 | 5.70 |
| Karnataka | 48.34 | 9.36 |
| Kerala | 46.95 | 25.69 |
| Madhya Pradesh | 57.73 | 3.09 |
| Maharashtra | 47.71 | 7.99 |
| Manipur | 29.71 | 2.00 |
| Meghalaya | 48.03 | 0.41 |
| Nagaland | 4.11 | 1.03 |
| Orissa | 66.40 | 8.13 |
| Punjab | 15.13 | 4.82 |
| Rajasthan | 33.76 | 2.99 |
| Tamil Nadu | 52.12 | 15.59 |
| Tripura | 59.73 | 5.04 |
| Uttar Pradesh | 50.09 | 4.12 |
| West Bengal | 52.54 | 10.15 |
| All-India (weighted) | 48.13 | 8.18 |

*Source* : *The economic Times*, March 6, 1982, p. 11

respectively. In higher expenditure brackets, the unemployment rates fall steadily, and in households spending Rs. 100 or more per month, the rate was only 2 per cent in the rural areas and 4 per cent in the urban.

Correlating the data regarding the percentage of population living below the poverty line and unemployment rates with the per capita income in various states, we find that the states having low per capita income also have very high rates of unemployment and high percentage of population below the poverty line. On the other hand, states with higher per capita income have lower percentage of population below the poverty line and low unemployment rate. There are also a number of states where the average income is sufficiently high, *e.g.* Maharashtra and West Bengal, but there is also a large percentage of poverty-striken population. This shows that the economic disparities are not only significant between the states but also within the boundaries of each of the states.

With regard to urbanisation, we find that, among the larger states, Maharashtra is the most urbanised with 35.03 per cent of its population living in urban areas. Next to Maharashtra, in the descending order of proportion of urban population to the total population would come Tamil Nadu, Gujarat, Karnataka, Punjab and West Bengal. These states have a proportion of urban population to total population higher than the national average of 23.73 per cent. Andhra Pradesh, Haryana, Rajasthan, Madhya Pradesh, Kerala, Meghalaya, Uttar Pradesh, Bihar and Orissa, among the larger states, have a proportion of urban population to total population in that order but below the national average. The percentage of urban population to total population in Bihar is 12.46 which is slightly higher than half of national average. [6]

Besides economic indicators, there are other pointers of socio-economic progress such as gross factory output per capita, electricity consumption, road length, education and health, etc. which could also be considered. Data available for 1977-78 show that Maharashtra with Rs. 1,636 as gross factory output per capita leads, followed by Gujarat (Rs. 1,378). Other states which are sufficiently better off in this respect are Punjab, Tamil Nadu, Haryana and West Bengal. As compared to the all-India average of Rs. 621, the states which have the lowest are Jammu & Kashmir (Rs. 120), Himachal Pradesh (Rs. 177), Orissa (Rs. 244), Uttar Pradesh (Rs 271), Bihar (Rs. 334) and Madhya Pradesh (Rs. 341).

The per capita consumption of electricity in 1977-78 was the highest in Punjab (314 Kwh), followed by Maharashtra (296 Kwh), Gujarat (243 Kwh) and Haryana (202 Kwh). While there are only six states having per capita consumption of electricity at the all-India level of 130 Kwh, the lowest in the ladder are Assam, Himachal Pradesh, Jammu & Kashmir, Bihar, Uttar Pradesh, Madhya Pradesh and Kerala.

Data relating to road length per 100 sq. km in 1978-79 show that Kerala is having the lengthiest surfaced road with 232 per 100 square mile of area while the all-India average is 49 per 100 sq. miles. In

1978-79 six states were below this average. On the other hand, the position with regard to motor vehicles state-wise shows an entirely different picture. Punjab had the highest number of motor vehicles per 10,000 population at 178 followed by Maharashtra (116). The other states with motor vehicles above all-India average of 57 were Kerala, Karnataka and Gujarat while all the rest were below the all-India average.

The lopsided development of the states is further seen when we consider data relating to education. It is revealing that although states like Kerala and Himachal Pradesh are not industrially advanced, they have a high rate of literacy.

Almost all the economic and socio-economic indicators point out the harsh reality of the uneven economic development that has taken place in various states as well as in the different regions within the states.

The economy of Bihar presents a glaring example of physical variations. There are distinct agro-climatic zones in the state : (*i*) North Bihar, (*ii*) South Bihar plains and (*iii*) South Bihar plateau. Not only the three regions in the state differ in respect of area and population; there are marked differences also in respect of physical features and socio-economic situations. With marked disparity in size and natural endowment, it is natural that in potentialities for development also these regions differ from each other. While the plateau region has acknowledged potentialities for intensive industrialisation, it also needs development of agriculture and allied activities, including forestry, not only for diversification of the economy but also for alleviating poverty of the rural people, particularly the tribal population. Similarly, North Bihar has promises for sustained and spectacular agricultural growth, provided the instability caused by natural factors is alleviated through irrigation and flood control measures. But this region also requires a measure of industrial growth with special emphasis on agro-industries and small and village industries for reducing the incidence of poverty and unemployment. In South Bihar plains, the prospects of industrial and agricultural growth are equally good. The existing disparities between the regions are in respect of basic infrastructure also. For historical and physical reasons, the South Bihar plains have had a larger share of irrigation, while the Chotanagpur plateau was the main beneficiary of power development. These disparities are also being gradually evened out by successive plans.

The overall performance of the economy is ultimately reflected in the increase of net domestic product and per capita income. The

**Table 5**
**Growth of Total Income in Bihar vis-a-vis India (1950-76)**
*(Rupees in crores at 1960-61 prices)*

| *Year* | *Bihar* | *India* | *Bihar as percentage to India* |
|---|---|---|---|
| 1950-51 | 749.15 | 9122.00 | 8.21 |
| 1951-52 | 800.02 | 9306.00 | 8.59 |
| 1952-53 | 881.16 | 9612.00 | 9.17 |
| 1953-54 | 913.65 | 10219.00 | 8.91 |
| 1954-55 | 806.09 | 10511.00 | 7.67 |
| 1955-56 | 871.14 | 10870.00 | 8.01 |
| 1956-57 | 874.73 | 11477.00 | 7.62 |
| 1957-58 | 821.68 | 11279.00 | 7.28 |
| 1958-59 | 1,069.62 | 12179.00 | 8.77 |
| 1959-60 | 1,016.98 | 12459.00 | 8.10 |
| 1960-61 | 993.00 | 13335.00 | 7.45 |
| 1961-62 | 1,041.96 | 13825.00 | 7.54 |
| 1962-63 | 1,060.59 | 14103.00 | 7.52 |
| 1963-64 | 1,081.41 | 14882.00 | 7.27 |
| 1964-65 | 1,087.14 | 16028.00 | 6.78 |
| 1965-66 | 1,118.32 | 15234.00 | 7.34 |
| 1966-67 | 965.93 | 15388.00 | 6.28 |
| 1967-68 | 1,059.65 | 16675.00 | 6.35 |
| 1968-69 | 1,091.96 | 17164.00 | 6.36 |
| 1969-70 | 1,122.50 | 18278.00 | 6.14 |
| 1970-71 | 1,308.96 | 19219.00 | 6.81 |
| 1971-72 | 1,346.08 | 19555.00 | 6.88 |
| 1972-73 | 1,340.58 | 19270.00 | 6.96 |
| 1973-74 | 1,317.61 | 20179.00 | 6.53 |
| 1974-75 | 1,385,02 | 20360.00 | 6.80 |
| 1975-76 | 1,476 70 | 22131.00 | 6.67 |

*Source :* Draft Perspective Plan for Bihar (1978-1989), Bihar State Planning Board, Government of Bihar, p. 25

rate of growth of the State income has been consistently lower than the national income. Between 1960-61 and 1977-78, the state income increased at an annual compound rate of 2.50 per cent (at 1970-71 prices) as compared to the growth rate of 3.48 per cent in the case of national income. Largely on account of an increase in population, the rate of growth of the per capita income has been even slower. The annual compound rate of growth of the per capita income between 1950-51 and 1975-76 at 1960-61 prices worked out to only 1.11 per cent as compared to 1.52 per cent for the country as a whole. Consequently, the gap between the per capita income of the state and that of the country widened. The state per capita income, which was 26 per cent below the national level in 1950-51, went down to 35 per cent below that in 1975-76. This is evident from table 5.

Table 5 shows that the State income at constant (1960-61) prices increased from 749.15 crores in 1950-51 to Rs. 1,476.70 crores in 1975-76, *i.e.* by 97.12 per cent. The compound annual growth rate of the State income worked out to 2.75 per cent as against 3.60 for the national income. The annual growth rate of the State income on this basis as per the data given in the table works out to 2.59 per cent as against 3.61 for the national income. The percentage share of the State income in the total income of the country decreased from 8.21 in 1950-51 to 6.67 in 1975-76, the maximal and minimal percentage being 9.17 and 6.14 in 1952-53 and 1969-70, respectively. A part of the increase in the total State income was eaten away by the increase in population. The population of Bihar during the decade 1951-1961 increased at the rate of 19.17 per cent and in the following decade 1961-1971 at the rate of 21.30 per cent as against the all-India figures of 21.62 and 24.75, respectively. This is reflected in a slower rate of growth of the per capita income during the period under review. The per capita state income at constant (1960-61) prices increased from Rs. 186.98 in 1950-51 to Rs. 240.45 in 1975-76, *i.e.* by 28.60 per cent. The annual compound growth rate of per capita income worked out to 1.11 per cent for the State as against 1.52 per cent for the country as a whole.

Table 6 shows the gap between the per capita income of the State and the country as a whole at constant (1960-61) prices. It will be seen therefrom that the gap has widened from Rs. 65.92 in 1950-51 to Rs. 127.60 in 1975-76, the maximal gap being Rs. 135.52 in 1969-70 and minimal Rs. 45.44 in 1952-53. As a result of the widening of the gap, the per capita income of the State, which was 26 per cent below the national level in 1950-51, has gone further down to 35 per cent below the national level in 1975-76.

**Table 6**

**Growth of per Capita Income in Bihar vis-a-vis India 1950**

*(Rupees at 1960-61 prices)*

| *Year* | *Bihar* | *India* | *Gap between Bihar and India* | *Col. 4 as percentage to Col. 3* |
|---|---|---|---|---|
| 1950-51 | 186.98 | 252.90 | —65.92 | —26.06 |
| 1951-52 | 196.61 | 254.20 | —57.59 | —22.65 |
| 1952-53 | 212.36 | 257.80 | —45.44 | —17.63 |
| 1953-54 | 215.99 | 269.20 | —53.21 | —19.76 |
| 1954-55 | 187.01 | 271.60 | —84.59 | —31.14 |
| 1955-56 | 189.40 | 276.20 | —77.80 | —28.16 |
| 1956-57 | 202.90 | 285.80 | —82.90 | —29.01 |
| 1957-58 | 187.22 | 275.20 | —87.98 | —31.97 |
| 1958-59 | 239.48 | 291.00 | —51.52 | —17.70 |
| 1959-60 | 223.80 | 291.10 | —67.30 | —23.12 |
| 1960-61 | 215.80 | 305.60 | —90.22 | —29.52 |
| 1961-62 | 221.93 | 309.20 | —87.27 | —28.22 |
| 1962-63 | 221.83 | 308.20 | —86.37 | —28.02 |
| 1963-64 | 222.10 | 318.30 | —96.20 | —30.22 |
| 1964-65 | 219.24 | 335.10 | —115.86 | —34.57 |
| 1965-66 | 221.44 | 311.00 | —89.56 | —28.79 |
| 1966-67 | 187.79 | 307.90 | —120.11 | —39.01 |
| 1967-68 | 202.25 | 326.00 | —123.75 | —37.96 |
| 1968-69 | 204.61 | 328.00 | —123.39 | —37.61 |
| 1969-70 | 206.48 | 342.00 | —135.52 | —39.63 |
| 1970-71 | 234.30 | 351.80 | —117.50 | —33.40 |
| 1971-72 | 236.34 | 350.20 | —130.86 | —32.51 |
| 1972-73 | 230.30 | 337.60 | —107.30 | —31.78 |
| 1973-74 | 222.27 | 347.20 | —124.93 | —35.98 |
| 1974-75 | 229.89 | 345.14 | —115.25 | —33.39 |
| 1975-76 | 240.45 | 368.05 | —127.60 | —34.67 |

*Source* : Draft Perspective Plan for Bihar 1978-1989, Bihar State Planning Board, Government of Bihar, p. 26

Tables 7 and 8 show that the sectoral growth rates of the state's income in Bihar have recorded high variations over the years. The slow growth of agriculture and allied activities during the periop

**Table 7**

**Annual Sectoral Rate of Growth (Compound) During the Various Plan Periods (at 1960-60 Prices)**

| | *First Plan* | *Second Plan* | *Third Plan* | *Annual Plan* | *Fourth Plan* | *Fifth Plan* | *Overall (1950-1976)* |
|---|---|---|---|---|---|---|---|
| I PRIMARY | | | | | | | |
| (i) Agriculture and allied activities | 1.25 | 2.36 | 0.71 | 0.33 | 5.54 | 5.56 | 2.35 |
| (ii) Mining | 0.99 | 2.15 | 0.30 | 0.03 | 6.00 | 5.36 | 2.22 |
| | 5.64 | 5.18 | 5.13 | 3.10 | 1.15 | 8.49 | 3.93 |
| | 9.93 | −4.58 | 9.24 | −2.61 | 10.24 | 6.66 | 5.49 |
| II SECONDARY | | | | | | | |
| (iii) Manufacturing (total) | 10.91 | −3.07 | 9.81 | −3.84 | 0.88 | 3.06 | 3.99 |
| (iv) Manufacturing (small scale) | 10.66 | 11.05 | 11.94 | 8.17 | −8.96 | 4.79 | 3.88 |
| (v) Manufacturing (large scale) | 13.75 | −6.38 | 8.97 | −10.23 | 6.44 | 2.46 | 4.01 |
| III TERTIARY | | | | | | | |
| (vi) Commerce, transport and communication | 2.94 | 6.58 | 3.34 | 1.09 | −3.91 | 7.34 | 2.52 |
| (vii) Other services | 5.31 | 6.77 | 2.28 | −5.17 | −2.99 | 4.60 | 1.91 |
| ALL SECTORS (I, II, III) | 3.06 | 2.65 | 2.40 | −2.24 | 3.82 | 5.88 | 2.75 |

*Source*: Draft Perspective Plan for Bihar (1978-1989), Bihar State Planning Board, Government of Bihar, p. 23

**Table 8**

**Percentage Distribution of State Income by Industrial Origin (1950-1976)**
**(at 1960-61 prices)**

| *Sector* | *1950-51* | *1955-56* | *1960-61* | *1965-66* | *1968-69* | *1973-74* | *1975-76* |
|---|---|---|---|---|---|---|---|
| I PRIMARY | 64.34 | 58.88 | 58.06 | 53.37 | 55.22 | 59.86 | 59.51 |
| (i) Agriculture & allied activities | 60.82 | 54.90 | 53.57 | 48.26 | 49.48 | 54.83 | 54.30 |
| (ii) Mining | 3.52 | 3.98 | 4.49 | 5.11 | 5.74 | 5.03 | 5.21 |
| II SECONDARY | 10.98 | 15.20 | 10.54 | 14.58 | 13.79 | 18.62 | 18.90 |
| (iii) Small-scale | 2.18 | 1.18 | 2.67 | 4.17 | 5.41 | 2.81 | 2.75 |
| (iv) Large-scale | 6.69 | 11.03 | 6.96 | 9.50 | 7.04 | 7.97 | 7.46 |
| (v) Construction | 2.11 | 2.37 | 0.87 | 0.85 | 0.92 | 7.03 | 7.57 |
| (vi) Power | — | — | 0.04 | 0.06 | 0.02 | 0.81 | 0.12 |
| III TERTIARY | 24.68 | 25.92 | 31.40 | 32.05 | 30.99 | 21.52 | 21.59 |
| (vii) Commerce, transport & communication | 13.00 | 12.92 | 15.58 | 16.32 | 17.26 | 11.34 | 11.65 |
| (viii) Other services | 11.68 | 13.00 | 15.82 | 15.73 | 30.73 | 10.18 | 9.94 |
| Total I+II+III | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

*Source*; Draft Perspective Plan for Bihar (1978-1989), Bihar State Planning Board, Government of Bihar, p. 24

under reference at the rate of 2.35 per cent compound per annum is a matter of concern. This sector provides wage goods and raw-materials to other sectors. In fact, the agricultural sector acted as a limited factor on the growth of other sectors. Mining, manufacturing and tertiary sectors grew at the rate of 3.93, 3.99 and 2.23 per cent compound per annum. The State economy as a whole grew at the rate of 2.75 per cent per annum. Planwise, the agricultural sector showed better performance in the second and fourth plans, manufacturing sector in the first and third and the tertiary sector in the second.

The overall growth rate or even the sectoral growth rates do not depict the structural changes in the economy brought about by the planned efforts. These are reflected by the changes in the composition of the State income over the years.

The table also shows that there has been a relative increase in the share of non-agricultural income in the State income. The contribution of primary sector to the State income decreased from 64.34 per cent in 1950-51 to 59.51 per cent in 1975-76. During the same period, the contribution of secondary sector correspondingly increased from 10.98 to 18.90 per cent and tertiary sector declined from 24.68 to 21.59 per cent. The contribution of tertiary sector has, however, been recording a gradual decline since 1965-66 when it was 32.05 per cent.

The economy of the State continues to be structurally imbalanced. Though there has been a continuous decline in the share of agriculture in the generation of state income, even in 1977-78 its share (at 1970-71 prices) was as high as 49.4 per cent while the manufacturing sector contributed a bare 10.6 per cent. The tertiary sector has also been lagging behind.

On the basis of estimates at current prices, the per capita State income in 1977-78 has been estimated at Rs. 735.00 as compared to Rs. 1,163.00 for the country as a whole. Thus, the gap has further increased to 36.8 per cent. Against this, between 1960-61 and 1975-76, a number of States have been able to improve their position. Per capita product (the average for states being 100) in Bihar increased marginally from 66.6 to 67.6, while Gujarat and Karnataka, States of comparable size, on the other hand, improved their position respectively from 118.4 to 124.8 and 91.9 to 104.8.

Like all averages, the per capita income does not truly reflect the level of absolute poverty in the State. Using the data thrown up by the N.S.S., in their 28th Round (1973-74) and 32nd Round (1977-78), and adopting the Planning Commission's revised norms of minimum level of expenditure, it has been estimated that in 1973-74, 75.26 per cent of the people in rural areas and 50.54 per cent in urban areas and 60.76 per cent, taking the population as a whole, were below the poverty line. On the basis of state samples only, it has been estimated that the percentage of population below the poverty line increased to 76.06 per cent in 1977-78.

The situation regarding unemployment is equally dismal, unemployment and under-employment have been on the increase. Based on the data contained in the 27th Round of the N.S.S., it was estimated that there were 4.08 lakh persons chronically unemployed in the State, as compared to 38.60 lakhs in the country as a whole. The volume of unemployment in equivalent persons/years was estimated at 20.54 lakhs accounting for 11 per cent of the all-India level of unemployment. The figure of unemployment in Bihar at the end of 1977-78 is estimated at 22.10 lakh persons/years.

Such a situation in the State has been brought about by lower availability of resources compared to all-India averages. The size of the State plan is generally conditioned by the two determinants: (a) the State's own resources and (b) the Central assistance. With a low income base, the State has severely limited its scope for the mobilisation of resources. Bihar has about the lowest per capita revenue and expenditure in the country. The low per capita tax revenue is not due to inadequate tax effort on the part of the State but on account of low per capita income of the people, slow growth of agricultural and industrial output and a small urban sector. This is proved by the fact that, although the rates of the sales tax, the State's major tax revenue-earner, are one of the highest in the country, the per capita sales tax revenue in Bihar is lowest in the country.

Bihar's per capita expenditure of such basic items of social consumption as education and medical care and public health has also remained one of the lowest in the country. The adverse impact that it produces on the development of the State is too evident to deserve further mention. The development of the core sectors too has been tardy, mainly due to inadequate investment, resulting in a weak infrastructure which generated a vicious circle of lower economic development, lower investment and lower employment.

Since the removal of regional disparities is one of the principal objectives of national planning, it was natural for the State to depend upon the transfer from the Central Government for full exploitation of its development potentiality. But, contrary to the expectations, the per capita Central assistance to Bihar in different Plan periods has been much lower than the average for all States.

During the first three five-year plans, the per capita investment in the State worked out to Rs. 8.69, Rs. 41.76 and Rs. 71.62, respectively, which were the lowest among all the States. During the Fourth Plan, it was Rs. 97.17, being the third lowest among all the states. The Fifth Plan (1974-1979) per capita investment worked out to Rs. 230 which is again the lowest among the States and much lower than the all-India average of Rs. 337.

The per capita Central assistance made available to the State has also remained miserably low. It was Rs. 5 for the First Plan, Rs. 18.75 for the Second, Rs. 43.60 for the Third, Rs. 57 for the Fourth and Rs. 84 for the Fifth (1974-1979) against the all-India average of Rs. 24, Rs. 26, Rs. 55, Rs. 99 and Rs. 101, respectively. Table 9 reveals the low level of per capita plan outlay and Central assistance in Bihar vis-a vis all States in the country.

**Table 9**
**Per Capita Plan Outlay and Central Assistance**

| *Plan period* | *Per capita plan outlay (Rs.)* | | *Per capita Central assistance (Rs.)* | |
|---|---|---|---|---|
| | *Bihar* | *All States* | *Bihar* | *All States* |
| First Five-Year Plan | 19 | 39 | 5 | 24 |
| Second Plan | 42 | 51 | 19 | 26 |
| Third Plan | 71 | 97 | 44 | 55 |
| Fourth Plan | 97 | 128 | 57 | 99 |
| Fifth Plan | 230 | 337 | 37 | 58 |

*Source*: Draft Perspective Plan for Bihar (1978-1989), p. 4

One of the major [illegible] ind Bihar's poverty and backwardness is its overwhelming dependence on agriculture which is neither very efficient nor very stable. An important measure of agricultural efficiency is the value of output per head per hectare of rural population. In 1977-78 (at 1976-77 prices) per head per hectare of rural population the value of output of foodgrains at Rs. 286 was not only the lowest in the country, but also compared very unfavourably with Rs. 1,779 for Punjab and Rs. 1,172 for Haryana.

However, greater attention to agricultural development in successive five-year plans of the State has succeeded in breaking the stagnation of its agriculture and setting it on the road to higher productivity through modernisation. The production of foodgrains increased from an average of 41.70 lakh tonnes during the three years ending 1950-51 to 99.4 lakh tonnes in 1977-78; the annual compound growth rate of food production thus works out to 3.5 per cent which is higher than 1.84 per cent growth of the population. So also the gap between per hectare yield in Bihar and in India has very nearly closed. In 1978-79, the yield of rice and wheat in the State was, 1,083 kgs and 1,270 kgs per hectare respectively, which compared very favourably with the all-India average of 1,100 kgs and 1,250 kgs. However, the fact remains that the increase in production is very much marked only in case of wheat but not so for rice or pulses or other commercial crops. It is also true that cultivation in larger parts of Bihar is still dependent upon rainfall and the impact of modern agricultural technology has been marginal. This situation is partly due to inadequacy of investment in the creation of infrastructure for agriculture (like irrigation, power, transmission) and partly due to socio-economic structure of agriculture under which millions of farmers toil on petty holdings with insecure tenancy.

Bihar has very rich industrial potential. It accounts for 41 per cent of the mineral wealth of the country, 87 per cent of coking coal, 88 per cent of copper and kyanite, 50 per cent of mica and 25 per cent of iron-ore reserves of the country. Nevertheless, industry could not develop in the State to the desired level. The Central Government has made sizeable investment in the establishment of heavy industries like heavy engineering, fertilizer, oil refinery and steel. A few industries primarily based on mineral resources have been set up in the private sector also. But these heavy industries have had very limited growth impact on the economy. The setting up of several industrial area authorities in recent years has, however, been helpful in promoting the growth of small-scale and ancillary industries. The State has a rich tradition of village industries but they have not been able to make much headway. Consequently, it continues to be an industrially backward State. This can be gauged from the fact that the number of factory employees per 1,000 population in 1975-76 was as low as 5 as compared to 19 for Maharashtra and 18 for West Bengal and Gujarat. The share of registered manufacturing units in the State product was only 10.6 per cent as compared to 18.2 per cent of Maharashtra. The share of unregistered units in the State product was only 2.9 which was one of the lowest among the States in India. In 1971, only 2.29 per cent of working force of Bihar was engaged in manufacturing industries as against the national average of 6.93 per cent. The industrial structure of Bihar continues to be lopsided with a few giant industrial units in basic goods sector dominating the industrial scene. There is need for broad-basing the industrial structure and diversifying the industrial economy by a purposeful development of the small and village industries for the production of intermediate and consumer goods during the current decade.

One of the major factors limiting economic development of the State is the poor development of its infrastructure. The irrigation potential created from major and medium irrigation schemes till 1979-80 was 24.52 lakh hectares while minor irrigation schemes created a potential of 23.95 lakh hectares. Though this is a substantial step up from 22.64 lakh hectares in 1950-1971, yet it remained far short of utilisable water resources of the State which has been estimated by the Bihar State Irrigation Commission at 80.31 lakh hectare metres of surface water and 33.34 lakh hectare metres of ground water. By the end of June, 1978, only 24.9 per cent of irrigation potential could be harnessed as against 85 per cent in the case of Punjab and 61.5 per cent in the case of West Bengal. Prior to 1950-51, irrigation facilities were concentrated in South Bihar plains. Plan development has reduced regional disparities in this regard by creating substantial irrigation in North Bihar in recent years.

Notwithstanding the substantial step-up in the installed capacity of power in recent years, Bihar has only 3.3 per cent of the total installed capacity in the country and only 28.9 per cent of villages of the State could be electrified as against the all-India average of 37.4 per cent, although the State produces more than 43 per cent of coal in the country and has abundant hydroelectric potential. The critical shortage of power in recent years has become one of the major constraints to development, both in agricultural and industrial sectors. Highest priority needs to be given not only to additional power generation but also to rectifying regional disparities between the plateau and plains region in power availability and consumption.

The economic growth of the State has suffered a great deal due to poor development of road communications. The length of surfaced roads in 1977-78 per lakh of population worked out to 41 kms and unsurfaced roads to 95 kms as against the all-India average of 90 kms and 132 kms, respectively. It is estimated that only about 20 per cent of the villages with a population of 1,500 and above and about 10.4 per cent of the rural population have access to all-weather roads.

The credit-deposit ratio of the scheduled commercial banks in Bihar vis-a-vis all-India is very low and is becoming more and more adverse from year to year as is evident from the following table:

**Table 10**
**Credit-Deposit Ratio**

| *Area* | *Deposit (Rs. in crores)* | | *Advance (Rs. in crores)* | | *Ratio (percentage)* | |
|---|---|---|---|---|---|---|
| | *1975* | *1977* | *1975* | *1977* | *1975* | *1977* |
| Bihar | 574.03 | 806.36 | 257.27 | 309.59 | 44.81 | 38.39 |
| India | 12,637.04 | 18,983.37 | 9,118.70 | 13,762.04 | 72.15 | 72.50 |

*Source*: Draft Annual Plan 1981-82, Government of Bihar, Planning Department, p. 7.

A glance at the economic profile of Bihar would show that in spite of the concerted efforts made for the development of agriculture and industry and also improvement of social services provided to the masses, the State is still lagging behind the national average on almost all the fronts and much behind the progressive States of the country.

The problem of regional imbalances in development has several dimensions and action on several fronts is needed which include the following:

(i) the transmission of growth impulses from the developed to the backward regions is only one significant part of the process of reduction of regional disparities; generation of growth impulses within the backward regions is an equally important part. It will be necessary to strengthen the arrangements for area planning so as to enable financial institutions, commercial banks and co-operatives to increase substantially their lending in the backward regions in agriculture and allied activities as well as for village and small industries;

(ii) a sectoral-cum-spatial orientation in five-year plan is necessary to make them production-oriented rather than investment-oriented. This will give a regional bias to investment programmes;

(iii) in a developing economy, regional economic disparities tend to increase because of scarce investment being concentrated at a few focal points. There is no escape from such a strategy in order to get a maximum return out of limited resources for increasing saving and investment in the subsequent periods. Any diffusion of investment at this stage would involve inefficiency and wastage which would retard economic growth. However, once the initial phases of development are over, a spatial orientation is necessary for investment allocation;

(iv) there should be functional linkages between agriculture and industry, between large and small industrial units and also between rural and urban sectors, which will enable the heavy Central undertakings (HEC, the NCDC, the Bokaro Steel Plant, the Sindri Fertilizer Factory and the Barauni Thermal Power and Oil Refinery) to produce the expected spread, multiplier or leverage effects, otherwise they would remain standing like palm trees that are incapable of providing shade to passersby;

(v) the policy of industrial location should be modified in the light of techno-economic changes that are taking place in transport, communication, generation and distribution of power and industrial organisation. Tendencies still persist for industries to be located near large cities, because they can take advantage of entrepreneurial, professional and labour skills, and of proximity to markets. All this necessitates a new industrial location policy whereby large industrial estates are set up near small towns in backward areas and all facilities are provided initially by the State;

(vi) balanced regional development implies the optimum development of the potentialities of an area. There should be a separate development programme for each region after a region-wise techno-economic survey. For instance, in the backward regions of North Bihar, characterised by stagnant agriculture and deprived of mineral resources, the development programme should spread from the technological breakthrough in agriculture and water management, including flood control, to improvement of transport and communication of social institutional reforms. On the other hand, in famine-prone areas, which have severe environmental handicaps and limited development potentials, local youths should be trained for emigration to adjoining regions of better economic opportunities where projects for the development of natural resources can be started. Some regions predominated by tribal population or some other weaker sections of society should be identified for a special type of economic programme. Such people should be brought into the mainstream of economic life by special types of labour-intensive programmes ancillary to agriculture, animal husbandry, forestry, etc. for which they have the traditional skill for adapting themselves;

(vii) 'growing points' should be developed in backward regions. Such a policy envisages the setting up of urban estates which encourage commuting of workers to such towns from neighbouring villages. It will reduce construction costs, foster rural development through the flow of incomes earned from urban jobs and spread new ideas and knowledge of new production techniques and pattern of living. Growing points may also take the form of market towns in backward areas which may benefit the farmers by providing various inputs for modernisation of agriculture, and facilities for marketing and processing of agricultural products and for distribution of durable consumer goods; and

(viii) the bulk of public investment should flow in providing infrastructural facilities to backward area so that they may generate new employment and income streams for the poor. Besides an active infrastructure policy, the policy mix needed for reducing inter-regional imbalances must comprise: (a) the creation of efficient planning and implementation systems at State, district and lower levels, with considerable decentralised power, and (b) the devolution of much larger financial resources from the Centre to the States and from the States to districts and blocks.

The broad guidelines of development strategy outlined above will go a long way in reducing regional imbalances in the pace of development in India. However, a regional approach to economic development should not be rigid. It should rather be flexible and adaptive for meeting the changing conditions of a dynamic economy.

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# 7

# Regional Disparities in India: Some Basic Issues An Evaluation of Sixth Plan Approach

BY

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THE main object of this study is to make an assessment of the policies intended to reduce regional disparities, as visualised in the Sixth Plan document and earlier plans, against the background of regional developments and spatial organisations in India. Since the recommendations of the National Committee on Development of Backward Areas (NCDBA), which has submitted its interim report, have influenced the approach of the Sixth Plan, the study also examines some of the important recommendations of this committee. Some basic issues relating to regional disparities have been highlighted with a view to establishing the fact that we are moving in the periphery of the problem. Regional disparities are most often a symptom and the outcome of the working of socio-economic processes. Partly, these disparities may be the outcome of regional factors. Our economic problems stem mainly from the failures of the planning process in the framework of mixed economy and the mode of production and the emerging pattern of distribution. It is in this larger context that we have discussed the problem of regional disparities in India.

Since regional disparities are expected to be reduced through "planned efforts", it would not be out of place if we briefly discuss the nature of Indian planning.

Planning in India continues to be aggregative and sectoral, devoid of spatial dimensions, ignoring the socio-economic and physio-geographical dimensions of different parts of the country, to achieve proper inter-regional and spatial integration. It is not comprehensive in the sense that it does not cover all activities and all sectors. This makes integration of plans at different levels and between different sectors a difficult task In recent years, planning has been diluted considerably and the trend has been towards the restoration of market mechanism. In a major policy change, the Government has decided to allow large industrial houses and FERA companies to make fresh investments in such areas as were hitherto reserved for the public sector and small units. The liberalisation of industrial licensing provisions and amendments in the MRTP Act make nonsense of these regulations. The economy moves on in response to the dictates of the private sector into whose calculations the socio-economic objectives of the plans hardly find any place. The mechanism of incentives and disincentives to regulate the private sector has failed to achieve the desired results. Where is the guarantee that the private sector will adhere to a particular industry-mix, essential for distributive justice? In the present institutional framework, even our public sector has become an instrument of exploitation as it has helped in strengthening the stranglehold of the private sector. Vast sums of money are being spent by public sector financial institutions to support financially non-viable and socially undesirable units in the name of inducing investment, diversification of production, import substitution, fuller utilisation of capacity, promotion of exports and development of backward areas.

In our market economy, tampered with by a few illconceived and poorly implemented controls, the distribution of income is closely related to and cannot be divorced from the ownership of the means of production. An unequal distribution of incomes, emanating from the mode of production operating through the demand factor, is restricting the prospects of sustained industrial growth. In an economy, where the bulk of consumption, production and investment decisions are made through the market mechanism, it is the emerging income distribution that determines the pattern of consumption, the product-mix, the choice of techniques, the pattern and rate of employment growth. The changes in the pattern of consumption expenditure as revealed recently by the CSO clearly point to the rising share of upper income consumption in the country's total consumption. Given the present class composition of those in power and the nature of a State in India, we can hardly expect any radical changes in the plan document, except patchwork and a few gimmicks to tackle poverty and inequalities. The power balance lies in the hands of the bourgeoisie and the kaluks, supported by bureaucracy, all are partners in the process of exploitation, whether spatial, sectoral or class. Regional disparities, like other imbalances and distortions in the economy, are the manifestations of the contradictions of the mode of production and the consequent pattern of distribution. Such is the institutional setting of the Indian economy.

In the post-independence period, the nature of spatial structure inherited from the colonial period was continued because it suited the interests of the ruling classes to whom power was transferred. During the British period, the colonial hinterland was exploited to the benefit of the metropolitan country. The process of 'growth' was confined to a few enclaves which assisted in the process of exploitation of the hinterland. Since independence, the organisation of space has undergone some changes as reflected in the altered distribution of population among rural and urban settlements and the size and pattern of hierarchy of settlements. This has taken place not according to any conscious planning but in a haphazard manner. The hierarchical organisation is top-heavy, biased in favour of a few metropolitan cities and large urban centres at the top. The decadal population growth rate in the period 1961-71 has been 38.23 per cent for urban areas and about 20 per cent for rural. Within the urban sector, cities with a population of over half a million are growing at 53.5 per cent per decade, those in the population range of 5,000-10,000 are growing only at a rate of 1.42 per cent. This indicates that while productive system of the country continues to be strongly rooted in agriculture in rural areas, the hierarchical system of settlements is increasingly becoming top-heavy in favour of cities, and consequently the organisation of space is becoming increasingly dysfunctional. Most of the small towns are languishing with poor economic base and are less viable in terms of industrial base as compared to cities. The metropolitan centres are the stronger partners in the commercial relationship between the town and the country and like the metropolitan country in an empire are poised to exploit the rural hinterland. Income distribution, flow of capital and concentration of economic power continue to be biased in favour of large cities. The location of functions and facilities continues to be mostly urban-biased. The disparity between rural and urban incomes is not only very wide but also rather widening. Within the short period from 1973 to 1978-79, the share of agriculture in the total NDP at current prices fell from 49.8 per cent (nearly half) to 38.6 per cent (nearly three-eighths). In absolute terms, the per capita income of agricultural workers rose by only 10.8 per cent, whereas the per capita income of non-agriculturists rose by 75 per cent during the same period. Both in rural and urban sectors, the beneficiaries, by and large, are the upper income groups. This is due to highly skewed nature of asset distribution in the country. The land ownership pattern, as revealed by the agricultural census of 1970-71, highlights the inequalities in the countryside. Large holdings of 10 hectares and above, constituting just 4 per cent of the total number of holdings, account for 30.7 per cent of the total land under operational holdings. But inequalities in the urban sector are more glaring, with concentration of nearly 42 per cent of the total urban wealth in the hands of just four in a hundred of the wealthier families.

The disparity in incomes and wealth is further reflected through the disparity in the availability of social amenities in the rural and urban sectors. For example, the rural literacy rate in 1971 was 23 per cent against 52 per cent for the urban areas. Fewer than a third of allopathic doctors serve the rural people. The death rate in the rural areas is twice as much as in cities and the life expectancy 10 years less than in the urban areas.

Thus the organisation of space through the hierarchical system of settlements continues to be essentially dysfunctional with respect to the productive process. It is based upon fragmentation of rural-urban continuum and is becoming increasingly top-heavy, characterised by urban accretion rather than urbanisation, where the "nodes" and "poles" have shown unique incapacity to act as centres from which growth inpulses may be transmitted and get diffused in the hinterland. The organisation of space inherited from the British, instead of being smashed, has been adjusted to the requirements of the high rate of capital accumulation and growth. The nature of relationship between the higher order and lower settlements continues to be exploitative because of the institutional framework that has been built up.

The growth plus strategy that has been adopted helped in the process of urban agglomeration and accentutation of regional disparities within the space economy, notwithstanding the emergence of new industrial centres and market centres in response to directed public investment. The new industrial centres have very little linkages with their respective regional economies and have failed to become "growth poles" as intended by the planners because of absence of channels of transmission of growth. The poles and nodes of development are generally rootless, incapable of acting as dynamic centres of growth and change. The hinterland continues to be so poor and backward that it is not capable of taking advantage of the process of growth initiated at the centre. These centres have become centres of exploitation of regional resources without much trickle-down effects. We find the emergence of new class of contractors, traders, government functionaries and 'consultants' who are squeezing out the maximum surplus from these areas. The backwash effects outweigh the spread effects. The market towns tilt the terms of trade in favour of big cultivators and their trading partners and money-lenders. Thus the exploitation mechanism persists right from the top hierarchy to the lowest order settlement in the hierarchy with chain of intermediaries at different levels of settlements in between.

The concentration of oligopolies, multinationals and large business houses in urban agglomerations continues unabated, despite industrial licensing and the mechanism of incentives and disincentives to regulate industrial locations. Industrial development continues to be concentrated in a few pockets of the country. Even in the so-called industrially advanced states, industrial activities continue to agglomerate at metropolitan cities. In Maharashtra, which is the highly industrialised State of India, the distribution of manufacturing sector in 1975-76 shows that the developed districts of Greater Bombay-Thane-Pune with a population of 23 per cent of the State, accounted for 80 per cent of the gross value of output and 80 per cent of the net value-added by the organised industries in that year. In fact, Maharashtra, excluding this region, is industrially as backward as Uttar Pradesh, Bihar or Rajasthan.

Even small-scale units have concentrated in metropolitan cities and big towns. A recent survey by the Reserve Bank of India shows that nearly 40 per cent of the small units are located in cities with a population of one lakh and above and only 25 per cent in towns of less than 10,000 population. The instruments of industrial policy like MRTPA, FERA, industrial licensing, control of capital issues, mechanism of incentives and disincentives and flow of central allocations, have not succeeded in correcting distortions and imbalances in the industrial structure of the economy.

It is against the background of the planning process and the organisation of space that we have to view the approach to regional disparities in the Sixth Plan as well as in the previous plans. Reduction of regional disparities is not a mere question of location of few industries in backward areas or creating a few growth centres but a part of wider development strategy and the whole approach to planning. Have we taken steps to change the exploitative and dysfunctional relationships between urban and rural settlements? Have we done anything to regulate the distribution of population and activities among different sizes of settlements? Have we any locational policy to regulate the location of industries? Have we adopted decentralisation in the real sense of the term in our planning process? Have the techniques of regional planning been assigned any place in our planning process? Have we made any assault on the problem of distribution of incomes and assets? The answer to all these questions is, no. Moreover, in the absence of far-reaching changes aiming at wider diffusion of economic and political power, no disparities whether sectoral, inter-personal or regional can be reduced. The tragedy is that we are looking at the problems of development, disparities and poverty from different angles, having evolved different strategies and created different set of institutions for these three inter-related problems. We have one set of institutions for development and another for anti-poverty programme. When we find that one institution that we created for reducing disparities and poverty has fallen into the hands of the relatively rich, we devise another agency for the betterment of the poor, absolving the existing agencies of their responsibility to look after the poor. This is bound to happen in the existing institutional framework and power balance. As a matter of fact, redistribution has to be an inbuilt mechanism in the very production process and not like the one we have that productive process generates inequalities and imbalances which are to be corrected by other set of measures. Our organisation of space and the mode of production are generating of all sorts disparities.

The policy instruments that we have relied upon to reduce regional disparities are attracting greater investment into backward areas through a series of subsidies and concessions, greater allocation of resources through plan and non-plan investments, special programmes for building up infrastructural facilities in backward areas and industrial licensing. The underlying logic of these measures is that proper allocation of investment effort constitutes the major instrument of reducing the extent of economic disparities among regions. Mere transfer of larger resources to backward regions would not solve the problem. Firstly, most of the benefits would accrue to the relatively rich and, secondly, productivity of investment in backward areas appears to be low. The policy of allocation of larger investments in backward areas would create a few pockets of development without much trickle-down effects, thereby accentuating inter-personal disparities. The present approach aims at a reduction of inter-regional disparities but, at the same time, may accentuate inter-personal inequalities. The coefficient of variation between the higher and lower per capita income states can be reduced but at the same time not inter-personal disparities. In our effort to tackle one problem we are accentuating the other.

**Extent of Regional Disparities**

Over the five-year plans, inter regional disparities have widened as revealed by the relative range between the highest per capita and the lowest per capita income States, the coefficient of variations in per capita income and expenditure and the Ginni coefficient of inequality. The relative range of state income, measured as the ratio between the highest state per capita income and the lowest per capita income increased from 1.96 per cent in 1960-61 to 2.24 per cent in 1970-71 and 2.6 per cent in 1975-76. The coeffiicient of variation of state per capita income has gone up from 21.4 per cent to 27.1 per cent in 1975-76 and the Ginni coefficient from 12.93 per cent in 1960-61 to 14.33 per cent in 1970-71 and coefficient of per capita expenditure increased from 12.3 percent in 1963-64 to 14.1 per cent in 1973-74.[1]

Maharashtra, West Bengal, Gujarat and Tamil Nadu together accounted for 57.37 per cent of value-added by manufacture in 1975-76 in India.[2] From the point of index of social development, Kerala appears to be socially the most developed State, followed by Maharashtra and Punjab which have higher per capita incomes. The next to follow are West Bengal and Gujarat which also have moderately higher per capita incomes. Tamil Nadu and Karnataka then follow, though Karnataka has pretty low per capita income. Haryana with very high per capita income is the next in order. The lower rungs of the ladder are represented by Orissa, Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh.[3]

According to a study by Moonis Raza[4], of the 58 NSS regions only two, namely coastal Maharashtra and coastal plains of West Bengal, account for 22 per cent of the total non-household manufacturing employment. These two regions are followed by a set of four regions in the descending order, namely south Kerala, coastal Tamil Nadu, inland Tamil Nadu and western Uttar Pradesh—each accounting for more than 4 per cent of the total non-household employment of the country. One disquietening feature is that 89 per cent and 75 per cent, respectively, of the NH workers in coastal Maharashtra and central plains of West Bengal are located in Class I towns. More than 17 per cent of the total NH manufacturing workers in India are concentrated in Bombay, Calcutta and Class I towns of these agglomerations. All the Class I towns taken together account for 50 per cent of total NH employment in the country while the urban centres of lower order claim another 25 per cent. The relationship between the household and non-household sectors is competitive and not complementary. The NH sector survives only in backward regions with a weak non-household sector.

In the field of agriculture, we should not expect even rates of growth because of time-invariant region effects like the type of soil, natural endowments, but there is no justification for widening regional disparities, most of which have been accentuated by technological and institutional factors. The strategy of Green Revolution was a growth plus strategy which led to the emergence of a few pockets of growth. The JNU-PPD study[5] shows that the growth of agricultural output rates higher than 5 per cent have been experienced in approximately 12 per cent of the districts of the country during the triennium 1963-64 and 19 4-65 to 1970-71 and 1972-73. These districts accounted for 14 per cent of the gross cropped area but consumed 20 per cent of the major inputs. Since most of the modern inputs were used by big cultivators in the areas of assured water supply, the beneficiaries of the Green Revolution, by and large, were the big cultivators who had the necessary resources to purchase modern inputs and also had the surplus to market. The Green Revolution created new areas of influence and strengthened the economic and political power of the kaluks.

In terms of the value of agricultural output per hectare (1970s), the JNU-PPD study has identified three cores of high productivity, viz (i) Ganganagar-Punjab-Haryana, western Uttar Pradesh; (ii) deltaic West Bengal and its projection into central Bihar along the Ganga and, (iii) the coastal plains of Andhra Pradesh, Tamil Nadu, Kerala and Karnataka. These cores are skirted by medium-productivity regions. In terms of productivity per worker, the areas of high productivity shrink and include only Punjab, Haryana and western Uttar Pradesh. The sharpest fall has taken place in the coastal plains of Andhra Pradesh and north Kerala where high productivity per hectare is accompanied by productivity per worker and central Bihar where high land productivity goes along with low labour productivity. The gains of high land productivity have been offset by low productivity per worker. This may be attributed to high demographic pressures in densely populated areas, larger percentage of agricultural workers, and unfavourable tenurial conditions. Thus Green Revolution has been a highly localised phenomenon and in most parts of the country limited gains in land productivity have been effectively offset by demographic and institutional factors. As a consequence, regional disparities in agriculture have tended to get further accentuated.

One conclusion that emerges is that policy measures cannot be effective to a greater extent in the present socio-economic framework and organisation of space which continues to be dysfunctional and exploitative. If at all regional disparities are reduced, inter-personal disparities will be widened because the benefits of larger allocation of investment and agricultural growth will be pocketed by the relatively rich. In the present organisation of space, income distribution, flow of capital and concentration of economic power would be biased in favour of big cities and towns.

**Regional Planning in a Framework of Multi-Level Planning**

We have been thinking in terms of multi-level planning right from the beginning of the Fourth Five-Year Plan when the task force on Multi-Level Planning and Spatial Analysis was appointed in 1972. But not much seems to have been done in this direction. No regionalisation of the country has been done for the purpose of planning. Even planning machinery at the existing territorial levels has not been strengthened. States have very little initiative in the planning process. Their administrative and financial autonomy is restricted on account of excessive dependence on the Central Government. The States, in turn,. feel reluctant to transfer more powers to lower territorial levels and other institutions which are supposed to function autonomously, such as local bodies, universities, statutory corporations, etc. The states constitute an important level of regional planning but most of them don't have the necessary planning machinery and apparatus and their five-year plans are nothing but uncoordinated aggregates of claims of different departments. Their plans have been mostly in the nature of demands for more resources from the Centre rather than serious exercises undertaken to formulate meaningful and concrete programmes of development suited to their factor-endowments and requirements. There is virtually no vertical and horizontal integration of plans at different territorial levels. There is no spatial planning, no locational analysis and no spatial and sectoral integration of the plans. With bureaucracy oriented towards vested interests, with political parties without any dedicated and committed party cadre at the grassroots level, with vested interests dominating institutions in a class structured society and with no political philosophy, there can be no decentralisation in the real sense.

One of the ways by which regional disparities can be reduced is the regulation of the distribution of population and activities among settlements of different sizes and order. The study of settlements, particularly their hierarchical organisation, has been found to be useful for the purpose of regional planning. Regional planning is considered as a problem in spatial integration and functional coordination of settlements. The pilot project in growth centres launched in the Fourth Plan provided the methodology for delineating regions and for achieving functional and spatial integration and for integrating rural-urban settlements into an organic mechanism. But the State Governments have not shown much keenness to deploy this methodology for the purpose of regional and sub-regional planning, with the result that the location of functions and facilities continues to be haphazard, leading to their sub-optimal utilisation. A regional approach has not been adopted to planning so far. The Sixth Plan is in no way different from the previous plans in this respect.

In the five-year plans, right from the First Plan, the rationale of area planning has been recognised and this approach has manifested itself in different forms, the Community Development Programme, the Intensive Agricultural District Programme, special programmes for weaker sections, drought-prone area programmes, hill area programmes, command area programmes and so on The area plans so far have not been translated into operational plans which are functionally, spatially and temporarily integrated. There has not been much decentralisation of plan formulation at the district and the block level and hardly any effective popular participation. The concept of area did not undergo any substantial changes or refinements in its many incarnations in the plan documents, neither did it become a reality at the operational or implementation level.[6] With weak planning machinery at the State level and virtually no plan formulation machinery at the district level or block level, it would be futile to talk of area and regional planning. The lower the territorial level, the more comprehensive is the plan and the greater the care for man and his welfare What has prevented theoretically sound and politically desirable concept of area planning from becoming a reality? This may be due to the dominance of vested interests, absence of planning machinery, absence of dedicated and committed local leadership and the bureaucratic framework not favouring flexibility and decentralisation. The working group on block-level planning (Dantwala group) appointed in 1976 by the Planning Commission and the Asoka Mehta Committee have recommended with regard to the modalities of block-level planning and the role of panchayati raj institutions, but no steps have been taken to implement the recommendations of these committees. Planning is a political process and its success largely depends upon the political will of those in power. But the class composition of those in power and of those on whose support they have come into power will not permit radical changes in the mode of production and property relations.

One of the objectives of the Sixth Plan is to bring about a progressive reduction in regional disparities and diffusion of technological gains, consistent with the objective of achieving a growth rate of 5 per cent per annum. The policies for reducing regional disparities in the Sixth Plan include resource transfers under the IATP formula introduced in 1979 and the doubling of the *segment* of backward states in the Gadgil Formula for allocation of Central assistance for State plans, special programmes to be dovetailed with overall development plans, sub-plan approach, special tribal component plans, hill area schemes and specific programmes. The plan document admits that the mechanism of administration, both in the hierarchical insufficiency of technical personnel and in the horizontal coordination, diversion of sectoral provisions to more developed areas where they can be more readily spent, insufficient delegation of power to local authorities and unwillingness of the staff to serve in backward areas are some of the constraints on the development process in the country. But nothing concrete has been proposed in the Sixth Plan to meet these deficiencies and improve the institutional framework of the planning process in the country. The approach of the Sixth Plan represents no departure from the previous plans.

The NCDBA has recently made some specific recommendations in its interim report for the development of backward areas. It has recommended that the following features should form part of financial arrangements for the backward areas:

(i) Sub-plan approach. In the plan of every development, there should be a sub-plan for the development of backward areas both at the State and Central levels;

(ii) project fund for local planning and special additive fund;

(iii) financial discipline so that the tendency to divert funds intended for backward areas to more forward areas is checked;

(iv) project-based implementation; and

(v) incentives to staff posted in backward areas.

Apart from resource transfers and public sector programmes for the development of backward areas, the policy also provides incentives to private entrepreneurs through schemes of concessional finance, seed/margin money scheme, Central investment subsidy scheme, tax reliefs, subsidies and so on. The committee evaluation of the existing policy for industrial dispersal shows that investment subsidy and scheme of concessional finance have benefited a small number of districts mostly in close proximity to relatively developed areas, that licensing policy is only a negative instrument and cannot itself promote industrial development in backward areas. In the light of this experience, as also the usual tendency of industry to agglomerate at certain locations, the committee has recommended a policy of encouraging such centres in industrially backward States. It has suggested the establishment of an Industrial Development Authority (IDA) in such selected growth centres to provide the necessary infrastructural facilities and to channel development funds which might be allotted to Central and State Governments. The IDA will provide a master plan on the basis of which financial institutions would be able to assist in the development of the area. The committee has called for strengthening of existing scheme of district industries centres for the development of small-scale and ancillary industries. The 100 industrial growth centres would be set up where there is a population of 50,000 or more and in such backward areas where sufficient infrastructure already exists, with a view to minimising the cost on infrastructure. The location of these centres is to be based on four cut-off points; where the level of employment in the existing centres is over 1,50,000, the cut-off point is 150 kms from where a new growth centre will be set up. Likewise, where employment in manufacturing ranges between 50,000 to 1,50,000, the cut-off point will be 100 kms, and in the employment range of 25,000 to 50,000, the cut-off point is 50 kms. The committee has recommended that the growth centres be divided in the ratio of 30 : 70, with 30 per cent location in developed, and 70 per cent in backward states. It has recommended the development of agro-based industries in the small-scale sector. For this, it has recommended "regulated market centres" which would organise and run agro-based industries as joint ventures with the farmers.

The whole approach to regional disparities is ambivalent, mostly repetitive of what has been evolved in the previous plans, ignoring the basic issues relating to regional planning and spatial organisation. The policy of larger allocations and fiscal and financial incentives has hardly paid any dividends. The multiplicity of agencies can hardly do the trick. The recommendations of the NCDBA suffer from lack of proper understanding of the methodology and techniques of regional planning. In view of the absence of spatial dimensions in the five-year plans and the absence of planning machinery at different territorial levels, it is not clear how the proposed IDA would formulate the industrial plan for each of the 100 growth centres. What about the programmes of agricultural and infrastructural development? Should we have a separate agricultural development authority, infrastructure development authority and authority for the development of social services? The cut-off points suggested by the committee do not have any scientific basis. It is only a spatial plan for the entire region that can identify centres for the location of industries and not the isolated approach recommended by the committee. Nothing is said about the impact of these industrial centres on their respective hinterlands and the channels through which growth impulses would be transmitted. The question of integration of these growth centres with the settlement hierarchy has not been examined. The industrial plan for the growth centre is not to be viewed as an isolated exercise but a link in the hierarchy of levels for a cluster of settlements. The approach appears to be piecemeal, devoid of correct appreciation of the organisation of space and locational analysis. Moreover, the integration of a plan of a sector has to be secured at the stage of plan formulation and not after the plans have been prepared by different departments.

The Chinese have reorganised village community into sizeable communescluster of villages, which are serving as important instruments of socio-economic change. A commune is a multi-functional agency for the area the plans of which are integrated with the higher-level organisations. These communes are running social welfare functions, besides development of agriculture, industries and infrastructure in their respective areas. But, we have not yet created any such agency for the micro-regions which may formulate and implement integrated plans for these regions. We may have specific programmes with multiplicity of agencies but no single agency to formulate integrated plan for the whole region.

So far, we have not evolved any plan for the distribution of population between different settlements. We may have town and city plans but they are not regional plans. Both "push" and "pull" factors are increasing the flow of migration from rural to urban areas but without any commensurate expansion of civic services. It is only when employment opportunities are created in rural areas and when the urban-rural income differentials are reduced that migration from rural to urban areas can be checked. China has been able to check this by creating employment opportunities within the village economy and by reducing the gap between urban and rural incomes and facilities.

Town planning has to be replaced by regional planning which involves the preparation of plans for the optimal movement of people, goods and services between producing and consuming services. The planning of traffic and transportation on a regional basis is an important element in a regional plan. Regional planning is not a mere physical planning but includes integrated and co-ordinated planning between physical, economic and social components in a given region. It aims at the optimum distribution of population and activities among various population centres in a region with desirable interaction between these centres.

Since we have ignored the basic facts of social life and organisation of space, we have not succeeded so far in tackling the problem of regional disparities. The crux of the problem is: whether it is the national plan or the regional or the local plan and can we succeed in a system where the means of production are privately owned and the bulk of decision-making is in the hands of private sector? In such a system, the actual results are bound to be different from what we visualise in the plans.

Thus, regional development is a complex problem. Regional inequalities, as well as inequalities of any other kind, cannot be accepted by a sane society. But, the remedies utilised so far have yielded disappointing results. This is because remedies have been implemented within an economy which still fosters these discrepancies. The study has demonstrated the fact that regional inequalities have emerged out of the system which favours concentration of economic power in a few areas. In an effort to reduce regional disparities, we are increasing inter-personal disparities because the benefits of the schemes for backward areas are being cornered by the relatively richer sections of the community. We may reduce the gap between the per capita income of Punjab and Madhya Pradesh but, at the same time, increase intra-regional and inter-personal inequalities.

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# 8

# Gandhian Approach to Balanced Regional Development

BY

V.C. SINHA

BALANCED regional development implies the fullest development of the potentialities of an area. It, therefore, requires investments in backward areas. One of the unhappy experiences of planning in India has been that the economically backward regions have gained little, and benefits of the successive plans have gone to the developed regions. With the necessary infrastructure, which attracts more investment, the benefits of additional investments are also confined to these regions. It seems that some states are backward not because of their poor natural resource endowments but for the insufficiency of investment. Political decisions and *laissez faire* economics concentrated the investment in some regions while neglecting others. The continuance of such a process is bound to widen disparities in regional development. The benefits of planning accruing only to a selected region, is undesirable from the viewpoint of balanced regional development and distributive justice.

The extent of regional disparities in India are shown with the help of different indicators for different periods in Table 11. The table reveals a wide gap in the per capita investment among different states. States like Madhya Pradesh, Orissa and Bihar have received, a significant share of investment in Central investment projects while others, like Rajasthan and Mysore, have been badly ignored. Punjab, Haryana, Maharashtra, Gujarat, Himachal Pradesh and Tamil Nadu are among the states which have the per capita income higher than the national average. They are incidentally also the states which rank higher on the basis of average daily employment per 1,000 population and per capita bank credit. This establishes the conclusion that those states, which have high degree of industrialisation, also enjoy high per capita income.

On the basis of the indices given (Table 1) in the Report of the Pandey Working Group, the States can be classified under three broad groups: The states having composite index below 90 are industrially backward. In the case of industrially developing states, the composite index is between 90 and 120 and industrially developed states have composite index above 120. From Table 1, it can be noted that the following nine states come under the first category; Nagaland, Jammu & Kashmir, Orissa, Uttar Pradesh, Assam, Madhya Pradesh, Rajasthan, Bihar and Andhra Pradesh. Kerala and Mysore fall in the second category while Haryana, Punjab, Maharashtra, Gujarat, Tamil Nadu and Bengal come under the third category. These revelations of backward and developed regions are based on political boundaries, i.e. states. But even inside the most advanced states there are, of course, developed regions. All the regions of a state are not equally developed or backward.

A study made by Mr. G.D. Somani has pointed out that in Bihar, Uttar Pradesh, Orissa, Madhya Pradesh and Rajasthan more than 40 per cent of the population was in backward regions. Some of these states have also border districts whose problems are more serious in the context. Another study on regional development shows Calcutta and the western region as the most developed regions and the north-western region as the most backward. Thus, whatever criterion is taken, it is possible to show that there are regional development disparities among the states.

The successive five-year plans have shown a growing concern over regional imbalances in development. In the First Plan, it was mentioned that the rate and pattern of development would take due "considerations of regional balance and sustained growth". But due to the limitation of resources, no deliberate effort was made to correct regional disparities. The Second Plan observed that "the disparities in the levels of development between different regions should be progressively reduced". It envisaged a pattern of development that may lead to balanced regional development. In the Third Plan, programmes for the extension of benefits of economic progress to the less-developed regions and widespread diffusion of industry there suggested as part of efforts to even out regional inequalities. Emphasis was laid on the systematic identification of under-developed regions as well as the promotion of studies of economic trends and rates of growth in different regions of the country.

The Fourth Plan wanted to carry forward more vigorously the battle against regional disparities. It envisaged that weightage should be attached to the backward states for the location of new public sector industries. It also made suitable adjustments in the procedures and policies of financial institutions for granting easy credit facilities for the development of backward areas. A proposal was made to set up industrial development areas in backward regions.

The Sixth Plan is discarding the Fifth Plan approach to backward area development based on wide-ranging and non-selective incentives to industrial growth, on the one hand, and special programmes directed towards specific problems or target groups, on the other. The Sixth Plan has placed considerable emphasis on rural development, employment-generation, integrated area development and appropriate technology to stimulate the growth of backward areas and lead to a reduction in disparities. The success of these measures cannot be easily estimated. But it cannot be denied that efforts for the development of backward areas have so far generally yielded inadequate results since the programmes for these areas were formulated for individual sectors, at the State and national levels, in an uncoordinated fashion, without taking into consideration: (a) the potentials and priorities of different areas; (b) the coverage, dimensions and thrust of other programmes taken up in an area; and (c) the overall orientation and capabilities of the existing administrative and institutional structures.

Mahatma Gandhi was not a professional economist and had not developed a model of economic growth. But his pragmatic teachings on the economic salvation of the country needed to be minded well. Regional disparities in India during the plan period could not be reduced due to a grievous choice made after independence to go 'industrial' immediately. The Father of the Nation had sought to give first priority to agriculture, accompanied by cottage industry or handicrafts, followed by light or small-scale industry and, then, heavy industry. But Gandhiji's ideas were not implemented. In our ambition to catch up with the West at the earliest, we forget that the development of the country's economy or a rise in the living standard of its vast millions will have to take place within the framework of its own factor endowment, in other words, within the limitations set by its low land or natural resources: man ratio.[1]

Gandhiji wants to build India from the bottom upward, that is, from the poorest and weakest, and hence followed the *centrality* of the village. In the words of Mahatma Gandhi, "all that is good in Indian culture is based on rural life". Looking closely at the country's economy, it becomes patently clear that this economy is basically rural, judged by the composition of gross domestic product and that of the total employed work-force. Hence within this set-up, it is quite imperative that economic planning in this country must start from below where the model of rural development must have its affinity with the Antyodaya philosophy of the Mahatma. This philosophy virtually enunciates the ideal that, in the process of growth, the last man is to benefit first and the focus of attention must be laid upon adequate amount of planning at the base which is to be neatly coordinated with the apex planning or planning from above. In fact, keeping in view the supreme importance of the idea of planning from below against the perspective of Indian economy, we can best evaluate the significance of the Gandhian approach to the uplift of India's village economy as a precondition of the broad-based and balanced regional economic development.

Our paramount objective in the course of planned efforts should be to rejuvenate our moribund village economy and preserve our pristine culture. Here, the growth of agricultural productivity through concentrated doses of investment of improved input varieties and better water management facilities, diversification of agricultural production, multiple-cropping and development of village khadi and crafts must be of primary importance. Some of the most prosperous States in India, like Punjab and Haryana, have developed through rapid agricultural development. Agricultural development is more important in the rural-oriented economy of India, as has been amply demonstrated by the Green Revolution, which has increased the per capita incomes of a number of states considerably. Thus the Gandhian plan aims at the reform of agriculture as the most important item in balanced regional development. The pimary objective of agricultural development should be national self-sufficiency in food. The vulnerability of Indian agriculture to the vagaries of the monsoons makes it imperative to accord a high priority for irrigation under our plans. It is also necessary, at the same time, to reduce the glaring imbalances in irrigation among different regions. Figures in Table 2 reveal that in the States, where the irrigation potential is high, the percentage of population below the poverty line and the unemployment rate are low and, moreover, agricultural growth and farm output are relatively high. In Punjab and Haryana, where the irrigation potential is abnormally high, the growth rates of agriculture and farm output are also exceptionally high. In these two states, the unemployment rate and the incidence of poverty is also very low. In Andhra Pradesh, Uttar Pradesh and Rajasthan, where the irrigation potential is slightly higher than the national average, with some exception, irrigation has a favourable impact on the indicators. The correlation between the irrigation potential and the percentage of population below the poverty line is negative. Thus, as a step towards correcting regional imbalances, due care should be taken to increase irrigation facilities. Irrigation will increase agricultural productivity "by making multiple-cropping possible, by increasing the yield per unit cost and by making the production of more lucrative crops possible." Besides strengthening the agricultural base of the economy, they have a multiplier effect on agricultural incomes, employment and diversification of agricultural activity. As a gesture towards recognising the importance of irrigation in the development of the agricultural sector, planners have proposed in the Sixth Plan an investment of more than 10,000 crores during the period between 1980-85.

According to Mahatma Gandhi, distribution can be equalised only when production is equalised; in other words, when distribution is simultaneous with production. To attain such a process of distribution, Gandhiji has suggested to follow the doctrines of 'swadeshi' and decentralisation policy. His concept of 'swadeshi' is the main calculus of development while his idea of decentralisation is its derivative. According to the latter, 'production should be localised' (i e. regionalised). Therefore, the Gandhian approach of economic development lays stress on the growth and expansion of indigenous industries with an agro-base. The decentralised pattern of agro-based industrial production is very akin to the doctrine of balanced regional economic development in modern terminology which suggests to adopt the technique of 'planning from below'. The rationale behind his concept of 'planning from below' is the achievement of village economic self-sufficiency in a democratic order, i.e. 'village Swaraj'. In the words of the Mahatma, 'My idea of village swaraj is that it is a complete republic, independent of its neighbour for its vital wants and inter-dependent for many others in which dependence is a necessity.'

The Gandhian philosophy of balanced regional economic development does not favour the operation of a large-scale industrial production but favours the expansion of small-scale agro-industries. These industries enable the villagers to develop local initiative, co-operation and a spirit of self-reliance. They also help in the utilisation of the available raw material by the adoption of simple techniques. These industries have the capacity to correct the regional imbalances by initiating industrial activities on dispersal basis in the most neglected, backward and inaccessible areas, where perhaps the large-scale sector is unable to penetrate. He has opposed industrialisation in the modern sense of the term because it leads to the concentration of wealth and economic power, leaving a large part of the labour force unemployed because of the use of machinery. Figures in Table 3 confirm the conclusion that those states which have a high degree of industrialisation are also the states with a higher proportion of agricultural labourers to total workers. Table 3 shows that the economically industrialised states like Gujarat, Maharashtra, Tamil Nadu and West Bengal show a big proportion of agricultural labourers to total workers. This indicates that industrialisation did not enlarge employment to such an extent as to reduce the proportion of agricultural labourers to total working population. Naturally, the need for a re-examination of the pattern of industrialisation in India on Gandhian lines is obvious.

Admittedly large-scale heavy industries have good deal of external economy and both 'forward' and 'backward linkage' effects. In this case, there must be a strong complementary relation existing among the large and small, the heavy and light industries in a situation of industrial inter-dependence. The large-scale and heavy industries here thus appear to be the promoter of growth by creating demand for the outputs of the smaller and lighter units and also by helping them to modernise and raise their efficiency. In this process the smaller units, in their turn, can thus create a fair amount of industrialisation effects. On the one hand, we ought to encourage such a situation of complementarity to obtain in the industrial world of India and, on the other, must go in for a strategy of industrial development, relying heavily on high labour-investment ratio and low capital-output ratio. It is quite significant that the projects having low capital-labour and capital-output ratios mean increasing employment with rising output. In a capital-poor economy, it is prudent to economise capital. But when output becomes high per unit of capital, used in small amounts, it indicates that the productivity of labour, which is used in large amounts as complementary or a co-operating factor alongside capital and supplements the defiiciency of capital, must be positively high. Thus, for our village industries be-all-and-end-all, our policy must be to ensure the co-existence of low capital-labour and low capital-output ratios.[2]

Mahatma Gandhi was always laying great stress on khadi and village industries. In fact, he gave a place of honour to spinning. As Gandhiji said, "Khadi is the sun of the village solar system." "The planets are the various industries which can support khadi in return for the heat and the substance they derive from it." He was happy that the 'Charkha' was a simple machine which would bring solace to the poverty-striken people. He felt that without the spinning wheel, there was no Swaraj. If Gandhiji pleaded for khadi, he was not being just a romantic idealist; in fact, he listed all its advantages and then asked his critics to suggest any other alternative occupation to the millions who are punished with forced idleness for six months of the year. "My sole claim for khadi", he has written, "is that it offers an immediate, practicable and permanent solutions to the twin problems of enforced idleness and chronic starvation."

The kingpin of Gandhian strategy is, after all, 'planning from below' and it tantamounts to the call of 'back to the village'. Back to the village is no retrogressive step. In the words of the Mahatma "Is it going back to the village, or rendering back to it what belongs to it? I am not asking the city dwellers to go to and live in the villages. But I am asking them to render unto the villagers what is due to them." In the Indian context, it is quite apparent that economic development, which means economic growth accompanied by stability, welfare and distributive justice, comes out of the effective working of the philosophy of 'planning from below'. It is here that the model of rural development to be followed primarily aims at bringing the economically handicapped population and regions of the country into the mainstream of economic activities and bringing them their due shares of development. Gandhiji's thought identifies economic development with the preservation of the small producer and its participation in a diversified pattern of productive activity. For him, the small producer is both the subject as well as the object of economic development. Economic development is meaningful only if it is aimed at lifting up the small peasant and artisan economy from the state of pauperism, despair and at converting the small producer himself into an active force in productive activity. The Mahatma seems to suggest that industrialisation of the Western type will achieve neither of these two objectives in India. It is not likely to lift up the small producer from the state of pauperism nor is likely to draw him into the fold of expanding productive activity. In fact, the Western type of development is bound to result in vast social tension and political turmoil as it would hit the small producers who constitute the most numerous section in Indian society. The identification of the small producer as the key element of Indian society and the definition of the Indian development in terms of the walfare of this vast mass of working humanity constitute Gandhiji's signal constributions to the thinking of Indian development. Dr. Ropke, after referring to the doubtful standard of material prosperity of masses as an object in under-developed countries to be attained said, "it is regrettable that India seems to follow materialist socialism rather than Gandhi's ideas to the present programme of economic development". Thus regional imbalances can be reduced by a shift of resources from the metropolitan, industrialised, capital-intensive and centralised production-based on the purchasing power of the upper middle classes to agriculture, employment-oriented and decentralised production.[3]

The Gandhian concept of trusteeship is a very good measure to reduce inequality and regional imbalances. The rich should act as trustees so that superfluous wealth may be used for the benefit of society as a whole. The Gandhian idea of trusteeship is advanced to take out the sting of capitalism in order to yoke the same to the service of society as a whole.

It is now clear that the Gandhian model of growth shows that the remedies of reducing regional imbalances in India lie in; (*a*) improving agricultural productivity; (*b*) creating a self-propelling and self-sustaining process of production in villages; (*c*) decentralisation of production system, wealth and economic power ; and (*d*) practising the principle of trusteeship for social ends. These remedies will be actualised if the socio-politico-economic system of the country creates a situation of spontaneity among all living beings that 'we have duty to produce' and 'obligation to supply necessaries to the neighbour if he is in need.' It suffices to say that if we are able to apply Gandhian ideas in our plan politics, in the real sense, we are sure to achieve all-round progress and balanced regional development. Maybe, that the process of growth would be slowed down and we may not be able to catch up with the Western nations in amassing wealth but it is sure that, if we follow the Gandian path, we would definitely be able to solve our basic problems of poverty and the fruits of development, at whatever rate that may be, would not be enjoyed by a few but the majority of our countrymen.

**Table 1**
**Regional Disparities**

| *States* | *Per capita invest-ment (2nd & 3rd plans)* *Rs.* | *Per capita income at current prices 1974-75* *Rs.* | *Total road length per 100 sq. km. of area (kilo) 1976* | *Scheduled commercial banks credit per capita 1974* | *Backward-ness index (compo-site) 1969* |
|---|---|---|---|---|---|
| Andhra Pradesh | 14 | 877 | 33 | 82 | 87 |
| Assam | 25 | 776 | 40 | 25 | 78 |
| Bihar | 41 | 718 | 60 | 30 | 85 |
| Gujarat | 20 | 1034 | 23 | 177 | 154 |
| Haryana | 17 | 1168 | 33 | 100 | 120 |
| Jammu and Kashmir | — | 836 | 6 | 48 | 59 |
| Karnataka | 8 | 784 | 43 | 155 | 118 |
| Kerala | 27 | 785 | 301 | 108 | 111 |
| Madhya Pradesh | 118 | 784 | 20 | 42 | 80 |
| Maharashtra | 11 | 1271 | 34 | 397 | 146 |
| Nagaland | — | — | 25 | 15 | 28 |
| Orissa | 187 | 690 | 37 | 21 | 72 |
| Punjab | 17 | 1482 | 44 | 156 | 137 |
| Rajasthan | 6 | 819 | 13 | 46 | 81 |
| Tamil Nadu | 49 | 942 | 71 | 193 | 154 |
| Uttar Pradesh | 9 | 812 | 42 | 50 | 76 |
| West Bengal | 83 | 1065 | 64 | 246 | 160 |
| All-India | 39 | 989 | 36 | 139 | 100 |

**Table 2**
**Irrigation Potential and Inter-State Inequities**

| *States* | *Irrigated potential created to 1979-80 per 1,000 population* | *Growth rate of grain production 1961-62/1978-79 (% per annum)* | *Percentage of population below poverty line (1972-73)* | *Percentage of unemployment rate (1977-78)* | *Farmout rural population* |
|---|---|---|---|---|---|
| Andhra Pradesh | 227.64 | 1.7 | 54.9 | 10.8 | 506 |
| Assam | 46.77 | 2.2 | 46.9 | 1.8 | 453 |
| Bihar | 169.32 | 1.8 | 54.6 | 8.1 | 341 |
| Gujarat | 179.0 | 4.2 | 41.1 | 6.4 | 607 |
| Haryana | 581.58 | 5.1 | 23.1 | 6.9 | 1,032 |
| Karnataka | 139.3 | 3.0 | 50.7 | 9.6 | 592 |
| Kerala | 74.67 | 1.1 | 56.9 | 26.0 | 479 |
| Madhya Pradesh | 141.77 | 0.9 | 58.6 | 3.1 | 459 |
| Maharashtra | 112.95 | 2.50 | 47.7 | 8.2 | 555 |
| Orissa | 196.59 | 1 4 | 68.6 | 8.2 | 515 |
| Punjab | 773.95 | 6.4 | 21.5 | 5.0 | 1161 |
| Rajasthan | 242.41 | 2.5 | 46.0 | 3.4 | 600 |
| Tamil Nadu | 156.80 | 1.9 | 59.6 | 16.1 | 442 |
| Uttar Pradesh | 331.28 | 2 5 | 52 6 | 4.3 | 427 |
| West Bengal | 133.99 | 2.5 | 56.9 | 10.4 | 511 |
| All-India | 204.49 | 2.6 | N.A. | N.A. | 509 |

**Table 3**

**Industrialisation and Inter-State Inequities**

| *States* | *Average daily employment of factory workers per 1,000 population (1971)* | *Per capita income at current prices (1974-75)* | *Percentage of agricultural labourers to total workers (1971)* | *Percentage of urban population to total population (1971)* |
|---|---|---|---|---|
| Andhra Pradesh | 6.1 | 877 | 37.9 | 19.3 |
| Assam | 5.1 | 776 | 9.6 | 8.5 |
| Bihar | 5.1 | 718 | 38.9 | 10.5 |
| Gujarat | 16.7 | 1034 | 22.5 | 28.1 |
| Haryana | 9.4 | 1168 | 16.2 | 17.8 |
| Jammu & Kashmir | 2.4 | 836 | 3.1 | 18.3 |
| Karnataka | 9.6 | 784 | 26.7 | 24.3 |
| Kerala | 9.7 | 785 | 30.7 | 16.3 |
| Madhya Pradesh | 5.3 | 784 | 26.6 | 16.3 |
| Maharashtra | 20.8 | 1271 | 29.3 | 31.2 |
| Nagaland | N.A. | N.A. | 1.5 | 9.9 |
| Orissa | 3.2 | 690 | 28.3 | 8.3 |
| Punjab | 8.8 | 1482 | 20.1 | 23.8 |
| Rajasthan | 3.4 | 819 | 9.3 | 17.6 |
| Tamil Nadu | 11.2 | 942 | 30.5 | 30.3 |
| Uttar Pradesh | 4.8 | 812 | 20.0 | 14.0 |
| West Bengal | 18.9 | 1065 | 26.5 | 24.6 |
| All-India | 9.3 | 989 | 26.3 | 19.1 |

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# 9

# Regional Problems and the Strategy of Sub-National Planning in Developing Countries

BY

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THE economic theories of classical and neo-classical persuasions deny the existence of a 'regional problem'. It is maintained that the free play of market forces would ensure work to move where labour is available or labour to migrate where jobs are created. Thus, a harmonious balance is brought out in supply and demand in the long run. Any disparity in profit, wages and employment between regions tends to disappear by corresponding labour and capital movements. Any temporary malfunctioning in the system giving rise to inequality in income and employment, is mostly attributable to market imperfections and institutional constraints which impede smooth resource and factor movements. Such symptoms of imperfections are considered as characteristic of economic backwardness. Rapid economic growth through industrialisation is offered as solution to such problems. Rostow's stages theory considers economic inequality and regional disparity as a passing phenomenon at the 'take-off' stage which tend to disappear when the economy attains self-sustaining growth and maturity. An uneven course of economic growth is taken as a natural phenomenon in a free market model of economy. Any autonomous interference is considered as stifling the optimisation process. However, neither the historical experiences in the Western capitalist countries nor the newly independent developing countries prove the validity of the theory of harmonious adjustment, even in the long run. The existence of the 'regional problem', in terms of inequality in income, employment, growth of industries, infrastructure facilities and equalities of material human life in different areas or regions of a country irrespective of its stages of development, have been emperically acknowledged. There may be differences of degree in such disparities between countries; but its existence is no longer overlooked by policy-makers.

In the developing countries, the theoretical and policy recognition of regional problems is rather late, the main reason being that, after emerging into independence, most of these countries were preoccupied with the problems of political stability and with their overall acute backwardness and poverty at national levels. Regional issues were shadowed by pressing national problems. Besides, during the initial phases, the strategy of development was mostly influenced by Western theories and historical experiences of pursuing growthmanship through rapid industrialisation. The maximisation of GNP through the optimum allocation of resources on the marginal efficiency criteria was the usual goal. Economic growth and economic development were considered as synonymous terms, relegating distribution aspects of GNP to the background, on the belief that it would take care of itself in the long run. Any interference in the distribution of GNP was considered as constraining economic growth. It was only during the post-war years that a serious challenge was put up by Myrdal, 1957, and Hirchman, 1958, questioning the efficacy of equilibrating market mechanism in reducing regional economic disparities. Allegiance to the harmonious self-adjustment of free market system and unrestricted pursuit of economic growth for maximisation of GNP by sectoral allocation of resources were the two misconceptions to which most of the developing countries were the victims under the Western influence, until they realised that such policies only landed them in more poverty, unemployment, economic inequality between rural and urban areas, urban crises and formal informal sector dichotomy. The real problems of people scattered in different regions and environments were shadowed by the growthmanship exercises.

There are two major viewpoints for explaining such situations:

1 Those who accepted mixed economy as a given framework and subscribed to the strategy of government-led urban-biased industrialisation considered numerous factors such as lack of sub-national approach to planning and policy limitations as major contributory factors giving rise to regional economic inequalities; and

2 others consider that the very path of development based on mixed economy with a predominant role to proprietary class in private sector with their varying organisational manifestations of giant corporations, both national and multinational, as the root cause of growing economic inequality among different groups and

regions. Sub-national planning conducted within such a framework is found ineffective for mitigating regional inequalities. Contemporary situations in some of the Western capitalist countries are cited in support of this viewpoint.

Most of the developing countries in Asia and Africa, in view of their past colonial links with metropolitan centres, tend to follow the historical path for rapidly improving their economic status. These countries seek rapid development through industrialisation with imported capital-intensive technology. Following this policy, most of the developing countries tend to emphasise import substitution industries which have a ready domestic market under protective measures. Sometimes, the emphasis tends to shift to export-oriented industries, the expansion of which also depends on more of capital-intensive imported technology and raw materials. Consequently, the level of imports goes up, requiring large amounts of foreign exchange for sustaining the urban-biased growth process. In most of the developing countries, it is the agricultural sector in rural areas which is used to finance the import. Besides, the agriculture sector is also squeezed to release a forced surplus by fiscal measures for financing the infrastructure development for sustaining industrialisation, the benefits of which are disproportionately larger for the private sector business. The subsidised public sector products and services also tend to benefit the private sector more than the common people. The income-distribution pattern emerging from such a strategy is more favourable to urban areas, proprietary class and those fortunate few who could get their way into the modern manufacturing sector than the vast multitude of rural poor and those of the informal sector in urban areas. Thus industrialisation as the single vehicle of the growth process tends to create economic dualism with poverty, economic backwardness, unemployment, coexisting in a criss-cross manner in the form of 'double helix structure', with small patches of capital-intensive modern manufacturing industries and high productivity areas, intercepted by large areas of economic backwardness and stagnation.

To sustain industrialisation, the supporting infrastructure and services are also mostly located in urban areas. The higher productivity of the manufacturing sector and the consequent higher wage rate in urban areas than rural tends to induce the movement of rural people to urban centres. The main motive force behind such migration from rural to urban centres is the differential expected earnings rather than the actual employment opportunities available. Most of those, who migrate to urban centres, do not take long to realise that they lack the necessary skill and other requirements to get their way into the limited modern industrial base. The manufacturing sector in urban areas mainly depends on capital intensive, labour-saving and imported technology which can no longer provide full and productive employment to all those who spill over from rural areas either by being pushed out from their traditional habitats under the compulsions of growing population, lack of further opportunities for gainful employment in agriculture or for seeking a better economic future. Bulk of the rural migrants, who find their entrance to modern sector in urban areas blocked, discover themselves hovering around peripheral economic activities, such as the low-paid trade and services, somehow to earn a living. The proliferation of such rural migrants, without any root in modern industrial sector, go to inflate the informal sector in urban areas creating socio-economic dualism, perpetuating urban crises. Most of the urban centres in developing countries are confronted with the spill-over problems from rural areas, largely on account of push factors operating in agriculture. The high rate of growth of rural population, reduction in farm size, increase in land tenure and the inequitable impact of modern technology on agriculture give rise to greater polarisation between the TAC (tractor, air-conditioner and car-owning) farmers, on the one hand, and the small and marginal farmers and landless labour, on the other. The absence of alternative avenues of employment, where the displaced rural labour could find gainful employment, tends to perpetuate rural deprivation. Such developments are not conducive to rural saving and greater investment in agriculture. It not only gives rise to rural-urban economic inequality, but also acute polarisation both within urban and rural areas.

Another important factor which also contributes to rural-urban economic inequality is the deteriorating terms of trade confronting rural producers. The flow of low-cost labour to the urban manufacturing sector and political compulsions to satisfy the more articulate and vocal urban population tend to induce most of the governments in developing countries to stabilise the prices of agricultural production more than the products of the manufacturing sector. Manufacturing products, such as farm implements, fertiliser, fuel and other daily necessities of the formal sector, are subjected to greater price escalations than the products of rural areas. Generally, rural people sell at a relatively low price and purchase at a high price and thus the terms of trade are turned against them. Even in rural areas, landless labour, small and marginal farmers and non-farm labour are also subjected to the same process *vis-a-vis* large farmers and traders. In urban areas also, the terms of trade are against the informal sector, the latter sustains by allowing itself to be exploited by the formal sector. Such a situation is not only the outcome of the urban-biased industrialisation process, but is also aggravated by the government's policy of tax-subsidy, licensing, credit deployment pattern, marketing structure and the public distribution system of scarce materials which are more favourable to the modern organised sector and urban areas. In spite of their nomenclature, the public expenditure pattern and some of the rural development programmes tend to benefit more the affluent urban people than the weaker sections both in rural and urban areas. The vast segments of rural population and those in the informal sector in urban areas are usually kept out of the flow of economic benefits of the present pattern of economic development, brought about by the single engine of industrialisation supported by the prevailing institutional network, tax-subsidy policy and technology.

The other view is that the system of mixed economy and the framework and organisation within which development programmes are implemented have an institutional bias against the poor. The production system and pattern of infrastructure development are such that they are more favourable to the proprietary class in the private sector than the small producers both in rural and urban areas. As the resources are largerly controlled and used more to the benefit of the class controlling the levers of decision-making power, it has a built-in mechanism for perpetuating group and regional inequality, in spite of the palliative regional policies adopted by the governments to reduce the hardship of the poor, without changing the system which breeds and sustains them. The budgetary policy, including deficit-financing, is not the exercise only confined to the government to meet its financial requirements. It is the outcome of scramble for increasing the relative shares by the pressure groups in the limited resources of the nation. It is the pressure exercise which is manifested through the government's fiscal measures. The internal and external loans have a built-in bias against the poor. The inflationary pressure, which is the outcome of the government's policy, is not neutral between groups and regions. It is more harsh towards the wage-earners, the unemployed and other weaker sections who do not stand to gain from price rises. Backward regions with low production opportunity, dependent on other manufacturing regions for meeting their requirements, are hit hard as they are at the receiving end of the price rise, without any opportunity to gain from it. Inflation favours traders, manufacturers, estate dealers, speculators and those controlling scarce resources and hits hard the deprived sections of society. Regional development implemented within such a framework of national policies and system tend to operate more in favour of the rich proprietory class and urban areas than the poor, rural and other backward areas. Specific development programmes to bring some economic benefits to target groups, no doubt, provide some relief to those groups, but the system and the basic policies which tend to breed poverty are not replaced. The replacement requires a change in the power structure behind the decision-making power at the national level.

Inequality in income and living conditions between groups and regions in most of the developing countries is on the increase, despite some significant developments which have taken place during the post-war years. India's case can be cited as an illustration. This is mostly due to the pattern of development planning divorced from spatial dimensions. The socio-economic problems are articulated at the local level and development programmes and policies have also become operative at that level. Most of the economic problems are area-specific and environments considerably determine the character of specificity. Planning at the sub-national level, formulated in an integrated manner, can be more effective in tackling those problems than national planning shaped on the basis of national averages. Problems relating to low income, consumption, unemployment, low productivity, environmental pollution, education, and health, though often generalised at the national level, are more specific to groups of people distributed in different regions. Therefore, sub-national planning is more effective for articulating regional problems and for seeking a regional solution. However, sub-national planning is neither divorced from national planning nor is it intended to work at a cross-purpose with it. It is complementary to national planning in assaulting poverty, and income disparity and is intended to operate as catalytic in triggering off development at various spatial levels, in a more co-ordinated and integrated manner. Sub-national planning is the operational instrument for bringing about co-ordination of economic and social activities, of policies, and programmes and government and private interests for making growth and equity uniform to all groups of people distributed in different areas.

The problems of national development demonstrate their diversity and specificity at sub-national levels. Their specific character and nature of solutions are more truly revealed at that level. However, the sub-national level does not signify a single spatial unit or a given spatial hierarchy. It can range from the lowest unit of settlement or village to that of groups of villages, blocks, regions, districts, states, inter-state regions, etc. The choice of a specific spatial design varies with national situations, administrative considerations, nature of problems and the functional role of different spatial units in an overall spatial system. However, whatever spatial design is adopted, hierarchy of space is determined on their functional role and administrative co-ordination among different spatial levels becomes important. Therefore, organisational framework must incorporate the administrative, political and technical elements required for development at the sub-national level.

Sub-national planning starts with the identification of the existing and potential needs and problems as visualised at local level. This is followed by a survey of resources, including man-power, and how best these can be used in meeting the local needs or solving local problems. However, this does not mean to always work for local self-sufficiency which is neither possible nor desirable. But the optimum use of resources is invariably aimed at by sub-national planning. Use of resources involves determining priority sectors. While determining such priority, maximum harmony is attempted between local needs and national objectives and targets.

Resource allocation at various spatial levels should take into account resource constraints and the minimum quantum needed for generating agglomeration economics with consequent human degradation. In other words, development at the sub-national level implies determination of the optimum size of development centres pertaining to different functional areas, promoting economic linkages on the basis of interdependent investment network and covering the entire spatial hierarchy. These are matters relating to details of designing of development programmes in an interdependent manner at various spatial levels. It is more of practical social engineering than a simple theoretical elucidation. Such exercises may vary from situation to situation, as the focus is human beings distributed in various environments. Any uniform pattern would tend to be out of realities.

Therefore, sub-national development planning requires the following:

(i) Identification of appropriate and manageable spatial units at various spatial levels in the hierarchy, depending on their functional role.

(ii) Identification of needs and problems as visualised at various spatial levels and determination of development priorities at the local level in maximum harmony with national priorities.

(iii) Planning for better use of local resources, including human resources, by means of detailed programming with the maximum participation of the local population.

(iv) Identification of constraints on using local resources and manpower and formulation of strategies, programmes and policies to overcome such constraints.

(v) Production participation of different groups of people, specially the target groups, in development planning, for which a proper production system with greater local orientation should be designed.

(vi) Physical sectoral targets at various levels of sub-national regions should be made compatible with national targets and objectives.

(vii) An effective 'bottom-up' decision-making and information-transmission process should be dovetailed with the present 'top-down' approach to adopt local developments to changing situations, ensuring maximum participation of the people in development process.

(viii) Disaggregation of data relating to demography—social, economic, spatial—should be collected and used as basis of formulating development policy.

(ix) A built-in mechanism for simultaneous evaluation of projects and programmes at the sub-nalional level should form an integral part of the planning process and mechanism. The object of planning at the regional level is to bring about an improvement in the living standard of the local people, promoting just sharing of the benefits of local development by ensuring the maximum use of local resources and productive participation of the local people. Constant evaluation of development projects at that level should be made to maintain their effective relevance with the objective. In case of divergence, adjustments should be made in the programmes.

As decision-making is important at the macro level, so it is at households, small communities, groups, villages or settlements because these are the places where labour force is reproduced, recreated and seeks to live in intimate interaction with one another, until and unless economic forces tend to disintegrate and induce them to move to higher spatial orders. It is at those levels that the standard of living and qualities of human existence should be improved, for which sub-national strategies emerge as important.

Sub-national planning does not confine to economic variables alone. Demographic and social factors are required to be meaningfully integrated to development planning. Strategies of development arising out of classical and neo-classical economic theories do not so much recognise the importance of population and social factors, because the objectives are limited to GNP maximisation through resource allocation. Population and social changes are regarded as an outcome of industrial changes. Migration in developed countries is associated with the qualitative change and vertical shift in labour force. But in low-income developing countries, the movement of population or migration is a symptom of under-development and economic and social disparities revealed on the space economy.

Demographic factor being an important component of an economy, its changes over a period of time should be taken into account in determining the strategy of development at national and more specifically at the sub-national levels. Population and development variables are inter-related. If population factors and human resources are not taken into account, development programmes will not only be inefficient but would also give rise to dangerous implications. The population flow from rural to urban centres is an important factor which tends to give rise to urban crisis. Population growth, rural-urban migration, characteristics of urbanisation and manpower utilisation, etc. are some of the aspects of the demographic component which should be accounted for while determining sub-national planning. Under different assumptions, different paths of development can be suggested. For instance, Indian case can be cited as an illustration.

1 If the 1951-71 trend in population change in India continues in the coming decade, there may be some minor improvement in the volume of migration, from rural agricultural to urban manufacturing sector. But there is no likelihood of any appreciable change in migration from rural agricultural to urban informal sector. It is estimated, on the basis of 1951-71 population trend, that unemployment would reach 70 million in 2001 and the jobless would be largely in rural areas. The total rural-urban migration during 1971-2001 would reach 89 million and the bulk of them would proliferate the labour force in urban informal sector, causing deepening of urban crises.

2 Another path of development is based on the assumption that

the birth rate would decline by half and urbanisation would accelerate and that the growth rate of national income would rise from the present rate of 3 per cent to 7 per cent. As many as 2,400 crore additional workers would enter the urban modern sector by 2001. Development on the basis of this assumption can be achieved by a high rate of industrialisation and high rate of growth. In the light of the demographic trend during 1971-81 and the economic performance during this period, such a line of development appears remote.

3 The most likely situation for India by the end of the century is that neither the rate of urbanisation nor the proportion of workers in various sectors would change significantly. The total population during 1971-2001 would be doubled and it would remain predominantly rural. Open unemployment would be around 145 million of whom 93 million would be in rural areas and the spillover of rural deprived lots to urban areas would continue dangerously.

The magnitude of the problem cannot be coped by the current trend and pattern of development. The situation is likely to assume explosive character, unless some radical measures are taken in regard to changes in the ownership of land, capital and industry production relations and the production system. A drastic reduction in the fertility rate, accompanied by radical land redistribution measures, cooperative or socialistic ownership of the vital means of production, drastic changes in the allocative pattern of resources, method of planning and other institutional changes are necessary. Such radical changes at the national level should be associated with some of the following measures:

(*i*) The problems in the developing countries, and especially that of India, are predominantly rural, even if rural areas are spilled over to urban areas. The approach should, therefore, be to develop rural areas directly so that the economic and social compulsions for inducing people to move to urban centres would be weakened and they would be able to find more of productive opportunities in their immediate environments with which they are familiar.

(*ii*) There exists a lot of untapped resources in the rural sector for increasing employment without reducing economic efficiency. A number of policy instruments, such as prices of output and inputs and taxes and subsidies, are important. In fixing prices, its allocative effects in other sectors should be taken into account. Similarly, tax-subsidy instruments should be applied where there is a discrepancy between public benefits and private benefits and private costs and social costs. For instance, subsidy should be given, if the adoption of a particular technique gives rise to more of public benefit than of private benefit. A tax should be imposed if a particular technology entails more social cost than private cost. Tax-subsidy instrument should also be effectively used for mitigating the conflicting objectives of employment and economic efficiency.

(iii) The choice of technique is of great importance for rural development. The twin goals of promoting employment and economic efficiency should be equally taken into account in determining technology in various areas of rural production. An increase in employment, if not associated by increase in real output, would not tend to improve the income level in rural areas. The functional basis of poverty would not be weakened unless employment-generating programmes are associated with increases in factory productivity. Therefore, a combination of both the criteria in a judicious mix is more effective for rural upliftment. If the use of labour-intensive technology is favoured, which is not associated with increased real output per labour unit, it would only perpetuate poverty. If agriculture is allowed to support more labour than what is necessary to maintain per unit labour income, it is not conducive to rural change. This, of course, does not justify displacement of labour from agriculture without planning for their absorption in alternative avenues of employment in areas closely connected with agriculture. Indiscriminate application of mechanisation often improves labour productivity in agriculture, but it tends to accelerate the increase of landless labour, accentuating greater polarisation in the rural sector. However, there are areas in the rural sector where both the goals of employment and economic efficiency can be simultaneously promoted. This is the most dependable and an effective instrument of rural change. For instance the promotion of infrastructure facilities, marketing opportunities, processing industries and other allied activities closely associated with agriculture and forestry, such as animal husbandry, poultry, fishing, etc, would be both employment-generating and efficiency-promoting. The government's policy and action in this regard should be directed to influence the producers to adopt improved technology and diversify their productive activities to keep them more fully employed. The generation of activities in those areas would also increase labour participation and tend to reduce to dependency ratio in rural households.

(iv) The potentiality of agriculture and industrial resources in all regions should be specifically assessed in a decentralised spatial framework and fully exploited. An appropriate production system in every region/area should be evolved which is capable of inviting maximum productive participation of the local people, using maximum local resources.

(v) Economic and social disparity between groups and regions should be deliberately reduced by purposeful policy changes. The terms of trade, which are now against rural producers and weaker sections both in rural and urban areas, should be reversed by changes in the fiscal policy, credit development pattern, government purchasing policy and priority in infrastructure development and other institutional changes.

(vi) Steps should be taken to ensure that no raw materials should leave the producing areas without the economic value being added to it.

(vii) Production and consumption balance at appropriate spatial levels (sub-national) should be worked out and striven for to a maximum extent. The theory of the export-led growth is of questionable relevance at the regional level in populous and low-income countries.

(viii) Inter-regional economic linkages should be fostered by an appropriate production system and technology which can pull all the regions together. The absence of economic linkages of mutually reinforcing character would tend to promote economic dualism and exploitative relationship, causing a drain effect from backward areas.

(ix) Often the growth-pole or development-pole strategy is advocated for promoting regional development. National development is viewed as an aggregation of regional development plans. This idea was originated with Francis Perroux who observed that growth does not spread uniformly among all sectors and regions. It is concentrated in certain sectors. When the growth of certain industries generates, spread effects to other industries by generating income and employment that industry is known as propulsive industry. A cluster of such industries is known as the growth pole. The strategy of promoting growth is urban-biased, and policy measures for promoting them is often accepted as a major instrument of regional development. However, the concept of the growth pole has its limitations and its operotional efficacy is questioned in third world situations with rural predominance. There is a distinction between geographic space and economic space which makes a vital difference to the operatianal efficacy of the growth-pole. The spread effects of the growth-pole may not permit the immediate neighbourhood in the absence of transmission lines, while the spread effects may travel and favourably affect the distant places, leaving the areas in between backward and stagnant. This happens when there are little economic linkages between the growth-pole area and the immediate neighbourhood. This is a case of promoting economic space, but not geographic space. The concept of the growth-pole has greater relevance in the industrial West than to the rural situations in developing countries.

(x) The roots of the problems of rural-urban poor in most of the developing countries, like India, are in rural areas. The urban problems are more of a spillover problem from rural areas in the immediate neighbourhood than an issue relating to urban renewals of infrastructure occasioned only by greater industrialisation. In countries like India, rural-urban problems connot be separated from each other, their interaction is of vital consideration in any regional development planning. Urban areas should, therefore, be viewed geographically as an integral part of a larger space, the development of which should get an integrated approach. Metropolitan development plans or master plans for urban development are more of an imitation of the Western approach in completely different situations. A proper understanding of rural-urban interaction in a specific national situation like India is a prerequisite for effective regional development and rural change.

(xi) The problem of developing countries, especially that of India, cannot be viewed in isolation from the world system of dependent relationship between the developed North and backward South. The dependency is manifested in terms of trade, financial system, power, technology and transmission of world crisis from the developed North to undeveloped South. When such dependency is required to be reduced by promoting import-substitution industrialisation as a strategy of development, it gives rise to rural-urban and formal-informal sector dualism in urban areas. The three types of dualism, such as North-South, rural-urban and formal-informal sector, are intertwined in a complex system, aggravating the problem for the poor and the unemployed. The problem may have different variations and manifestations in the context of national situations in regard to resource endowments, manpower, technology and trade pattern. However, whatever be the national variation in the basic problem of economic dualism, the remedy does not seem to lie in urban-biased industrialisation.

(xii) The problem of most of the developing countries, especially that of Asia and Africa, is one of poverty, malnutrition, hunger, unemployment, illiteracy and ill-health with all their cultural manifestations. Development in such a situation cannot be brought about by the strategy of GNP maximization. A rapid growth in terms of GNP at the national level would tend to coexist with increasing poverty and human degradation for the bulk of people, mostly interspersed in the countryside. The development process in such a situation should seek fuller utilisation of resources for the people and by the people through the expansion of employment opportunities and by increasing their economic efficiency. Most of the people are without physical means of production and the necessary skills to utilise resources for maintaining them at a higher level of income and standard of living.

The gravity of the problems is mass poverty on account of their deprivation from resources, means of production, skill and policy-making institutions. The problems are predominantly rural. The attack on the problems must permeat policy formulations at all levels, cutting across sectoral boundaries, backed by political strength and will to implement them. If the interest of the implementing authorities work at a cross-purpose with the mass of people, policy formulations would be distorted and the benefits would percolate to them rather than to those for whom the policies are proclaimed to have been formulated. The problem of the poor, whether rural or urban, needs an integrated approach for effectively changing their status of deprivation from resources, means of production, skill or technology. Unless their access to all these factors is ensured and sustained by policy and institutional support, more ad-hocism or relief approach to improve the lot of the poor would not change the functional and institutional basis which breeds poverty and sustains them in the system. In specific terms, it means accelerated, comprehensive agrarian reform which should conform to all segments of rural population. It should include not only land reform in a narrow sense like land ceiling and distribution of surplus, it should also include the access of rural people to inputs, services, credit, marketing, agro-industrial processing, rural industrialisation and equitable terms of trade between the rural producers and modern manufacturers. It involves an integrated approach to rural development, requiring multidisciplinary programmes which would coordinate economic, social, demographic, technological and administrative components at various spatial levels. A non-sectoral approach should be adopted by co-ordinating all development efforts at the local level. The focal point of all such exercises should be to improve the quality of human life, wherever it exists, by upgrading his productive participation and increasing his access to various welfare measures. The main obstacle to such an approach is the prevailing power structure, cutting across the political spectrum, which is at variance with the interests of the vast layers of the population. Therefore, a change in the power structure is an essential prerequisite of sub-national planning for an assault on poverty and human degradation.

# 10

# Regional Development Through Industrialisation—The Experience of Assam

BY

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REGIONAL diversity in economic development is a common feature of the underdeveloped countries, particularly which are large and heterogenous. Since World War II, there have been a lot of studies by economists of both the developed and the poor countries on the characteristics, problems and strategies of development of the economically backward countries as a whole. But in comparison, relatively little attention has been paid to the development problems of the backward regions within a backward country. The ideal of social justice can never be separated from the economic growth objective of poor nations. The concept of social justice has two implications—one, an egalitarian distribution of income and wealth and, the other, a balanced development of the various regions of the country. In respect of the second implication, the dispensation of social justice is possible if stronger forces of growth can be released in the backward areas so as to raise their relative level of development and thus to enable the people of these areas to enjoy a higher level of living. The backwardness of the regions is generally caused by the late start in the race of economic development, absence of socio-economic overheads, unfavourable location, etc. If special measures are not taken to raise their level of development, then, as a result of the operation of some secular disequalising forces, their relative backwardness will get further aggravated. The main strategy of generating growth stimuli in the backward areas is not only the building up of socio-economic infrastructure, which will produce the necessary external economics for accelerated development, but also to create a base of buoyant industrial sector which would generate the requisite growth impulses for cumulative development. Compared with other sectors, the industrial sector can play a more effective role in removing the regional imbalances in development.

In India, even before the start of the plan era, the dispersal of industries as a means of attaining balanced regional development was stressed in the Industrial Policy Resolution of the Government of India in 1948. One of the objectives of the Second Industrial Policy Resolution of April 1956 was the spatial diversion of industries. The Third Five-Year Plan specifically states: "Bold development of different parts of the country, extension of the benefits of economic programmes to the less-developed regions and widespread diffusion of industry are among the major aims of planned development."[1] According to the Fourth Plan, "the second important consideration in industrial planning is the desirability of dispersed industrial development."[2] Further, the Fifth Plan also stated clearly that "industrial development in backward areas is an important means of raising the level of income in these areas and in reducing the regional disparities in the level of development."[3]

With this brief discussion on the importance of the objective of balanced regional development and the role of the industrial sector in achieving the objective, we now make a critical study of the progress of industrial development in Assam which is one of the industrially very backward states of India. This study will be made with particular reference to the plan period from 1951 to approximately 1978. In the process, a comparison will be made between the industrial development of Assam and that of India as a whole and similar other industrially backward states.

On the eve of the plan era, Assam was at a very low state of industrialisation. During the British period, only a few segregated industries like tea, coal and petroleum were established by foreign capitalists to serve the interest of the colonial masters. The industrial progress made during this period produced little spread effects for a cumulative process of economic development. After independence, it was hoped that maximum efforts would be made to initiate a vigorous process of industrialisation in Assam as demanded by the potentialities existing in the state. Assam possesses immense resources—mineral, agricultural, forest, chemical, etc., which may serve as the basis for a process of rapid and high-level of industrialisation of the state.

Successive plans in Assam laid great emphasis on the necessity of the industrial development of the state. But the actual plan outlay so far made under this sector was too meagre to achieve a reasonably high level of industrial development in the state. The plan outlay for the industries sector and the relative priority accorded to to it under the successive plans of Assam are presented in the table below:

**Table 1**

**Plan outlay on Industries Sector in Assam**

(*in lakhs of Rs.*)

| *Plans* | *Large and medium industries* | *Village and small industries* | *Total industries* | *Plan Total* | *Percentage of (4) to (5)* |
|---|---|---|---|---|---|
| *(1)* | *(2)* | *(3)* | *(4)* | *(5)* | |
| First Plan | Nil | 9.64 | 9.64 | 2051 | 0.47 |
| Second Plan | 141.82 | 300.99 | 442.81 | 5448 | 8.13 |
| Third Plan | 411.86 | 373.59 | 790.45 | 13244 | 5.97 |
| Ad hoc Plans | 388.34 | 121.92 | 530.81 | 8551 | 6.20 |
| Fourth Plan | 1144.53 | 439.88 | 1693.49 | 19839 | 8.53 |
| Fifth Plan | 5760.00 | 1030.00 | 7000.00 | 55120 | 12.70 |
| All Plans | 7846.55 | 2281.02 | 10467.20 | 104253 | 10.04 |

*Source* : Relevant plan documents of Assam

As is evidenl in the above table, the industries sector was more or less a neglected one under the plans of Assam. The absolute amount of outlay for industries, no doubt, showed a rising trend over the successive plans, yet, in terms of proportion of total outlay, the position of the industries sector was quite low. While the total plan outlay in Assam as per cent of that in all-India was 1.0, 1.2, 1.5, 1.3, 1.3 and 1.5 under the First, the Second and Third, the Ad hoc, the Fourth and the Fifth Plan, respectively, the plan outlay for industries in Assam as per cent of that in all-India was only 0.1 under the First Plan, 0.4 under both the Second and the Third, 0.3 under the Ad hoc, 0.5 under the Fourth and 0.8 under the Fifth. These percentages are very insignificant considered by the ratio of population and also relative industrial and economic backwardness.

From a study of the proportion of contribution of the industries sector as a whole to the state income, we can know about the change in the relative importance of the industries sector in the economy. This can be used as an indirect measure of industrial development of the state. The manufacturing sector in Assam consists of processing of tea, factory establishments other than processing of tea and small enterprises. The table below gives the percentage of contributions by these sub-sectors to the state income in successive years.

**Table 2**

**Percentages of Contribution of Manufacturing Sector to State Income of Assam (based on 1948-49 prices)**

| *Head* | *1950-51* | *55-56* | *60-61* | *65-66* | *68-69* | *73-74* | *76-76* |
|---|---|---|---|---|---|---|---|
| Processing of tea | 5.7 | 5.0 | 4.6 | 4.2 | 4.2 | 4.9 | 4.6 |
| Factory establishments | 2.5 | 2.9 | 3.2 | 5.8 | 6.1 | 6.6 | 6.3 |
| Small enterprises | 6.8 | 7.8 | 8.5 | 7.4 | 7.7 | 6.3 | 6.0 |

*Source*: Estimates of State Income of Assam, Department of Economics and Statistics, Government of Assam, 1971 and 1978.

The above table shows that there was only a very slow change in the relative contribution of the industries sector or the generation of state income of Assam over the plan period. The ratio began to fall, though slightly, since 1973-74. The increase in this percentage of contribution was only 0.7 during the First Plan, 0.6 during the Second, 1.1 during the *ad hoc* plans. However, during the Fourth and Fifth Plan periods, there was a fall in this ratio by 0.2 and 0.9. Therefore, during the period between 1950-51 to 1976-77, the percentage of contribution of the industries sector increased only by 1.9. The percentage of contribution of tea-processing registered a progressive decrease up to 1965-66 and since remained more or less constant. There was a continuous rise in the relative contribution of the factory industries at the cost of small enterprises up to 1973-74 and after that their shares became almost equal.

Thus, during the long period under review, there was no significant increase in the share of the industries sector in the generation of income. From this, we can say that even after two-and-a-half decades of economic planning, Assam could not even reach the threshold of an industrial economy.

The whole constitution of factory industries in Assam lacks diversification. Tea-processing accounts for the major portion of the factory industries in Assam. Second in importance are miscellaneous food products, consisting of rice milling, flour milling, dal milling, edible oil milling, etc. Next in importance are the saw mills. Other varieties of industries are only few in number in comparison with these categories. The progress towards diversification of industrial structure in Assam was very slow over the plan period under review. This will be clear from the following table which gives the total number of registered factories and the number of factories belonging to the three main categories in the different representative years in the State.

**Table 3**
**Registered factories[a]: Total Number and Number relating to Main Categories**

| *Category* | *1951* | *1956* | *1961* | *1966* | *1969* | *1975* |
|---|---|---|---|---|---|---|
| Registered factories— total number | 911 (100) | 1002 (100) | 1172 (100) | 1506 (100) | 1598 (100) | 1715 (10) |
| 1 Tea processing | 590 (65) | 601 (60) | 596 (51) | 611 (41) | 589 37) | 577 (34) |
| 2 Miscellaneous food products | 174 (19) | 212 (21) | 293 (25) | 338 (22) | 382 (24) | 423 (25) |
| 3 Saw mills | 42 (5) | 77 (8) | 131 (11) | 203 (13) | 234 (17) | 299 (17) |

(*a*) Includes factories which employ 10 or more workers with power and 20 or more without power. Includes not-working factories also.

*N.B.*: Figures in brackets show percentages of the total.

*Sources*: 1951 to 1966 : 'Assam through the First Three Five-Year Plans', Deptt. of Economics & Statistics, Govt. of Assam, 1970, pp. 30-34.
1969 : Statistical Handbook, Assam 1971, Deptt. of Economics & Statistics, Government of Assam, pp. 56-58
1975 : Statistical Handbook, Assam, 1976, pp. 160-179

Thus the above table clearly shows the predominance of tea-processing, food products and saw mills which together form about 90 per cent of the total number of factories in Assam during the period from 1951 to 1961 and above 80 per cent during the period from 1966 to 1976. There was, no doubt, a progressive decline in the percentage of tea factories to the total number of registered factories from one plan period to another, but the percentages of the other two categories showed more or less an upward trend. As a result, in 1975, the terminal year of the plan period under review, these three categories together accounted for about threefourths of the registered factories in Assam. Thus, the number of new industries of other varieties, established during the plan period under study, was not sufficient enough to exercise a balancing effect upon the traditional unbalanced industrial structure of the State.

We will now assess the industrial growth of Assam in comparison with India as a whole and other industrially backward states during the periods of the successive plans under review. The assessment will be made on the basis of some recognised indicators of industrial development, such as productive capital per factory, employment per factory, output per factory and per capita income generation at the manufacturing level.

Taking the all-India average level of industrial development as the dividing line, we have taken eight states as relatively underdeveloped in respect of industrialisation. For our analysis, we have taken the period between 1955-56 to 1974-75. For demonstrating the changes in the relative position of the industrially backward states of the country during the period, we have used some of the recognised indicators of industrial development mentioned earlier. All these indicators have been given equal weight. In respect of each of the indicators, the states have been given suitable ranks according their respective values of the indicators. Then these individual rank scores have been totalled for each of these states. The relative level of industrial development of the states have been determined by the total rank scores—the state with the lowest rank scores is considered to have the highest relative position in industrialisation and their subsequent positions are determined as we ascend the score scale.

From the table 4, it can be seen, on the basis of total rank scores of the nine industrially backward states, that Assam showed the forest relative achievement in industrial development, as relative position was the lowest in both 1956 and 1975. On the other hand, states like Orissa and Madhya Pradesh could improve their relative position in the level of industrial development. Remarkably among these nine industrially backward States, Bihar occupies the highest place in both 1656 and 1975. Moreover, in the case of Andhra Pradesh, Punjab and Rajasthan, the relative position remained the same in both the years. But Kerala and Uttar Pradesh came down the scale during the period.

The number of industries so far established in Assam during the period of the successive plans was only very few in comparison with the number of prospective industries in the states based on mineral and chemical resources, forest agriculture, livestock resources, etc. There is a host of such potential industries which can be established

**Table 4**
**Indicators of the Relative Level of Industrial Development**

| India/States (1) | | Productive capital per factory (Rs. lakhs) (2) | Employment per factory (No.) (3) | Output per factory (Rs. lakhs) (4) | Per capita income generation in manufacturing (Rs.) (5) | Total rank score (6) |
|---|---|---|---|---|---|---|
| Andhra Pradesh | | | | | | |
| | 1956 | 4.0 (8) | 73 (8) | 7.4 (9) | 3.2 (5) | 30 (8) |
| | 1975 | 79.8 (7) | 306 (5) | 73.0 (8) | 20.9 (8) | 28 (8) |
| Assam | 1956 | 3.3 (9) | 64 (9) | 7.8 (8) | 1.7 (8) | 34 (9) |
| | 1975 | 71.7 (8) | 216 (9) | 31.6 (9) | 12.5 (9) | 53 (9) |
| Bihar | 1956 | 37.0 (1) | 358 (1) | 39.7 (1) | 12.8 (1) | 4 (1) |
| | 1975 | 183.4 (3) | 401 (2) | 157.2 (1) | 29.6 (3) | 9 (1) |
| Kerala | 1956 | 21.1 (2) | 233 (4) | 22.5 (3) | 3.9 (4) | 13 (3) |
| | 1975 | 61.6 (9) | 280 (6) | 60.5 (7) | 51.1 (1) | 23 (7) |
| Andhra Pradesh | | | | | | |
| | 1956 | 4.1 (7) | 103 (6) | 9.9 (5) | 1.2 (9) | 27 (7) |
| | 1975 | 134.0 (5) | 263 (7) | 87.1 (6) | 27.1 (4) | 22 (6) |
| Orissa | 1956 | 8.8 (5) | 122 (5) | 9.8 (6) | 2.5 (6) | 22 (5) |
| | 1975 | 357.8 (1) | 435 (1) | 90.5 (4) | 27.2 (5) | 11 (2) |

| (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|
| Punjab 1956 | 5.1 (6) | 89 (7) | 9.0 (7) | 5.7 (2) | 22 (5) |
| 1975 | 110.8 (6) | 192 (8) | 79.1 (5) | 50.1 (2) | 21 (5) |
| Rajasthan | | | | | |
| 1956 | 15.4 (4) | 248 (3) | 14.7 (4) | 1.8 (7) | 18 (4) |
| 1975 | 183.2 (2) | 541 (4) | 91.5 (3) | 21.6 (7) | 16 (4) |
| Uttar Pradesh | | | | | |
| 1956 | 15.5 (3) | 279 (2) | 24.8 (2) | 5.1 (3) | 10 (2) |
| 1975 | 158.0 (4) | 350 (3) | 97.7 (2) | 23.2 (6) | 15 (3) |

N.B.: The figures in brackets indicate ranks.
The figures of the table are our estimates on the basis of the absolute figures available.

Sources : 1956 : Eleventh Census of Indian Manufactures, 1956, CSO, pp. XV-XX
1975 : Statistical Handbook—Assam, 1980, Directorate of Economics and Statistics, pp. 382-83

in Assam based on her mineral, chemical and forest resources. Regarding the prospective industries based on agricultural and livestock resources, mention may be made of cotton textiles, silk industry, rayon-grade pulp, sugar, confectionary and biscuits, flour milling, rice milling and rice bran oil, fruit preservation and canning industry, tannery, glue and gelatine, etc.[4]

Considering these potentialities of industries in Assam, the progress so far made was very modest. Thus, in the field of mineral and chemical-based industries, mention may be made of the exploitation of oil resources of the Upper Assam by Oil India Ltd., establishment of two public sector refineries at Noonmati, Gauhati and Bongaigoan, petro-chemical complexes both at Namrup and Bongaigaon and also the Namrup Fertiliser Project, the Namrup Thermal Power Project based on the natural gas coming with crude oil and also a cement factory in Cherrapunji and Bokajan.

Regarding the agro-based industries, we can mention the establishment of only a spun-silk mill, a sugar factory, cotton spinning mills at Chandrapura and Charduar, a fruit preservation factory at Nowgong and a jute mill also at Nowgong.

In the case of the forest-based industries, besides a paper mill (Ashok Paper Mills) with a capacity of about 30,000 tonnes per annum, which has been set up at Jogighopa, only a few plywood factories, a hardboard plant at Gauhati and a jax board factory were established during the plan period.

The number of industries established during the plan period under review was quite inadequate not only from the point of view of potentialities but also from the fact that the installed capacity of the industries set up was not commensurate with the raw materials available in Assam and also with the internal requirement. We will mention a few prominent cases of such industries, e.g., sugar: the only sugar factory of Assam has the capacity of producing only 10,000 tonnes of sugar per year, as against the estimated present consumption of sugar in the state of about 90,000 tonnes per year,[5] thus only a small part of the requirement of sugar in the state is met by the internal production. On the basis of the present production of sugarcane in the state, and also the additional production expected as a result of the policy of boosting up sugarcane production, there is scope for more sugar factories in Assam.[5]

There is scope for more jute mills also in Assam, as thec apacity of the only jute mill established in Nowgong district is only 700 tonnes of hessian/sacking, whereas the firm demand for jute goods in Assam itself in estimated at 15,000 tonnes per year.[7] Moreover, the production of raw jute in Assam will, no doubt, be sufficient for more jute mills in the State. Thus in 1968-69, the state produced 779,000 bales of raw jute which constitutes about 26 per cent of the country's total production.[8]

In the same manner, we can say that in view of the resources available or likely to be available by extra efforts and also in view of internal requirements, there is scope for additional capacity of the existing units or more units for the production of cement, fertilisers, pulp and paper, cotton textiles, oil and rice milling, etc.

The role of the private sector in the establishment of industries during the period under review was only minimum, and far below the level of expectation. Thus it can be seen that, except the cotton spinning mill at Chandrapur and Charduar, fruit preservation factory at Nowgong, a few plywood factories and a hardboard plant at Gauhati, all the industries established were either in the public sector in the co-operative sector.

The relative role of the private sector in the establishment of industries in Assam can also be determined by the number of licences granted to the private parties under the Industrial (Development & Regulation) Act, 1951. Out of 73 licences issued during 1954-55, 21 were revoked and, except in the case of mining and metal-based industries, even half of the industries did not come up. Moreover, whatever licences were issued were utilised for obtaining raw materials and not for setting up industrial units in the state.[9] The position did not undergo a substantial change during the successive plan periods.

In this connection, we may also mention that N.C.A.E.R., in its "Techno-Economic Survey of Assam", recommended the setting up of a number industries of different types based on the varied resources of Assam mostly in the private sector during the 10 year period of 1961-71. It is of great interest to make an assessment of the progress in implementing this recommendation during the first 15 years of planning in Assam.

The N.C.A.E.R. gave a list of 39 candidate industries—5 in the agro-based group, 9 each in forest-based group and chemicals and 16 in mineral and metal-based group. As regards agro-based industries in the private sector, almost nothing was achieved except the issue of two licences for setting up cotton yarn mills and one for a fruit canning industry at Silchar. But the licences were not carried into fruition during the period under review.

In the case of forest-based industries, only one licence was issued in 1961 for the manufacture of rayon grade pulp.

Some measure of success, however, was achieved in the field of plywood and allied industries in which, apart from making expansion in one factory, a new one was set up in 1962 at Tinsukia.

So far as chemical and mineral-based industrics are concerned, the achievement was almost nil except one oxygen and acetylene unit set up in 1962 at Gauhati.

As regards metal-based industries, most of the recommended units were set up during the Third Plan.[10]

The relatively slow growth of factory industries over the plan period in Assam was caused by many factors—geographic, physical and human. Let us first discuss the human factor or, in general, the social traits of the local people. No doubt, Assam had a very good tradition of village and cottage industries especially weaving, sericulture and bell metal. However, this tradition of village and small industries did not help in the growth of modern industrial entrepreneurs in state because the importance of these manufactures in the economy of Assam was insignificant. Moreover, there was no special caste of artisans specialised in producing particular commodities and the handicrafts were practised as household industries and mainly for domestic use. This is also true for the manufacture of muga and eri cloth. Thus the tradition of household industry and their production mainly for home consumption and not for markets did not help in the development of local entrepreneurs who would have the necessary initiative, experience and resources for organising the industries on a large scale to cater to the needs of a wide market. Adequate amount of capital resouces required for large-scale enterprises cannot be derived from the traditional household industries of Assam.

Next, we may mention the geographical isolation of Assam which is cut off from the growth impulses being generated in other parts of the country, lack of local entrepreneurs, inadequate provision of economic infrastructure like transport and communication system, power, regular and adequate supply of industrial loans. with respect to the last factor, the "Survey of the Credit Needs of the Small Industrial Units in Gauhati," conducted under the Banking Commission in 1971, revealed a large credit gap even on the small-scale sector in the sample area. The role of institutional credit was not adequate and significant. There were complaints about the attitude of commercial banks and the procedural matters of loans from commercial banks. There was also difficulty in getting trade credit for purposes like buying raw materials which are mostly imported. In many cases, the small industrial units have had to pay a premium for such credit in the form of higher prices ranging from 1 per cent to 5 per cent and above. In regard to capital provision, initial capital was very of ten partly from own funds and partly from hire-purchase. Working capital was sometime arranged by borrowing from moneylenders who charged high rates of interest varying between 7 per cent to 10 per cent a month.[11]

Besides, there are other reasons for the tardy industrial growth in Assam like insignificant role of the private sector in the industrialisation of the state and inadequate amount of investment by the Central and State Governments in industries, specially in large industrial projects, which serve as a nucleus for integrated development of a region as a whole because of both forward and backward effects of a major project.

The fact that many of the industrially backward states like Orissa, Andhra Pradesh, Madhya Pradesh, Punjab and others could make relatively good progress in the industrial growth over the plan period was possible to a great extent by the huge amount of investment by the Central Government in some major industrial projects in such states. Thus, during the Second Plan period, most of the major Central sector industrial projects were set up in the industrially backward states, e.g. Rourkela steel and Fertiliser (Rs. 186 crores) in Orissa, Nangal fertilisers (Rs. 27.12 crores) in Punjab, Hindustan Shipyard and Hyderabad Tools (Rs. 10.55 crores) in Andhra Pradesh, iron and steel, machine tools and telephone Rs. 8.86 crores) in Mysore, Sindhri fertilisers (Rs. 8.40 crores) and Barauni Oil Refinery (Rs. 23 crores) in Bihar.[12] In the case of Assam, two industrial projects of modest size were included in the Second Plan—Namrup Fertilisers (Rs. 12 crores) and Noonmati Oil Refinery (Rs. 8.5 crores). These projects were carried over to the Third Plan also. Except these, no further investment by the Central Government was made either for the expansion of the existing projects or for new projects in Assam. The Third Plan made provision for a Central investment of Rs. 965.50 crores for new projects of which Assam did not get any share and it was mainly the underdeveloped areas in other states which were selected as sites of these Third Plan projects.[13] Under the Fourth Plan also, there was no new Central sector project for Assam although an amount of Rs. 3150.86 crores was earmaked for the Central sector industries.[14] In the Fifth Plan, out of the proposed total amount of investment of Rs. 7029.07 crores for Central sector industrial projects, only a sum of Rs. 15 crores was earmaked for the Bongaigoan Refinery.[15] Thus the Central Government, which by way of making heavy investment in many major industrial projects under the successive plans helped in accelerating the industrial growth of many a backward state, played an insignificant role in Assam in this respect.

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# 11

# Some Reflections on Policy for Balanced Regional Development*

BY

O.P. MAHAJAN

THE object of this study is to bring out some implications of the policy for economic growth with regional equalisation in the light of the conflict between the two objectives in the early stages of economic growth.

The studies of the process of economic growth in different countries show that development does not appear everywhere at the same time. When the process starts, some areas are favoured while others are neglected. Regions differ in regard to resource endowment. Generally, favourable geographical conditions, like proximity to minerals or sources of power or to agricultural land for specialised crops or to market, have mattered a good deal in giving some areas initial advantage over others. Some areas with unique resources advantage will, therefore, attract capital and enterprise and the process of development will be initiated.

The initially neglected regions may have very good prospects for development, but their rich resource endowments may remain undiscovered or unexploited for long owing to ignorance, or technological and transport bottlenecks, but it is inevitable in any growth process. As growth catches momentum, it becomes possible from the technological as well as economic point of view to bring more and more areas within its ambit. In this connection, the role of historico-political factors cannot be overemphasised. To quote Myrdal: "But within broad limits, the power of attraction today of a centre has its own origin, mainly in the historical accident that some thing was once started there, and not in a number of other

*This is a revised version of a paper 'Growth versus Balanced Regional Development: A Strategy for Reconciliation' read at the seminar on *Uttarakhand Environment*, organised at Garhwal University, March 25-27, 1982.

places where it would equally well or better have been started, and that the start met with success!"

Economic progress not only does not appear everywhere at the same time, but "once it has appeared, powerful forces make for a spatial concentration of economic growth around the initial starting growth"[2], even if the reasons for the initial start there are accidental. As a result of many well-known advantages, industrial projects located in the 'growth poles' tend to yield a higher return on investment. On the other hand, investment located in the backward regions tends to give lower yield. Thus, under the free play or market forces investments would tend to be concentrated in the regions which have already attained a reasonable level of development due to various economic, historical and political factors. If maximisation of the growth of the national product is the objective, the limited resources of an underdeveloped country will have to be devoted to high productivity sectors, and these sectors will have to be located in the regions where 'industrial atmosphere' has come into being. Therefore, Hirschman says "...international and inter-regional inequality of growth is an inevitable concomitant and condition of growth itself."

"Thus, in the geographical sense, growth is necessarily unbalanced."[3] Louis Lefeber writes in the same vein: "It is a paradoxical conclusion that for developing the retarded areas, the growth of the more advanced regions must be encouraged. If the latter is stifled because of insufficient investment on an uneconomical scale, surpluses will be insufficient and stagnant regions, which are unable to raise their own savings, must be doomed to an even longer period of waiting and poverty."[4] It follows that a conflict between economic growth and regional balance arises from the very nature of the growth process.

On the basis of the preceding arguments regional growth economists have put forth, the hypothesis that rising regional income disparities or increasing divergence is typical of the early stages of development, while reduction in differentials or regional convergence is typical of the more mature stages of national development.[5] On the basis of cross-section and time series data, Williamson has empirically proved that the relationship between national economic development and regional inequality is represented by the inverted.

Under classic assumptions, regional concentration that arises in the initial stages can persist as long as there is absence of national markets in labour, capital and goods. In due course, as the barriers to free flow of factors and trade among regions are removed, growth begins to be communicated to the less developed areas through the normal operation of the market forces. The trend towards divergence gets reversed first because the disequilibrating forces do not go on for ever under the *laissez-faire* conditions. Once the backwash effects have worked for some timé, strong economic forces are likely to emerge to reverse to weaken the cumulative process, which may be stopped altogether. Among the counteracting changes taking place in the growth centres may be mentioned the 'external diseconomies'—"Trees can never grow as high as heaven."

On the other hand, countervailing forces will stop the downward process in the backward regions after a time. Gradually, external economies will emerge and capital markets will develop in the backward regions. This will not only prevent the outflow of capital and enterprise from the backward regions but also induce entrepreneurs in advanced regions to see investment opportunities there, especially when they face declining investment opportunities in the developed regions. Secondly, and more importantly, market forces are not allowed to operate freely these days even in the economies known for their traditional belief in the *laissez-faire.* Public policy will play a dominant role in reversing the trends. They are also likely to be under strong political pressures to reduce regional inequality. Economic policy seeks to influence the relative rates of growth of different parts of the country through regulation of private investment, but mainly through the regional allocation of public investment. Theorising by Myrdal, Hirschman and Kuznets suggests that even internal factor flows may not work in the classical style to remove regional dualism; rather regional inequality will increase owing to the operation of a number of disequilibrating forces (the polarisation effects) in the initial stages. If things are left to themselves, it may take too long a period before the divergent trends get reversed. It is doubtful if the currently underdeveloped countries have sufficient reverses of patience to wait that long.

The present-day ideology that the object of economic development is to raise the living standards of the masses had no place in the early stages of the growth of the present advanced countries, owing to the absence of democracy or adult universal suffrage. The presently underdeveloped countries like India, on the other hand, are facing a gigantic task, since they have embarked upon economic planning to promote "growth with social justice", in pursuit of which the public sector is given control over the commanding heights. These countries are racing against time to meet the raising expectations of their teeming millions in world where the demonstration effect of the living standards in the advanced countries is very powerful. If income disparities, both interpersonal and inter-regional, continues to widen or even persist, the political stability and national cohesion there will be severely jeopardised. Thus, strong political pressure are built up to adopt corrective measures much before economic maturity is reached, and no government, much less a democratic one, can be indifferent to the demand that the benefits of growth should be equitably distributed among the various regions. Little wonder that these countries find it difficult to formulate and execute rational policies aimed at restraining consumption and ensuring optimum utilisation of the scarce investable funds. Decisions regarding public investment on social overheads and industrial enterprises are likely to be influenced by political factors. The problem assumes serious proportions in a vast country plagued by linguistic and cultural divisions. In pursuit of such equalitarian policies, national growth is likely to be certified through misguided investment. The danger of dissipation of investable funds through misguided investment is greater in the backward than in the developed regions, where the fields and priorities of investment are fairly well brought out by the process of growth.

India's recent experience of development planning for 'growth with social juctice' shows that the danger of misdirected investment is very much there. In the name of regional balance, strong political pressure is exerted for the location of large public sector projects—regarded as 'status symbols'—in one state rather than the other in utter disregard of the techno-economic consideration of the project and the need for rational utilisation of the regional resource potentials. Political maturity to rise above the parochial tendencies and populist policies is known to be lacking.

As a result of the egalitarian bias of Indian plans, a broad trend towards convergence[6] has been observed at an early stage, contrary to the Williamson hypothesis. It seems that public action under a system of economic planning, with an emphasis on regional balance, has gone some way in turning the divergent trends expected in a system of competitive behaviour into convergent ones we have witnessed in the economy even before the stage of economic maturity is reached. This seems to be in conformity with the recent experience of the socialist planned economies.[7]

It seems that two contrary forces have been operating in the Indian economy during the perspective planning period. The natural tendency towards increasing divergence characteristic of the early phases of development has been sought to be restrained by public action much before the stage of maturity was reached, because of greater consciousness of regional disparities and consequent political pressures to correct them. The simultaneous pursuit of the objectives which seem to be contradictory in the early phases has led to the slowing down of the pace of growth of many a relatively developed region/state without accelerating the tempo of development in most of the less developed regions/states, and the net result has been the emergence of a weak convergent trend which could not be sustained for long. The relative ranking of states in the per capita income has not undergone much change during the planning period.

The failure to reduce disparities in any significant measure is a reflection of the dilemma which arises in the present phase of development. "The question of social justice in the distribution of the fruits of economic development are as important and as difficult in terms of regions as in terms of social classes."[8] Whereas the goal of regional balance is as distant as ever, its pursuit at an early stage of development has involved a heavy cost to the economy in the form of loss of potential output on account of the diversion of resources, needed for essential investments on maintenance, replacement and expansion at the growth points, to the relatively backward areas and regions in the name of regional balance. This strategy of development seems to have further reinforced the factors operating in the economy to slow down its growth.

The basic shortcoming of the planning strategy in India has been that no serious attempt has been made to plan for regional development. Although a regional dimension has often been stressed in the five-year plans, regional planning has been mistakenly equated with state-level planning. Even here, no attempt has been made to prepare a carefully conceived design of development of states and their physiographical regions and sub-regions as an integral part of the national design of development. Little wonder, that the regional potential has remained unexplored, leading to the emergence of sub-optimal production patterns. The absence of a long-term perspective of regional development and the preferences for planning at the state level flow from the reliance of the planners on big aggregates, particularly in the easily measurable field of large industry, and the neglect of social and economic microcosms from the very beginning. Balanced regional development has been considered to be primarily a problem of regional dispersal of manufacturing industry in the same manner as economic development has been equated with the development of modern industry. The agriculture ector has not been regarded as the 'engine of growth'. Disproportionate attention to, and politicking for, the location of Central ndustrial projects, industrial licences and Central assistance by the state leadership stand in sharp contrast with half hearted efforts to remove the handicaps of resource-poor backward agriculture, dependent on uncertain rains. A superstructure of modern industry could not be built on a weak agricultural base. Under the conditions, regional disparities have continued to persist as usual, the pace of growth of the economy has been unsatisfactory and the twin problems of mass poverty and unemployment continue to baffle planners.

What progressive agriculture can do for the development of a state's economy in general, and reduction of disparities in particular, is best illustrated by the development experience of Punjab and Haryana in recent years, which have built strong economies without waiting for 'status symbols,' and despite handicaps in mineral and some other resources. As against these states, the performance of the industrially more advanced states has been unsatisfactory mainly due to lack of agricultural development. "India's experience since independence proves that neglect of agriculture is a recipe for slow industrialisation, not for rapid economic growth."

The central point of the strategy implicitly advocated in this work is that the development of the different units of an integrated economy must be based on the principle of comparative advantage, with each unit devoting its scarce resources of capital and skilled manpower to activities for which it is best fitted, instead of equating balance with dispersal of manufacturing industry and establishment of a few 'status symbols'. Not every state can develop heavy industry on account of the differences in techno-economic endowment, and establishment of a few heavy industries alone does not constitute industrialisation, nor is industrialisation synonymous with development. While the minerals required for the establishment of iron and steel, heavy chemicals, heavy engineering, foundry forges, etc., are concentrated in a few states only, there are immense potentialities of exploiting more rationally the agricultural, forest and marine wealth of the different regions either awaiting utilisation or being utilised in a sub-optimal way at present in every state. An effective beginning can be made with labour-intensive, but reasonably efficient industries, processing the agricultural produce and catering to the local needs, and socially useful sophisticated production patterns will emerge in due course as capital accumulates and advanced skills are acquired.

It seems that decisions regarding the allocation of resources and location of large investment projects have been generally the outcome of 'intuition and imagination of the planners and political bargaining'. Though an irrational approach from the point of view of 'optimal planning', it is generally considered to be natural and inevitable in a democracy—particularly in a federal set-up. Some economists have even argued that from a wider point of view 'sub-optimisation' may be more realistic and, indeed, more efficient than some narrowly defined, imagined 'optimisation.'[9]

Even in an advanced country, it will be difficult to evolve a policy of 'optimal' location that would weigh the advantages of wider regional dispersal and creation of external economies in the stagnating areas against the advantages of reaping external economies from areas that already have flourishing growing points, or weigh the benefits of exploiting existing markets against those of creating new ones or weigh the drawbacks of higher costs and waste from putting up plants in the stagnating places against the disadvantages of forming or strengthening enclaves of privilege. "Intuition and bargaining must go hand in hand."[10] More so in the less-developed countries, particularly in the early stages of development planning when lack of data and technical and administrative competence, apart from political will, make it impossible to have worthwhile studies on the crucial issues.

Even when due allowance is made for political compulsions for pursuit of populist policies, compromises and bargaining and it is conceded that the goal of 'optimal' planning in the strict sense of the term is impractical, there is little justification for seeking an alibi for not resisting policies declared by experts to involve sacrifice of development for dubious gains in social justice and regional balance. Any serious attempt to stem the rot must begin with a certain amount of subordination of the narrow sectional and regional interests to the larger interests of the nation and must involve a change in the established attitudes and institutions, economic, social and political. This evokes strong resistance from vested interests who dub it as anti-democratic and an encroachment upon the states' autonomy. The attempt has to be abandoned on account of the heat and dust raised since totalitarian methods are ruled out in Indian planning.

This brings us to the implications of 'democratic planning'. Reluctance of a democratic state to use coercion and its preference for negotiations and consensus for the achievement of social and economic ends is understandable. But there is nothing inherent in a democratic state to justify its behaviour as a 'soft state'—a state which is weak and vascillating in administration and develops cold feet in the face of the slightest opposition to its policies and programmes. Such softness has been the hallmark of the Indian democracy, a misconception arising from the lack of proper understanding of democratic processes and institutions. Democracy is not licence. Even advanced democratic welfare states do not regard the use of compulsion for enforcing social and economic obligations as a retreat from democracy.[11]

The strategy of regional development advocated above comes against serious snags embracing the whole gamut of what we understand by development in general.

What has stood, and is likely to stand, in the way of the adoption of this strategy is the blind imitation of Western concepts, goals, techniques and designs of development. Per capita income is no sure index of economic welfare, especially when both the GNP and mass poverty have been found to be increasing in the developing countries. Income is generated in the process of production of both basic and non-basic goods alike and it matters very little from the narrow point of view of growth of GNP whether resources are allocated to the production of the former or latter. But this view has to change if we are interested in genuine all-round development which is consistent with the welfare of the masses, reduction in poverty and glaring inequalities in the levels of consumption of the rich and the poor, urbanites and ruralites and similar socio-economic groups. Just a reduction in the coefficient of variations of per capita income or any other indicator would not do.

This conceptual change has very wide ramifications. It calls for a shift in investment priorities from the class-oriented to masses-oriented industrial structure, product-mix and technology. The widening disparities between the rich and the poor states or advanced and backward regions/areas are in no way more significant than the gulf separating the urban and the rural people, the awareness of which is fast assuming alarming proportions,[12] and it may overpower us sooner than we imagine. The writing on the wall is clear enough, despite the relative stability witnessed in the last three decades.

Apart from the social and political implications of the development strategy hitherto pursued, blind imitation of the Western styles of development has not only caused stupendous waste of scarce resources and misdirected investment to sustain the living styles of the elitist sections of the community, but has also tended to perpetuate poverty by preventing the flow of resources in the production of socially useful goods and services.[13] Worse still, it has sharpened the appetite of the masses who have begun to equate development with acquisition of articles of conspicuous consumption, non-availability of which is causing so much mental agony and frustration and is militating against honest labour. The dilemma facing the currently underdeveloped countries is that tigers having tested human flesh once have become man-eaters. In a situation fast developing thus, poverty is bound to be endemic since our nation, on reasonable calculations, simply cannot muster sufficient financial and physical resources to meet the basic needs of about 700 million people if articles of conspicuous consumption somehow continue to manage to get considerable emphasis. Even the Western countries are getting disillusioned with their styles of living, maintained for long by colonial exploitation in one form or another. The costs of such thoughtless growth are fast becoming prohibitive even there. The far-sighted among the planners, statesmen, bureaucrats and educationists have sufficient appreciations of the red signals around and preach the virtues of austerity, indigenous styles and Gandhian ideology but the people in general have, both in thought and action, turned their back on Mahatma Gandhi. Those who can afford forego no opportunity of display and luxury consumption. In this situation there is general scorn of simple living and production patterns, which are dubbed as smacking of primitive outlook and, therefore, condemned as meriting no serious consideration.

Little wonder that the ever-increasing dependence on foreign aid has made a mockery of the objective of self-reliance. Contradictions arising out of divergence between precept and practice have remained subdued due to massive doses of foreign aid doled out to us. We cannot reasonably expect other countries to bale us out for ever. The earlier we cry a halt to such a strategy, the better it is.

We have not spelled out what should be meant by evolving a concept and pattern of development in keeping with our genius, value system and resource potential. But the crux of the question is how to effectively carry out this approach to development in an open and free society in the face of strong internal and external pressures to the contrary.

In a totalitarian economy like that of the USSR or China, there is no difficulty since demand and private profit motive do not guide productive activity and consumers have to accept what is produced by the state-owned units. State controls all investment decisions and hence the composition of national physical product. So austerity can be imposed on people, the elite and the masses alike. In the pre-World War II Japan under a capitalist but totalitarian set-up, a similar discipline was imposed and it led to the phenomenal growth of the country. In the countries of Europe and North America, in their transformation period, consumerism had not emerged yet and the prevailing value system permitted single-minded attention to accumulation. Archetype capitalist of Marx was no mere fiction. The currently underdeveloped countries are at a great disadvantage in this respect due to deep inroads of the demonstration effect of the Western living styles and production patterns. In India, e.g., no serious attention was paid in the planning period to educate the people on the imperative need of austerity. Often, there has been double talk. In fact, no amount of government regulation and control under any system of mixed economy can induce the desired changes and stem the rot. So the existing trends are most unlikely to be reversed under any marked oriented, democratic system. And the alternative of a regimented economy is a 'totalitarian nightmare', totally unacceptable under the present value system obtaining in the country. So persistent efforts to persuade the people to accept voluntary restraint on conspicuous consumption, public and private, are called for. Is it too much to expect that the democratic system would throw up a dedicated leadership at different levels to steer the economy clear of the existing predicament through example rather than preaching and ensure a fair rate of modernisation without bringing in its trail all the costs that have gone with it under the free market system or the weak type of planning practised in India?

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# 12

# Poverty of the People and Backwardness of the Region—Some Related Issues

BY

J.G. KUNTE

THE term 'poverty' has been subjected to examination in terms of concept and computation so as to be able to analyse the staggering problem in terms of its nature and magnitude. Eradication of poverty, having been accepted as an avowed objective of developmental planning effort, the concept and computation became increasingly relevant for policy planners. 'Poverty line' became an accepted part of the jargon and lifting the people above the 'poverty line' became an objective of socio-economic policy as also an accepted measure of the success or otherwise of the policies and programmes. Cut-off points in terms of calorie intake minima and correspondingly in terms of minimum per capita incomes for rural and urban areas were also worked out.

A distinguished working group set up by the Government of India in July, 1962, tried to fix the 'poverty line'; Dr. V.M. Dandekar and N. Rath have given a comprehensive analysis in 1971 (*Poverty in India*) dealing with the problem, not only in terms of concept and computation but also examining wider issues and crucial policy implications directed towards poverty-alleviation programmes. There have been some other attempts at analysis and computation of the problem.

The achievement of high-growth rates has been the objective of development planning. We bothered about the size of the cake mainly hoping that distributive justice would eventually take care of itself in the process. In the context of the problem of poverty, an equitable distribution of the gains of development becomes of crucial importance for the quality of life for the poor. The emphasis naturally had to shift to growth with social and distributive justice.

Besides the inter-class disparities, regional disparities pose a complex and formidable problem in the dynamics of development. Poverty of the people and backwardness of the regions become the twin problems, equally complex, both in terms of independent and isolated view, as also in terms of interdependence and related aspects. The estimation of poverty by a standard measuring yardstick involves limitations when we come to the problem of regional disparities; in order to get a correct and dependable feel and perception of regional disparities and to recognise the problems of growth and socio-economic development with social and distributive justice, it becomes imperative to develop a more sophisticated methodology in terms of appropriate development indices. Attempts at methodological sophistication include devices like developing quality of life index, adjusting all-India poverty line in terms of some relevant regional factors, and moving from the concept of per capita to that of per household.

Even at the macro-level there was a shift from the objective of maximising the growth rate to multi-objective approach in terms of alleviation of poverty, generation of employment opportunities and, on the social justice front, in terms of special programmes directed towards the uplift of socially underprivileged and vulnerable classes through a target-group approach. The Scheduled Castes, Scheduled Tribes, weaker sections of society, women and children welfare, small and marginal farmers, etc., would be some illustrative examples of target-group specific approach.

A significant development over the years has been 'decentralised planning' at the regional, district and lower levels like blocks. This added a crucial spatial and area-specific dimension in multi-level planning.

Coming to the regional and local levels, one at once gets confronted, apart from methodological issues governing spatial planning, with the inadequacy of the data base—both reliable and comprehensive—and the absence of appropriate reporting system. It becomes necessary, therefore, to fill up the data gaps at the regional and local levels in the secondary data sources and to organise collection of relevant primary data, wherever necessary.

Regional planners and geographers attempted exercises in micro-level spatial planning. Some pioneering work in the field of integrated area development approach was done at the National Institute of Community Development (now National Institute of Rural Development) in terms of identifying the rural growth centres. I was associated with the N.I.C.D. between 1970 to 1974 and saw the work done by the institute in the field of integrated area development. Starting with a taluka in the beginning (Miryaluda Taluka of Nalgonda district in Andhra Pradesh), the inter-disciplinary exercise was extended to the preparation of some district plans (Raichur district in Karnataka). The detailed sophisticated exercise done in a few typological cases should be helpful in arriving at a less time-consuming and a more pragmatic method to be able to look at a specified area in terms of its developmental potential as well as requirements. The functionaries concerned with policy planning and policy implementation are required to be associated with the integrated area development approach. District planning particularly has come to be accepted as an appropriate and pragmatic planning unit. There has to be an inventory of the resources, including human resources, and an assessment of needs, potentials, etc., to formulate a district plan which would harmonise the balance between a resource-based and a need-based district plan. It is also imperative that a well-built integrated plan has to be worked out and it would not just suffice to loosely put together the different sectoral plans with their area content of the district in a loose fashion, as is sometimes sought to be done. There has to be a balanced and integrated approach, harmonising the resource base and need base with the further exercise of dovetailing the spatial and the sectoral approach. Planning from below and disaggregation of funds from above, say from the State to the district level, have to be pragmatically built into an integrated scheme.

Another consideration of great relevance is the problem of devolution of funds to various districts in a scheme of decentralised planning as has been adopted in Maharashtra, Gujarat, Karnataka and Uttar Pradesh and as contemplated in Bihar. A preliminary exercise has been initiated by Kerala also in this direction. The devolution is out of the State devisible pool for which an objective and scientific basis has to be adopted. The States mentioned above, where such scheme has been implemented, have worked out initially different indices of socio-economic development of different districts and then worked out a composite index by attaching certain accepted weights to the different crucial indicators of development.

The need for monitoring is increasingly realised in the context of regional disparities. The data base at the regional and local levels has to be properly organised. The materials available with various organisations have to be properly collected and collated and development indicators for gauging socio-economic development scientifically worked out for a meaningful comparison. The various regions and sub-regions have both a techno-economic as well as a socio-cultural identity of their own. Besides the statistical computations that give an idea of inter-regional disparities, there has to be an integrated 'feel' or 'perception' of the dynamics of development with the need to identify imbalances and inadequacies, which would, in turn, suggest a corrective action. If one could take an analogy from the medical jargon, while various indicators of health or of possible ailment-like measures of B.P. regarding the circulatory system, various pathological and radiological investigations and tests may be there as a help to diagnose, there has to be the 'feel of the pulse' to know the bodily functioning in totality. Similarly, various socio-economic development indicators have to be supplemented by what has come to be called 'Development Monitoring Service' through 'socio-economic observatory' (Ref. United Nations Research Institute for Social Development UNRISD—Case study on India by N.T. Mathew—quoted by Dr. K.V. Sundaram, deputy adviser, Multi-Level Planning, in his paper submitted for Naini Tal conference of April 1982). The idea seems to be to minitor intra-state disparities through a few clusters of typologies of localities.

In a multi-objective developmental planning through various specific programmes directed towards the target groups as also area-specific programmes, it is necessary to have indicators that would measure 'deprivation' of people or area in terms of the accepted minimal norms, say under a programme like the Minimum Needs Programme. Such 'deprivation' monitoring would help timely corrective action for alleviation in that particular regard.

Whether it is in terms of the 'people' or the 'region', some of the major issues resolve ultimately under poverty, employment profile and unemployment, inequality, imbalances in development, etc. Various area-specific and target-group specific programmes have been in operation like the Integrated Rural Development Programme, Minimum Needs Programme, National Rural Employment Programme, Employment Guarantee Scheme, Tribal Sub-Plan and Special Component Plan for S.C.s—to name a few directed towards such achievements and correctives. The New 20-Point Programme has very pragmatically identified the need of the hour, culling out priority action items that cover a wide gamut of the crucial aspects of socio-economic development. There is a critical need for a proper and purposeful scheme of monitoring the implementation of the policies and programmes by the concerned administrative departments; a number of programmes concern more than one administrative department and agency and, in this context, a proper scheme of administrative coordination assumes special significance. Mere proliferation of agencies at various levels will not help unless there is a purposeful co-ordination.

Besides monitoring by the concerned administrative departments, there has to be a scientific and objective evaluation through an appropiate and independent evaluation organisation. There has to be an interdisciplinary approach to scientifically design and conduct the evaluation studies in a purposeful manner. Quick evaluation studies and concurrent evaluation may serve as periodic correctives to on-going programmes. The Programme Evaluation Organisation of the Planning Commission and State evaluation organisations can have more significant areas of coordination and recently some joint evaluation studies were also undertaken. Training in the sophisticated and scientific evaluation techniques is also of crucial importance.

The focus has recently been sharpened on special organisational, administrative and financial structures for the development of backward areas. The problems of tribal areas, hill areas and other special typologies as also special target groups like the Scheduled Castes, the Scheduled Tribes, women and child welfare, etc. are receiving particular attention. While in spatial terms this calls for more geospecific set of information, in respect of special target groups, more specialised and sensitive set of additional indicators become necessary to monitor the programmes.

Project appraisal poses a significant problem as various factors like income distribution, employment generation, etc. have to be assigned suitable weights. In the context of developing backward regions, some care is necessary to ensure that the social benefit aspect is not overemphasised. There could be a shelf of projects which would be viable otherwise also. However, taking into consideration the special problems and requirements of backward areas or selected target-group beneficiaries, there could be cases and constraints in terms of overriding socio-economic considerations, where a conscious decision may have to be taken in terms of these, while strict techno-economic considerations of viability may not justify in terms of cost-benefit analysis. The extension of service like power supply to some interior backward areas or for some target-group beneficiaries may provide an example in point.

The National Committee on the Development of Backward Areas, which had gone into the subject in depth, has suggested a separate unit in the Planning Board (or whichever agency is responsible for plan formulation) to minitor and analyse variations in the levels of development in different regions in the State; this would also act as the nodal point for integrating the backward areas plans in the State plans.

A methodology has to be evolved to have a set of indicators for socio-economic development for meaningful comparisons and monitoring and to supplement these by constant observations, analysis and interpretation of significant facts collected, which would serve to indicate corrective actions for setting right the imbalances.

A State of the size and complexity of Bihar has a number of areas which are quite varied and diverse in terms of significant factors like density of population, man-land ratio, land tenure patterns and land-holding patterns, agricultural production and productivity, industrial infrastructure and development, etc. Even with a vast endowment for mineral and other resources and a sizable public investment, the State continues to be lagging behind in comparison to some advanced States, in terms of certain critical indicators like the people below the poverty line, financial resources and the like. In this context, it is worthwhile to pose the issue as to whether and how far economic growth has a tendency automatically to trickle down to the poor as used to be propagated and whether development of a region necessarily means betterment of the status of the poor. Bihar has diverse areas, different not only in techno-economic details and profile but also in terms of socio-cultural ethos of different people at sub-regional levels. Unlike Maharashtra, with the advantage of a commercial and industrial centre like Bombay, Bihar has quite some constraints in augmenting fiscal resources, which otherwise should have been due to the State. There are constraints of the drain on the State exchequer as a result of vast flood devastation and the resultant requirements of expenditure on rescue and relief operations. The State is currently witnessing a peculiar phenomenon of coexistence of floods in some areas with drought in some others. An inter-state comparison of credit-deposit ratio indicates a situation not quite favourable to this State's development efforts. Inter-state comparisons in terms of some other significant indicators also, like poverty percentage, per capita plan outlay, per capita central assistance, per capita income etc. point to the critical compulsions for doing something special, eventually to bring us on a par or nearabout the position of comparatively advanced states. There is thus a very strong case for a better deal to this State (Appendix—A).

Within the State, the inter-district disparities have been sought to be identified through a few basic indicators—indicators like percentage of the Scheduled Castes and the Scheduled Ttribes, villages electrified, percentage of labour force, percentage of small and marginal farmers to total farmers, percentage of the net area irrigated to net area sown and the like (see Appendix—B). However, this exercise has to be done in a more comprehensive and sophisticated way in terms of a further set of indicators.

## APPENDIX—A

**Inter-State Imbalances—Basic Data**

| State | *Per capita income at current prices (Rs.) (1977-78)* | *Per capita plan outlay (Rs.) (Sixth Plan)* | *Per capita tax yield* (Rs.) (1977-78)* | *Per capita Central assistance (Rs.) (1981-82)* | *Percentage of population to all-India (1981)* | *Literacy percentage (1981)* | *Poverty percentage (1977-78)* | *Road length (1975) (Kms.)* | *Average No. of factory workers ('000) (1978)* | *Yield rate (foodgrains kgs./hect. (1978-79)* |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| Andhra Pradesh | 1008 | 613.65 | 104.56 | 32.56 | 7.81 | 29.94 | 42.18 | 95,968 | 394 | 1094 |
| Assam | 992 | 563.13 | 67.47 | 78.56 | 2.91 | — | 51.10 | 24,206 | — | 942 |
| Bihar | 757 | 481.34 | 62.10 | 36.19 | 10.21 | 26.01 | 57.49 | 94,032 | 336 | 977 |
| Gujarat | 1602 | 1135.80 | 135.74 | 31.93 | 4.97 | 43.75 | 39.04 | 74,717 | 527 | 979 |
| Jammu & Kashmir | 1150 | 1551.72 | 82.60 | 301.48 | 0.87 | — | 34.06 | N.A. | N.A. | N.A. |

APPENDIX A (*contd.*)

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|---|---|---|---|---|---|---|---|---|---|---|
| Kerala | 1166 | 607.84 | 114.80 | 43.63 | 3.71 | 69.17 | 46.95 | 78,113 | N.A. | 1484 |
| Madhya Pradesh | 973 | 732.18 | 79.70 | 41.64 | 7.62 | 27.82 | 57.73 | 88,706 | N.A. | 646 |
| Maharashtra | 1643 | 1032.60 | 154.59 | 31.69 | 9.17 | 47.47 | 47.71 | 110,680 | 1069 | 711 |
| Karnataka | 1231 | 647.14 | 117.26 | 28.49 | 5.52 | 38.31 | 48.34 | 97,955 | 344 | 1063 |
| Orissa | 993 | 563.91 | 60.05 | 54.61 | 3.84 | 34.12 | 66.40 | 47,994 | N.A. | 859 |
| Punjab | 2259 | 1738.60 | 182.45 | 37.34 | 2.44 | 40.74 | 15.13 | 21,100 | N.A. | 2447 |
| Rajasthan | 1144 | 621.16 | 82.81 | 44.82 | 4.98 | 24.05 | 33.76 | 47,114 | N.A. | 629 |
| Tamil Nadu | 1190 | 674.52 | 109.47 | 26.26 | 7.06 | 45.78 | 52.12 | 107,283 | 499 | 1544 |
| Uttar Pradesh | 869 | 563.04 | 75.71 | 39.88 | 16.01 | 27.38 | 50.09 | 116,935 | 473 | 1160 |
| West Bengal | 1284 | 747.35 | 94.04 | 31.65 | 7.97 | 40.88 | 52.54 | 117,938 | 870 | 1317 |

*Inclusive of share in Central tax.

*Source*: Prepared by the Perspective Planning Division of the Bihar State Planning Board, Patna.

## APPENDIX—B

### Inter-District Imbalances—Basic Data

| | *Percentage of S.Cs. population* | *Percentage of S.Ts. population* | *Percentage of village electrified* | *Percentage of labourers to total population* | *Percentage of small & marginal farmers to total farmers* | *Percentage of net area irrigated to net area shown* | *Yield rate (Kgs./hect)* Winter rice | Autumn maize | Wheat | *Crop Intensity* |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| Patna | 15.3 | — | 75.9 | 10.2 | 0.83 | 57.7 | 1,408 | 1,053 | 1,224 | 1.42 |
| Nalanda | 20.2 | — | 80.4 | 14.5 | 0.81 | 51.5 | 1,185 | 1,843 | 1,413 | 1.53 |
| Gaya | 25.3 | — | 48.0 | 12.4 | 0.84 | 68.9 | 781 | 1,361 | 1,055 | 1.33 |
| Nawada | 24.6 | — | 51.5 | 11.8 | 0.84 | 85.5 | 739 | 1,149 | 1,402 | 1.32 |
| Aurangabad | 22.5 | — | 39.2 | 11.4 | 0.72 | 76.5 | 1,020 | 931 | 949 | 1.31 |
| Bhojpur | 14.3 | 0.3 | 28.5 | 11.6 | 0.80 | 74.0 | 1,272 | 1,029 | 1,213 | 1.51 |
| Rohtas | 19.0 | 1.7 | 42.4 | 12.1 | 0.72 | 72.6 | 1,319 | 1,245 | 1,221 | 1.47 |
| Saran | 11.0 | — | 31.0 | 8.4 | 0.86 | 51.5 | 874 | 979 | 1,615 | 1.49 |
| Siwan | 10.9 | — | 20.2 | 7.9 | 0.83 | 52.4 | 704 | 937 | 1,322 | 1.48 |
| Gopalganj | 12.1 | — | 20.0 | 10.8 | 0.83 | 56.8 | 822 | 396 | 1,489 | 1.83 |
| Champaran East | 13.5 | — | 27.0 | 17.5 | 0.82 | 44.8 | 715 | 851 | 1,247 | 1.28 |
| Champaran West | 15.1 | 1.4 | 22.4 | 19.5 | 0.77 | 31.3 | 1,017 | 1,065 | 1,327 | 1.51 |

APPENDIX B (*contd.*)

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|---|---|---|---|---|---|---|---|---|---|---|
| Muzaffarpur | 16.1 | — | 34.9 | 14.1 | 0.81 | 24.2 | 842 | 655 | 1,150 | 1.40 |
| Vaishali | 19.1 | — | 34.0 | 9.7 | 0.88 | 24.3 | 728 | 618 | 939 | 1.44 |
| Sitamarhi | 12.6 | — | 31.0 | 16.7 | 0.82 | 19.5 | 653 | 785 | 1,133 | 1.47 |
| Darbhanga | 13.8 | — | 18.7 | 14.2 | 0.85 | 23.3 | 652 | 1,123 | 1,569 | 1.35 |
| Madhubani | 12.6 | — | 24.9 | 15.7 | 0.85 | 13.0 | 890 | 1,123 | 1,218 | 1.36 |
| Samastipur | 18.1 | — | 2.87 | 14.0 | 0.87 | 33.0 | 1,237 | 1,241 | 1,224 | 1.38 |
| Begusarai | 13.8 | — | 39.2 | 15.0 | 0.87 | 30.0 | 682 | 1,039 | 1,680 | 1.43 |
| Munger | 16.2 | 2.0 | 24.7 | 13.6 | 0.85 | 42.1 | 853 | 614 | 1,171 | 1.38 |
| Bhagalpur | 10.8 | 3.6 | 14.8 | 14.9 | 0.76 | 48.6 | 1,095 | 1,064 | 1,160 | 1.36 |
| Santhal Pargana | 7.2 | 36.2 | 5.7 | 8.3 | 0.64 | 7.5 | 1,073 | 190 | 1,222 | 1.10 |
| Saharsa | 16.7 | 0.4 | 20.5 | 17.1 | 0.76 | 34.7 | 897 | 835 | 975 | 1.50 |
| Purnea | 12.2 | 3.0 | 6.9 | 14.7 | 0.71 | 11.1 | 767 | 1,308 | 1,275 | 1.47 |
| Katihar | 9.2 | 6.4 | 8.1 | 14.1 | 0.81 | 11.6 | 718 | 711 | 1,195 | 1.40 |
| Hazaribagh | 11.9 | 8.7 | 11.4 | 7.1 | 0.70 | 7.3 | 838 | 759 | 1,245 | 1.17 |
| Giridih | 12.3 | 13.8 | 7.0 | 6.2 | 0.72 | 7.1 | 1,054 | 719 | 1,573 | 1.08 |
| Ranchi | 4.8 | 58.1 | 11.8 | 4.0 | 0.70 | 7.3 | 967 | 1,279 | 1,814 | 1.11 |
| Dhanbad | 15.2 | 4.0 | 20.8 | 6.0 | 0.58 | 7.6 | 1,225 | 778 | 1,431 | 1.28 |
| Palamau | 25.4 | 19.1 | 15.3 | 13.0 | 0.66 | 23.6 | — | 605 | 1,430 | 1.18 |
| Singhbhum | 3.6 | 46.1 | 3.9 | 9.2 | 0.66 | 5.4 | 931 | 1,051 | 1,337 | 1.10 |

*Source*: Prepared by the Perspective Planning Division of the Bihar State Planning Board, Patna.

# 13

# Study of Inter-District Variation in the Levels of Development in North Bihar

BY

S. P. SINHA

BIHAR is the second largest state of India, with North Bihar having an area of about 20,000 Sq. miles. The B. D. Pandey Committee report (1969) declared Palamau, Saharsa, Purnea, Santhal Parganas, Darbhanga, Muzaffarpur, Saran, Champaran and Bhagalpur as backward districts. Except Palamau and Santhal Parganas, all districts belong to the region known as North Bihar. In the present study of regional imbalances in North Bihar, three sub-regions based on watersheds have been identified as Bagmati, Gandak and Kosi sub-regions.

The index of inter-sub-regional variation in relation to each indicator for each sub-region has been calculated with the help of the following formula, which has already been used in a similar type of study made by the Programme Evaluation Organisation of the Planning Commission.*

$$I=\sqrt{\frac{\frac{n(R_i-S)^2}{n}}{S}}$$

Where: $I$=Index of inter-sub-regional variation
$R_i$=Value of the indicator for a district
$n$=No. of districts in a sub-region
$S$=Value of the indicator for the sub-region

If the value of the index ranges below 0.1, variations have been taken as not so marked and significant. Conversely, variations have been taken as well-marked and significant if the value of the index

*Regional Variation in Social Development and Levels of Living*, Vol.I, Government of India, Planning Commission, 1967, p. 7.

is more than 0.1. The higher the value of the index, the more pronounced is the imbalance.

Recently, the old districts in Bihar have been reorganised for administrative and development purposes. As the economy grows, certain districts, where the potential for growth can be realised more quickly, grow more rapidly than others. The growth in inter-district disparities has been felt to be a problem that requires special attention in the planning process. This concern calls for firm decisions on resource-use in the strategy of agricultural development and in the programme for industrial locations.

An a tempt has been made here to indicate the rank of each district in the North Bihar region with the help of value-index of certain selected indicators to show the present level of inter-district disparity in development (Tables 1-3). The districts have been selected as the smallest unit for this analysis. This is perhaps a debatable, inadequate choice, as the districts are not homogeneous units. Some districts may be highly developed in relation to others and averaging the figures for the heterogeneous districts may conceal more than it may reveal. Yet, in the present circumstances, this may be taken as the simplest method to indicate the variations between one district and the other. The selection of the indicators has been mostly determined by the availability of data. The following indicators have been chosen for estimating the value-index and for ranking the districts. They are rural density, literacy, net area sown, area sown more than once, total working population, distribution of the working population, different industries and sectors and the infrastructure. For determining the rank of a district in respect of an indicator, the district value of that indicator over the base of North Bihar average for that value has been indexed. Thereafter, the rank is given in descending order of the value-index, i.e., value index of the maximum value is given the first rank and the value-index with minimum value the last. A comparison between the district's rank and the rank for North Bihar is made to indicate the advancement or backwardness of a district as compared to others.

With respect to rural density, East Champaran, West Champaran, Purnea, Katihar and Saharsa indicate a lower density as compared to the North Bihar average while West Champaran shows the lowest value-index of rural density (64.83), Begusarai the highest (140.04). Again, with respect to literacy, these districts indicate a lower value index than the average for North Bihar.' Gopalganj is added to this list. In respect of literacy, while West Champaran indicates the lowest value index (82.35), Saran indicates the highest (129.41). As regards the net area sown and the area sown more than once, the districts with less than average (North Bihar) value-index are West Champaran, Darbhanga, Samastipur, Purnea, Katihar, Saharsa; and West Champaran, Muzaffarpur, Darbhanga, Samastipur, Madhubani, Begusarai, respectively. The highest value-index with respect to the net area sown is indicated by East Champaran (120.87) and with respect to the area sown more than once by Saran (152.11); while the lowest value-index is indicated for West Champaran (85.19) and East Champaran (58.51), respectively. Thus, in respect of land utilisation of Saran, Gopalganj, Saharsa and Vaishali seem to be better off as compared to others.

As regards the total working population, only East Champaran, West Champaran, Purnea, Sitamarhi, Katihar and Saharsa show higher value-index as compared to the North Bihar average. With respect to livestock, only Purnea, Katihar and Saharsa indicate value-index higher than the average. Similarly, in respect of household industries, Saran, Vaishali, Darbhanga, Samastipur, Madhubani, Begusarai and Katihar indicate the higher value-index as compared to the North Bihar average. In this respect, the highest (147.37) value-index is reported from Vaishali and the lowest (68.42) from Saharsa. As regards manufacturing and processing, Saran, Siwan, Gopalganj, West Champaran, Muzaffarpur, Darbhanga, Samastipur, Begusarai and Katihar indicate higher value-index as compared to the North Bihar average. Except Begusarai which has an oil refinery, in all these districts sugar factories are located. As such, the highest value-index (173.33) is reported from Begusarai and lowest from Saharsa (40.00), where no industries worth the name are located at all.

Infrastructural facilities available in a district may be taken as an index of the general advancement of the economic condition and improvement in the facilities provided to the people. In this context, hospitals, posts and telegraphs, schools, roads and drinking water facilities and electricity are taken to indicate the level of infrastructural facilities. In these respects, most of the districts of North Bihar indicate lower value-index as compared to the North Bihar average. Even where the value-index is higher, there is an indication of only a marginal improvement in these facilities. The very poor level of infrastructural facilities has been responsible for the poverty and backwardness in most of the districts of North Bihar.

On the whole, the ranking of the districts indicates that Begusarai (1), Katihar (2), Samastipur (3), Darbhanga (4), Saran (5), Muzaffarpur (6) and Vaishali (7), Sitamarhi (8), Siwan (9) are better off; whereas Gopalganj (16), East Champaran (15), Madhubani (14), Purnea (13), West Champaran (12) and Saharsa (11) seem to be worst placed as regards the different indicators are concerned. The North Bihar region as a whole ranks No. 10.

The practice of plan preparation has, generally, been in the form of macro-sectoral plan for Bihar and the allocation of fund to different sectors of the economy has been without any authentic assessment of the requirements of different sectors in different districts/areas of the State. Though in 1969, the Planning Commission had issued guidelines to States for the preparation of district plans which was supposed to form the base of the State Plan, no concrete steps were taken in this respect. Only sporadic efforts were made in this direction as an immediate effect of the guidelines but, later on, at the time of the preparation of State Plan, the old practice was adopted and is being continued even today. In pronouncements, the lower-level planning or the micro-level planning has been accepted, but in practice, the State plan has remained as a macro-level sectoral plan. Spatial aspects do not find proper place in plans due to the lack of proper planning and, as a result, the socio-economic conditions have not improved even after such huge investments during different plan periods on different sectors of the economy. Therefore, it is suggested that a separate sub-plan must be prepared for the North Bihar region which would form a part of the total State plan. The sub-plan must be an assimilation of the district plans and the district plans must be prepared after intensive assessment of the socio-economic problems, requirements of the different sectors and sections, suitability of different sectors in enhancing productivity, employment and income in the area, maintaining equity and distributive justice. Only with such a plan made a part of the sub-plan for the region which, in turn, would form a part of the State plan, can one expect a legitimate revolution in the field of development of the region, sub-regions and the districts of the region.

The findings of this study indicate that Gopalganj, East Champaran, Madhubani, Purnea, West Champaran and Saharsa are worst placed as regards different indicators of development and need special treatment in planning and resource endowment. On the sub-regional basis, Bagmati and Kosi sub-regions indicate greater constrains in development and greater poverty and exploitation; as such, there is valid ground for making specific programmes for the eradication of poverty and removal of exploitation of labour in these two sub-regions.

However, for an action programme, a district may seem to be too large an area for planning and development. A block as an administrative unit is the smallest area that can handle an action programme for providing additional income and employment. The overall macro-plan of the State may need adjustment and amendment in the light of the local imperatives.

**Table 1**

**Ranking of Districts with Respect to Important Indicators**

| *Districts* | *LAND UTILISATION* | | | | | |
|---|---|---|---|---|---|---|
| | *Rural Density* | | *Literacy* | | *Net area sown* | |
| | *Value index* | *Rank* | *Value index* | *Rank* | *Value index* | *Rank* |
| Saran | 127.33 | 6 | 129.41 | 1 | 102.68 | 7 |
| Siwan | 135.38 | 3 | 107.65 | 7 | 114.88 | 2 |
| Gopalganj | 113.98 | 9 | 93.71 | 11 | 111.39 | 4 |
| East Champaran | 93.01 | 12 | 84.12 | 14 | 120.87 | 1 |
| West Champaran | 64.83 | 16 | 82.35 | 16 | 85.19 | 16 |
| Muzaffarpur | 120.13 | 8 | 108.24 | 6 | 113.23 | 3 |
| Vaishali | 136.02 | 2 | 114.71 | 2 | 103.56 | 6 |
| Sitamarhi | 123.09 | 7 | 84.12 | 14 | 110.73 | 5 |
| Darbhanga | 128.81 | 5 | 110.00 | 4 | 90.29 | 13 |
| Samastipur | 131.36 | 4 | 108.82 | 5 | 98.39 | 11 |
| Madhubani | 111.23 | 10 | 100 00 | 8 | 100.62 | 9 |
| Begusarai | 140.04 | 1 | 111.76 | 3 | 102.47 | 8 |
| Purnea | 70.97 | 15 | 90.00 | 13 | 93.78 | 12 |
| Katihar | 74.79 | 14 | 98.24 | 10 | 89.88 | 14 |
| Saharsa | 81.99 | 13 | 91.10 | 12 | 89.32 | 15 |
| North Bihar | 100.00 | 11 | 100.C0 | 8 | 100.00 | 10 |

*Contd.*

| *Districts* | *Area sown more than once* | | *Total working population* | | *Cultivators* | |
|---|---|---|---|---|---|---|
| | *Value index* | *Rank* | *Value index* | *Rank* | *Value index* | *Rank* |
| Saran | 152.11 | 1 | 81.73 | 16 | 124.28 | 3 |
| Siwan | 110.60 | 7 | 83.01 | 15 | 135.30 | 1 |
| Gopalganj | 121.55 | 2 | 94.23 | 12 | 130.53 | 2 |
| East Champaran | 58.51 | 16 | 104.81 | 4 | 89.90 | 12 |
| West Champaran | 114.68 | 5 | 113.46 | 1 | 80.77 | 16 |
| Muzaffarpur | 88.01 | 13 | 95.51 | 10 | 91.83 | 11 |
| Vaishali | 116.05 | 4 | 86.22 | 14 | 121.39 | 4 |
| Sitamarhi | 112.65 | 6 | 100.32 | 6 | 89.66 | 13 |
| Darbhanga | 66.49 | 15 | 93.27 | 13 | 85.58 | 14 |
| Samastipur | 92.21 | 12 | 94.55 | 11 | 93.75 | 9 |
| Madhubani | 70.69 | 14 | 97.44 | 8 | 93.03 | 10 |
| Begusarai | 93.41 | 11 | 96.47 | 9 | 82.21 | 15 |
| Purnea | 102.47 | 8 | 107.05 | 4 | 104.81 | 5 |
| Katihar | 100.70 | 9 | 104.81 | 3 | 96.15 | 8 |
| Saharsa | 118.94 | 3 | 113.14 | 2 | 101.44 | 6 |
| North Bihar | 100.00 | 10 | 100.00 | 7 | 100.00 | 7 |

**Table 2**

| *Districts* | *WORKERS ENGAGED IN* | | | | | |
|---|---|---|---|---|---|---|
| | *Agricultural labour* | | *Livestock* | | *Household industry* | |
| | *Value index* | *Rank* | *Value index* | *Rank* | *Value index* | *Rank* |
| Saran | 71.49 | 15 | 27.27 | 14 | 105.26 | 6 |
| Siwan | 66.31 | 16 | 27.27 | 14 | 94.74 | 10 |
| Gopalganj | 79.70 | 13 | 18.18 | 16 | 73.68 | 15 |
| East Champaran | 115.77 | 2 | 27.27 | 14 | 78.95 | 14 |
| West Champaran | 119.01 | 1 | 81.82 | 5 | 94.74 | 10 |
| Muzaffarpur | 102.16 | 9 | 54.55 | 9 | 94.74 | 10 |
| Vaishali | 78.40 | 14 | 54.55 | 9 | 147.37 | 1 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Sitamarhi | 115.33 | 3 | 45.45 | 11 | 89.47 | 12 |
| Darbhanga | 105.62 | 6 | 63.64 | 7 | 121.05 | 3 |
| Samastipur | 102.59 | 8 | 63.64 | 7 | 115.79 | 4 |
| Madhubani | 111.88 | 4 | 63.64 | 7 | 110.53 | 5 |
| Begusarai | 106.70 | 5 | 45.45 | 11 | 142.11 | 2 |
| Purnea | 94.82 | 11 | 227.27 | 2 | 89.47 | 12 |
| Katihar | 93.09 | 12 | 263.64 | 1 | 105.26 | 6 |
| Saharsa | 104.32 | 7 | 136.36 | 3 | 68.42 | 16 |
| North Bihar | 100.00 | 10 | 100.00 | 4 | 100.00 | 8 |

*Contd.*

| *Districts* | *Manufacturing & processing* | | *Construction* | | *Trade and commerce* | |
|---|---|---|---|---|---|---|
| | *Value index* | *Rank* | *Value index* | *Rank* | *Value index* | *Rank* |
| Saran | 166.67 | 2 | 100.00 | 9 | 114.81 | 6 |
| Siwan | 166.67 | 2 | 100.00 | 9 | 107.41 | 8 |
| Gopalganj | 113.33 | 7 | 66.67 | 14 | 59.26 | 16 |
| East Champaran | 80.00 | 12 | 66.67 | 14 | 70.37 | 14 |
| West Champaran | 113.33 | 7 | 200.00 | 1 | 92.59 | 11 |
| Muzaffarpur | 113.33 | 7 | 166.67 | 2 | 122.22 | 4 |
| Vaishali | 86.67 | 11 | 100.00 | 8 | 111.11 | 7 |
| Sitamarhi | 60.00 | 14 | 66.67 | 3 | 81.48 | 12 |
| Darbhanga | 126.67 | 4 | 133.33 | 14 | 129.63 | 2 |
| Samastipur | 113.33 | 7 | 66.67 | 14 | 107.41 | 8 |
| Madhubani | 60.00 | 14 | 66.67 | 14 | 62.96 | 15 |
| Begusarai | 173.33 | 1 | 133.33 | 4 | 133.33 | 1 |
| Purnea | 66.67 | 13 | 133.33 | 4 | 118.52 | 5 |
| Katihar | 120.00 | 5 | 133.33 | 4 | 129.63 | 2 |
| Saharsa | 40.00 | 16 | 133.33 | 4 | 74.07 | 13 |
| North Bihar | 100.00 | 10 | 100.00 | 9 | 100.00 | 10 |

**Table 3**

| *Districts* | *INFRASTRUCTURE* | | | | | |
|---|---|---|---|---|---|---|
| | *Transport & storage* | | *Hospitals* | | *Posts and Telegraphs* | |
| | *Value index* | *Rank* | *Value index* | *Rank* | *Value index* | *Rank* |
| Saran | 177.08 | 3 | 91.32 | 11 | 89.84 | 10 |
| Siwan | 93.75 | 8 | 94.93 | 9 | 90.56 | 9 |
| Gopalganj | 41.67 | 15 | 56.48 | 16 | 52.71 | 16 |
| East Champaran | 52.08 | 13 | 138.33 | 2 | 147.91 | 3 |
| West Champaran | 72.92 | 10 | 83.88 | 13 | 79.40 | 12 |
| Muzaffarpur | 135.42 | 6 | 82.30 | 14 | 88.27 | 11 |
| Vaishali | 93.75 | 8 | 72.04 | 15 | 73.03 | 13 |
| Sitamarhi | 52.08 | 13 | 110.03 | 6 | 123.69 | 5 |
| Darbhanga | 145.83 | 5 | 108.79 | 7 | 117.81 | 7 |
| Samastipur | 166.67 | 4 | 121.65 | 4 | 141.76 | 4 |
| Madhubani | 52.08 | 13 | 138.11 | 3 | 166.16 | 1 |
| Begusarai | 218.75 | 2 | 112.40 | 5 | 121.83 | 6 |
| Purnea | 62.50 | 11 | 89.06 | 12 | 68.06 | 14 |
| Katihar | 250.00 | 1 | 91.88 | 10 | 62.59 | 15 |
| Saharsa | 41.67 | 15 | 153.21 | 1 | 155.22 | 2 |
| North Bihar | 100.00 | 7 | 100 00 | 8 | 100.00 | 8 |

*Contd.*

| *Districts* | *School* | | *Roads* | | *Drinking water facilities* | | *Electricity* | |
|---|---|---|---|---|---|---|---|---|
| | *Value index* | *Rank* | *Value index* | *Rank* | *Value index* | *Rank* | *Value index* | *Rank* |
| Saran | 103.91 | 7 | 88.31 | 13 | 103.00 | 1 | 114.84 | 5 |
| Siwan | 97.29 | 9 | 105.41 | 4 | 99.65 | 10 | 78.77 | 10 |
| Gopalganj | 79.82 | 15 | 99.85 | 11 | 98.37 | 14 | 60.90 | 13 |
| East Champaran | 117.60 | 5 | 103.93 | 7 | 99.55 | 11 | 91.64 | 9 |
| West Champaran | 94.96 | 11 | 94.01 | 12 | 98.52 | 13 | 67.62 | 12 |
| Muzaffarpur | 87.97 | 12 | 86.68 | 14 | 100.93 | 5 | 166.15 | 4 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Vaishali | 82.62 | 13 | 85.69 | 15 | 97.09 | 15 | 209.18 | 2 |
| Sitamarhi | 121.44 | 4 | 113.27 | 3 | 101.97 | 2 | 94.92 | 7 |
| Darbhanga | 109.00 | 6 | 83.18 | 16 | 101.02 | 4 | 78.20 | 11 |
| Samastipur | 136.29 | 1 | 103.53 | 8 | 98.98 | 12 | 196.64 | 3 |
| Madhubani | 126.68 | 2 | 104.28 | 5 | 98.80 | 9 | 92.46 | 8 |
| Begusarai | 96.86 | 10 | 101.78 | 9 | 96.30 | 16 | 270.00 | 1 |
| Purnea | 80.59 | 14 | 114.25 | 2 | 101.70 | 3 | 17.05 | 16 |
| Katihar | 78.26 | 16 | 128.39 | 1 | 99.91 | 8 | 40.33 | 15 |
| Saharsa | 124.04 | 3 | 104.00 | 6 | 100.07 | 6 | 45.90 | 14 |
| North Bihar | 100.00 | 8 | 100.00 | 10 | 100.00 | 7 | 100.00 | 6 |

# 14

# Problems of Regional Development in a Developing Economy with Reference to India

BY

B. THAKUR

IMMEDIATELY after Independence, India was faced with, among so many problems, an acute type of mass poverty and economic stagnation due to a century of colonial exploitation, World War II and partition of the country. Launching of the First Five-Year Plan on April 1, 1951, was, therefore, free India's first humble attempt at reconstruction of her economy with a view to initiating a process of development which might form the basis of subsequent bigger attempts at rapid all-round development.

So far we have completed five five-year plans and a few annual plans and we are now in the third year of the Sixth Plan (1980-85).

During this period of 30 years of planned development of the country, Bihar has also made considerable progress. A summary of sectoral achievements during this period is given below:

| *Heads of development* | *1950-51* | *1977-78* |
|---|---|---|
| Food production | 41.70 lakh tonnes | 97.79 lakh tonnes |
| Gross irrigated area | 22.64 lakh hectares | 41.40 lakh hectares |
| Installed power generating capacity | 245.56 Mw | 1,935.27 Mw |
| Number of villages electrified | 10 | 18,695 |
| Per capita consumption of power | 19.80 Kwh | 93.19 Kwh |

| | | |
|---|---|---|
| Length of surfaced roads | 4,800 kilometres | 23,133 Kms |
| Contribution of industries to State domestic product | 8.87 per cent | 13.22% (in 1975-76) |
| Enrolment in primary schools | 14.6 lakhs | 56 lakhs |
| Number of beds in hospitals | 4,256 | 20,000 |
| Beds per lakh population | 10 | 27 (in 1976-77) |
| Doctor-population ratio | 1:8300 | 1:4660 |
| Total of State income at 1960-61 prices | 749.15 crores | 1476.70 crores |
| Per capita income at 1960-61 prices | 186.98 | 240.45 (1975-76) |

In absolute terms, the achievements seem quite impressive in almost every sector. The progress is significant and it can be inferred that Bihar is well on the path of rapid all-round development. But on a close scrutiny of these figures and a few others, the real picture becomes somewhat disturbing.

Bihar's share in the gross national product in 1950-51 was 8.21 per cent which declined to 6.67 per cent in 1975-76. The annual increase in per capita income in Bihar during the period 1950-51 to 1975-76 has been 1.06 per cent against the all-India average of 1.55 per cent. Similarly, the per capita income in Bihar in 1975-76 was Rs. 240.45 against the national average of Rs. 368.05 on the basis of 1960-61 prices. The percentage of people below the poverty line has increased from slightly less than 50 per cent in 1964-65 to 57.49 per cent in 1977-78.[1] The urban population of the State is 12.46 per cent of its total population against all-India average of 23.73 per cent according to 1981 census.[2] The per capita consumption of electricity in the State in 1977-78 was 93.19 Kwh against the national average of 115 Kwh in the same year. The length of surfaced roads in the State in 1977-78 per lakh of population worked out to 41 kilometres and unsurfaced roads 95 kms against the national average of 90 and 132 kilometres, respectively. In 1971, only 19.9 per cent of the State population was literate against the all-India average of 29.5 per cent. The number of beds per lakh of population in the State in 1976-77 was 27 against 51 for the country.

The per capita income of the State which was 26 per cent below the national average in 1950-51 went further down to 35 per cent in 1975-76.

These facts clearly reveal that Bihar is trailing behind in many vital respects in the race of planned development in the country. The picture becomes all the more glaring if we compare our achievements with those of other states and an attempt to this effect has been made by Mr. R. A. Desbpande, Deputy Director, Statistics, which is given below.[3]

Comparative index numbers of key indicators of economic development of various states in India during the year given below (all-India—100)

| | *Andhra Pradesh* | *Bihar* | *Gujarat* | *Madhya Pradesh* | *Maha-rashtra* | *Uttar Pra-desh* | *Tamil Nadu* |
|---|---|---|---|---|---|---|---|
| Per capita income during 1972-73 | 74 | 57 | 86 | 85 | 127 | 77 | 102 |
| Percentage of urban population to total population in 1971 | 97 | 50 | 141 | 82 | 157 | 70 | 152 |
| Daily factory employment per 1,000 population in 1973 | 80 | 55 | 186 | 57 | 217 | 51 | 191 |
| Percentage share in total food-grains production in 1970-71 | 126 | 147 | 57 | 184 | 86 | 291 | 121 |
| Percentage of irrigated area to cropped area during 1970-71 | 136 | 106 | 56 | 32 | 37 | 155 | 198 |
| Electricity consumption per capita in 1973-74 | 62 | 70 | 158 | 70 | 174 | 59 | 139 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Motor vehicles per 10,000 population in 1972-73 | 64 | 46 | 170 | 67 | 219 | 61 | 113 |
| Surfaced road length per 100 km during 1973-74 | 105 | 114 | 78 | 57 | 105 | 86 | 281 |
| Hospital beds per 10,000 population 1973-74 | 114 | 59 | 72 | 59 | 131 | 62 | 97 |
| Percentage of children in primary schools in 1973-74 | 90 | 74 | 105 | 77 | 106 | 119 | 130 |

The figures reveal considerable difference in the rates of sectoral development in different States. While Maharashtra, Tamil Nadu, Andhra Pradesh and Gujarat have gone far ahead of several States in India, Bihar has been left behind in this race of development. This has resulted in growing regional imbalances. These imbalances are of two types:

(*a*) Imbalances between different regions (States) in the country, and

(*b*) imbalances between different regions/(districts) within the State.

Only the first type of regional imbalances is studied here.

The first and perhaps the most important cause of growing regional imbalances is the legacy of the colonial rule and our economic and developmental policies immediately after Independence. On the eve of Independence, different States of this vast country had not achieved the same level of development. The port town States like Bengal, Madras, Maharashtra and Gujarat were developed in most respects than other States of the country. These States were not only developed commercially but they also had most of the industries located in and around their port town. Modern financial institutions and expertise for industrial development were more developed in these States than others. The working of the plans in the early years only aggravated the situation.

Though our objectives in the first two plans were increased production and more equitable distribution, we were, in fact, more interested in quick results and as such the greatest emphasis was on completion of the projects already started and starting such projects which could be completed within a short period, so that the then prevailing stagnation in the country could be broken and a start could be initiated for rapid development. Development outlays were fixed according to the capacities of different states to spend and achieve physical targets. Naturally, the developed states got more favourable treatment than others. The imbalances which were already there became deep-rooted during this period and in spite of our attempts at correcting or preventing the growth of regional imbalances during the Third Plan, imbalances continued growing and perhaps will not be reversed in the near future which becomes amply clear from the figures of plan outlays for different states during the Sixth Plan (1980-85).[4]

The second important cause of growing imbalances is the differences in natural and created endowments in different states. As much as 96 per cent of North Bihar's and 85 to 86 per cent of South Bihar's population reside in rural areas and is directly or indirectly connected with agriculture and allied pursuits. Due to the poor performance in irrigation and power sectors, the Green Revolution in Bihar has not turned as green as in the Punjab, Haryana, Tamil Nadu and parts of Uttar Pradesh. Barring a few small pockets, the agriculture has remained almost as backward as before. Our dependence on monsoon has not declined and the recurrence of drought and floods has rendered the agricultural production most unstable. And yet our agriculture contributed more than 54 per cent of Bihar's total income in 1975-76 at 1960-61 prices with the result that the State's per capita income was the lowest in 1972-73.[5]

Bihar's population in 1971 constituted 10.3 per cent of the total population of the country. But its area of 1.74 lakh square kilometres constitutes only 5.3 per cent of the country's total area. In 1976-77, only 48.18 per cent of its total area was under cultivation, giving the net area cultivated per capita as 0·15 acres against the national average of 0.26 acres. As half of the area of the State consists of hills and plateaus, extension of the area under cultivation is not possible. In fact, the net area under cultivation may show a declining trend due to more and more cultivable area being put to uses other than cultivation (roads, canals, water reservoirs, aerodromes, public institutions, homestead land, etc.) Agricultural development in Bihar, therefore, means converting one-crop lands into two to three-crop lands by assured irrigation facilities throughout the year.

With the bleak prospects of any substantial employment in the secondary and tertiary sectors, the rising population has remained apparently engaged in agriculture and allied pursuits. Our backward agriculture has combined with rising pressure of population on it for creating a vicious circle which, unless broken soon, will continue to retard development of the State.

The third cause of our retarded growth is the low level of per capita plan outlay, inadequacy of Central assistance, inadequate flow of institutional finances, insignificant share of the State in the total market borrowings for the country.

The following reveals the low per capita plan outlay and Central assistance in Bihar vis-a-vis all States':

| *Plan Period* | *Per capita plan outlay (Rs.)* | | *Per capita Central assistance (Rs.)* | |
|---|---|---|---|---|
| | *Bihar* | *All-India* | *Bihar* | *All-India* |
| First Plan | 19 | 39 | 5 | 24 |
| Second Plan | 42 | 51 | 19 | 26 |
| Third Plan | 71 | 97 | 44 | 55 |
| Fourth Plan | 97 | 128 | 57 | 99 |
| Fifth Plan | 230 | 337 | 37 | 58 |

The figures reveal that instead of giving more Central assistance to boost up the low per capita plan outlay in Bihar, the Central assistance was far less than the average of other States taken together. It is due to these factors that Bihar has kept trailing behind the race of economic development in the country.

Bihar has not obtained its due share of funds available with the various institutional agencies. The increase in advances by commercial banks has not been commensurate with the increase in deposits. The credit-deposit ratio in June 1976 was only 43.5 per cent for Bihar against 76.8 per cent for the country. Similarly, in matters of market borrowings Bihar's share was only 5 per cent during the Fourth Plan though its population was 10.3 per cent of the country. The per capita borrowing for Bihar was Rs. 11.4, being the lowest for all the States.

While the low rates of market borrowings and credit-deposit ratio may be regarded as one of the causes of the lower rate of economic development in Bihar, this may also mean the inherent weakness of the economy of the State for no lender would like to lend to bad borrowers or to such borrowers who have no capacity to make productive use of the borrowed funds. How callous we can be with public funds—borrowed or budgetary surpluses—is amply revealed by mounting losses in the Bihar State Electricity Board and the State Road Transport Corporation and our inability so far in bringing any marked improvement in the situation.

Bihar is perhaps the richest State in the mineral wealth of the country. In 1950-51, its share of mineral production in the country was 41 per cent which declined to 29 per cent in 1976. This decline has occurred not because the exploitation of minerals in the State has gone down in absoulte terms (in fact, it has gone up considerably) but because due to intensive Geological Survey of the country, more mineral deposits have been located and the exploitation started in other States and as such the share of Bihar is bound to go down. Now this, in itself, is not unusual. What is most distressing in this regard is that in spite of having such a strong mineral base industrial development in the State has remained almost neglected. Barring a few large-scale industries started by the Centre in Bihar and the Tata Iron and Steel Co. at Jamshedpur, the State has made very poor investment in industrial development. The following figures reveal the situation:

Outlay and expenditure for industry and mining up to the Fifth Plan in Bihar (figures are in lakhs and those in brackets are the percentage of the total):

| | *Outlay* | *Expenditure* |
|---|---|---|
| First Plan | 136.30 | 130.80 |
| | (2.01) | (1.42) |
| Second Plan | 1,166.68 | 847.40 |
| | (6.13) | (4.76) |
| Third Plan | 1,403.00 | 1,053.03 |
| | (4.16) | (3.20) |
| Annual Plans | 742.63 | 621.89 |
| | (3.55) | (2.73) |
| Fourth Plan | 1,752.00 | 1,739.00 |
| | (3.29) | (3.58) |
| Fifth Plan | 5,588.25 | 3,578.82 |
| | (4.31) | (3.92) |

Not only the outlay for the development of this sector has been extremely low at roughly less than 5 per cent compared to 16 to 20 per cent in industrially developed states but also the actual expenditure has constantly remained far less than the plan outlay. Only recently some marked progress has been recorded in small-scale industries at Adityapur, Hatia and Bokaro and the contribution of manufacturing industries—large as well as small—in the State domestic product has increased from 8.87 per cent in 1950-51 to 13.22 per cent in 1975-76. And yet the percentage of working force engaged in manufacturing industries in 1971 for this State was only 2.29 against the national average of 5.93. The spreadout effect of large-scale industrial establishments in Bihar has remained retarded due to the undue delay in issuing licences for the regular supply of essential inputs and quick and adequate provision of infrastructure for such industrial establishments.

Further, it is a well known fact that productivity per worker is far higher in secondary and tertiary sectors than in agriculture. Excessive dependence on agriculture, which in itself is exposed to the vagaries of nature, is bound to keep the per capita income in the State at a very low level. Unless agriculture in Bihar is commercialised and made a wholetime job by adopting intensive farming methods and a substantial portion of population dependent on agriculture is shifted to secondary and tertiary sectors by creating job opportunities there, the prospects of substantial increase in the per capita income for catching up the national average seems to remain a mere wishful thinking.

Excessive delay in the execution and completion of development projects, more particularly in irrigation and power sectors, have also done great harm to the State.

The two major irrigation projects in the State—Kosi and Gandak—have an ultimate potential of 434,000 and 1,151,000 hectares, respectively. By the end of the Fifth Plan, the irrigation potential created was 329,000 and 575,000 hectares. However, the actual utilisation was only 116,000 and 260,000 hectares respectively, giving an utilisation percentage of 50. Though cent per cent utilisation is not technically possible, yet if only the utilisation percentage could have been raised from 50 to 75 by efficient water management, a substantial area of North Bihar could have been kept out of the present drought.

Power is most vital for the development of the State. It is needed for the development of both agricultural and industrial sectors. In fact, comparative backwardness in these two vital sectors of income-generation in the State can be explained to a great extent by the failure to supply regular and adequate electric power. In Bihar, the commissioning of additional generating units has never been possible within the scheduled time. And this delay has not only led to higher costs of construction but also further delay in the course of obtaining fresh sanction from the Electricity Authority. The thermal power stations at Muzzaffarpur and Tenughat and the additional units at Barauni have not been completed so far, though sanction was accorded to them several years earlier. Not only the additional generating capacity is developing at a very slow rate but even the actual generation has also hardly exceeded 50 per cent of the installed capacity in the State.

The lack of adequate understanding of the problems of development and the comparative absence of dynamism and irrigation needed for rapid decision-making and quicker execution of development projects in the present administrative set-up have combined with excessive procedural delays for creating a situation in which the state now finds itself. The functioning of the administrative apparatus is such that no one can be held responsible for the wrong done to the state or to the cause of rapid development of the State.

The above analysis, no doubt, gives a depressing picture of the situation prevailing in the state on the development front. But it also demands from the people and the Government alike a greater zeal and determination for turning the situation in the state's favour. There is no short-cut to development. It is a long-drawn process. There is hardly any dearth of resources and willingness on the part of the state's people for catching up the pace of national development. As most of the development work in the state is done by the Government, the need of the hour is to gear up the administrative set-up to the new and exacting problems of development. The old habit of wrangling with the administrative procedure and excessively adhering to the administrative norms on the part of the highly placed administrators may not be of much help in tackling the problem of development.

Special efforts have to be made for fast development in three sectors of irrigation, power and transport as these are the most vital ingredients of the all-round development of the State.

## References


1. Sixth Five-Year Plan (1980-85), p. 16.
2. Census of India 1981, Series 4, Bihar, p. 10.
3. Southern Economic Review, Vol. VI, No. 2 & 3.
4. Sixth Five-Year Plan, p. 56, pp. 116 to 119.
5. As in reference 3 pp. 116 to 119.
6. Rest of the figures are from the Perspective Plan for Bihar, State Planning Board, Patna.

# 15

# Inter-State Disparity and Fiscal Devolution in India

BY

R.P. VERMA

THE question of regional imbalances comes up immediately when a long-term view is taken of economic soundness and solidarity as well as strength and stability of a developing federation like India. Failure to arrive early at a reasonable solution of the problem of inequality in the levels of economic development of the constituent units may lead to disappointment and heart-burning amongst the people making smooth administration impossible. It may breed frustrations in society and may at times threaten to stake the roots of the federation.

When the federation is considered to be a product of bargaining and compromises, it is but an accepted fact that the State sacrifices some of its resources to the Centre along with certain functions only in exchange for getting the opportunity to share Central resources. The main purpose of such an exchange is to achieve administrative efficiency and economic prosperity through unity. Thus, a number of states with disparity in the levels of living and rate of economic growth come together with the hope of achieving a higher rate of growth for all through mutual co-operation. In fact, this motive is the mainspring in most of the new federations in the Third World. If this is so, then it goes without saying that in a federation the task is not only one of raising the overall rate of economic growth but also one of equilibrium of such growth between regions. Just as one of the main objectives of the present-day progressive taxation is to collect inter-personal inequalities of income, so also the purpose of tax-sharing and grants-in-aid in a federation is to reduce regional imbalances in respect of levels of income and rates of growth. This can be achieved by intra-state transfers of resources through the Government's fiscal operations. Just as within a state, the state taxes the rich more heavily and spends more on the poor in the interest of correcting inter-personal inequalities, likewise, more tax revenue may be collected from the rich areas and more may be spent for the development of the poor areas.

However, since 1951, the transfer of resources from the Centre to the States has tremendously increased but not to the advantage of the poor states. I.S. Gulati and K.K. George (1978) have demonstrated that, during the whole period up to the Fifth Plan, the per capita statutory transfer to four states with the lowest per capita income was less than to five states with the highest per capita income. The six middle income states also received less than the five states with the highest per capita income. A.Bagchi (1977) has shown that under the Sixth Finance Commission award, three states with the lowest per capita income received smaller amounts per capita than the five states with the highest per capita income. A study of the National Institute of Public Finance and Policy shows that "some of the poorer states like Bihar, Madhya Pradesh and Uttar Pradesh have got substantially lower per capita transfers than the all States' average both during the annual plans and the Fourth Plan periods" (NIPFP, 1978). This regressivity of past transfers has been one of the important causes of the persistent regional imbalances in resource availability and service levels. If the inherited disparities are to be reduced, the most important objective of the new devolution must be to introduce, in inter-state allocations, a high degree of progressivity.[1]

However, the fiscal transfers from the Centre to States are effected through the mechanism of the Finance Commission, the Planning Commission and 'other transfers', and the importance of the three mechanisms has been more or less equal.[2] It is the transfers through the Finance Commission with which we are concerned here.

In view of the large amounts and increasing importance of transfers through the Finance Commission, it is imperative that these allocations are viewed in the total perspective of resource availability and development requirements. The task of looking after the development needs of different states cannot be left to the Planning Commission alone, when it is handling only about one-third of the total resource transfers. The Finance Commission, therefore, should give more than the marginal importance it has hitherto given to the question of overall development in the different regions of the country. It is possible only when the total amount of resources to be transferred by the commission are looked in their entirety as well as in combination with other source of States' income and some set of criteria based on the needs of the States, arising out of national priorities of development, are applied in the devolution of different taxes and grants (except, of course, in cases where some constraints are explicitly provided on such uniform application of the criterion, i.e. with regard to the distribution of additional excise duties and grant on account of wealth tax on agricultural property).

The application of the criteria of developmental needs of States to the entire pool of resources to be distributed would make the commission a more effective mechanism for correcting inter-regional imbalances than hitherto. As a matter of fact, the issue of inter-regional balance has appeared specifically and explicity in the commission's recommendations, only in the determination of the part of the grants-in-aid under Article 275, and in the case of distribution of the part of the Union excise duties.

The Seventh Finance Commission had made major progressive innovations in many aspects of the traditional scheme of resource transfer to the States. It had recommended a record amount of overall devolution from the Centre to the States. It had doubled the proportion of sharable excise revenue given to the States. Thus, the total devolution was more than twice the devolution by the Sixth Finance Commission. But the distribution could be made "more progressive so that larger resources are transferred to the most poverty-stricken states, hill states and especially handicapped states."[3] Therefore, Prof. Raj Krishna had to submit a note of dissent on "A more equitable distribution of resources".

It appears, therefore, that the correction of regional imbalances has only marginally featured as a principle in Finance Commission's deliberations and recommendations. It is high time for having a fresh look at the objectives and criteria of the entire scheme of devolution from the point of view of persisting regional imbalances in India.

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1. Report of the Seventh Finance Commission (1978)—Note of dissent of Prof. Raj Krishna, p. 143.
2. T.S. Papola, Fiscal Devolution by Finance Commission, "Union-State Financial Relations in India" (ed.), S.Singh, p. 13.
3. Report of the Finance Commission, 1978, p. 142.

# 16

# Federal Transfers and Inter-State Imbalances

BY

NASEEM A. ZAIDI

A PURELY growth-oriented development policy, devoid of built-in devices to reduce regional disparities, may not be successful in achieving rapid economic development with social justice. In a federal country like India, where large-scale inter-state imbalances exist, either due to insufficient infrastructure facilities, due to difference in natural endowments or due to random industrialisation in some regions, federal transfers on equitable basis have to play a major role in reducing regional/inter-state disparities. Federal transfers, in order to achieve the objective of equity, should be equalising in terms of narrowing down the gap between the financial resources of the rich and poor States, per capita State domestic product and standard of social and public services being provided in different States.

In India, financial resources are transferred from the federal Centre to federal units in the forms of statutory and non-statutory transfers. Statutory transfers include those recommended by a finance commission in the form of tax-sharing, grants-in-aid or other transfers for specific purposes. Non-statutory transfers are those agreed upon in the National Development Council and operated by the Planning Commission. These transfers, which are partly in the form of grant and partly loans, take the form of Central assistance to State plans and assistance for Centrally-sponsored schemes. There is a third type of transfers also, commonly known as 'discretionary transfers'. The quantum of discretionary transfers is determined by the Central ministries subject to the approval of the Ministry of Finance.

The objective of the present study is to examine the trends of these transfers since the Second Five-Year Plan and to evaluate to what extent these transfers have been successful in reducing inter-state imbalances in the country. The period of the First Plan has been excluded for the simple reason that States were grouped in different ways in that period and the transfers were guided mainly by post-partition problems.

Some attempts were made in earlier years to examine the impact of these transfers on inter-state disparities. Chelliah and Associates[1] computed the indices of federal transfers for each of the States for the annual plan period (1966-1969) and the Fourth Plan in relation to the all-State average transfer, and concluded that the three poor states of Uttar Pradesh, Madhya Pradesh and Bihar received per capita federal transfers which were significantly lower than the all-State average. The significant conclusion of the study was that Bihar got the lowest per capita transfers in both the periods. Hemlata Rao measured the effects of federal transfers in reducing inter-state disparities for the Second to Fourth Plan period by adopting a technique in which the total fiscal transfers were regressed upon backwardness, and concluded that the equalisation criterion played a very little role.[2]

In recent years, particularly since the Fourth Plan, a new trend has emerged in the federal transfers: Some special category backward states, viz., Assam, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Nagaland, Sikkim and Tripura, are appropriating a large chunk of federal transfers—the Finance Commission as well as the Planning Commission transfers. In the Sixth Plan (1980-1985)[3], out of the total Central assistance to States amounting Rs. 15, 350 crores, Rs 3,245 crores have been allocated to these special category States which come to 21.14 per cent of the total plan assistance. If the amount allocated for hill areas (Rs. 560 crores) and the North Eastern Council (Rs. 325 crores) is added (as most of this amount will go to these States), these special category States, which account for only 2.9 per cent population of the country, would appropriate more than one-fourth of the total plan assistance to States.

Another striking feature of the transfers is that these transfers to special category States are not at the cost of relatively richer States like Punjab and Haryana, and Maharashtra, etc. enjoying a high per capita State Domestic Product (SDP) but these are at the cost of some backward States characterised by a large area and population and rich in natural resources like Uttar Pradesh, Bihar and Madhya Pradesh—the States which have a distinct characteristic of remaining to the bottom if the States are arranged in descending order on the basis of per capita SDP. Unless these imbalances are corrected, it would be difficult for these backward States to come out of the vicious circle of poverty to have a healthy balanced economic growth in the country. The objective of the present study is to examine these trends and to suggest a way out of this state of affairs.

The trends of the Finance Commission transfers are shown in Table 1. It is clear from the Table that special category States have always received a larger amount of per capita transfers. Nagaland and Manipur, in spite of very low population, have got a large amount of transfers. According to the Sixth Finance Commission award, out of the total financial resources amounting to Rs. 9,608.8 crores to be transferred to all the States, Jammu & Kashmir, Himachal Pradesh, Tripura, Manipur, Meghalaya and Nagaland will absorb Rs. 919.7 crores or 9.57 per cent of the aggregate transfers, while these States accounted for only 2.9 per cent of the total population of the country.[4]

According to the Seventh Finance Commission, these special category States are expected to receive average per capita transfers amounting to Rs. 1799,while this average is Rs. 338 for relatively richer States including Punjab, Haryana, Maharashtra, etc. and Rs. 384 for poor States, including Bihar, Uttar Pradesh, Madhya Pradesh, Orissa, etc.[5] As compared to these privileged States, some populous and large States of the country, including U.P., Bihar and Madhya Pradesh, got the minimum amount of per capita transfers throughout the period under consideration (Table 1).

As regards tax-sharing between the Centre and the States, some studies reveal that advanced States remained in an advantageous position. Hemlata Rao calculated the rank coefficient of correlation between the percentage share of income-tax and composite index of development. The rank coefficient of correlation worked out between these variables came to be positive and statistically significant. On the basis of these results, she concluded, "The distribution of income-tax among the States was not governed by the consideration of backwardness of the States."[6]

States cannot finance the five-year Plans from their own resources and, therefore, a transfer from the federal Centre to federal units becomes necessary. At present, 50 to 60 per cent of State plan outlays are met from the Central assistance. The assistance is given partly in the form of grants and partly as loans. Till the end of the Third Plan, there was a system of giving assistance to States

**Table 1**
**Per Capita Finance Commission Transfers**

| *States/Period (Plans)* | *Second Plan* | *Third Plan* | *Three Annual Plans* | *Fourth Plan* | *Fifth Plan* | *Sixth Plan* |
|---|---|---|---|---|---|---|
| *Special Category* | | | | | | |
| Assam | 75.7 | 57.8 | 74.4 | 118.6 | 283.2 | 312.4 |
| Himachal Pradesh | — | — | — | 145.8 | 611.3 | 939.5 |
| Jammu & Kashmir | 55.9 | 76.3 | 113.3 | 259.1 | 522.9 | 817.5 |
| Manipur | — | — | — | 322.7 | 1230.5 | 1813.2 |
| Meghalaya | — | — | — | 201.3 | 888.9 | 1328.2 |
| Nagaland | — | — | 731.8 | 1580.6 | 2654.4 | 4662.6 |
| Sikkim | — | — | — | — | — | 1763.1 |
| Tripura | — | — | — | 176.0 | 876.0 | 1289.0 |
| *Richer States* | | | | | | |
| Punjab | 28.2 | 34.7 | 29.3 | 81.8 | 144.0 | 309.6 |
| Haryana | | | | 71.8 | 138.1 | 307.6 |
| Maharashtra | 26.0 | 34.3 | 39.8 | 98.7 | 164.4 | 340.09 |
| Gujarat | | 50.4 | 35.8 | 86.2 | 159.2 | 361.1 |
| Karnataka | 31.6 | 41.7 | 55.0 | 84.1 | 153.3 | 343.0 |
| West Bengal | 35.1 | 33.1 | 33.9 | 101.3 | 208.0 | 360.4 |
| Tamil Nadu | 22.2 | 31.9 | 37.2 | 87.5 | 153.7 | 365.0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| ***Backward States*** | | | | | | |
| Rajasthan | 26.5 | 40.1 | 39.2 | 102.1 | 240.0 | 350.5 |
| Kerala | 24.1 | 45.4 | 67.3 | 109.5 | 247.4 | 360.9 |
| Andhra Pradesh | 25.2 | 40.5 | 40.1 | 91.9 | 199.9 | 350.0 |
| Madhya Pradesh | 23.7 | 31.7 | 30.2 | 58.8 | 151.6 | 383.5 |
| Orissa | 28.1 | 63.7 | 80.12 | 123.9 | 284.7 | 449.5 |
| Uttar Pradesh | 19.5 | 24.4 | 30.7 | 86.2 | 172.7 | 375.2 |
| Bihar | 21.9 | 28.0 | 25.6 | 88.1 | 172.2 | 392.8 |

*Source*: Data given in Appendix 1.

*Note*: Data for the Second Plan are based on 1951 population, for the Third Plan and three annual plans these are based on 1961 population and for Fourth, Fifth and Sixth Plans these are based on 1971 population.

**Table 2**
**Per Capita Plan Assistance to Different Groups of States**

(Rupees)

| *States/Plans* | *Second Plan* | *Third Plan* | *Three annual plans* | *Fourth Plan* | *Fifth Plan* | *Sixth Plan* |
|---|---|---|---|---|---|---|
| *Special Category* | | | | | | |
| Assam | 33.9 | 84.6 | 71.3 | 104.5 | 202.5 | 498.2 |
| Himachal Pradesh | — | — | — | 284.5 | 533.7 | 1,264.0 |
| Jammu & Kashmir | 44.2 | 174.9 | 166 2 | 300.6 | 1094.3 | 2,188.0 |
| Manipur | — | — | — | 244.2 | 716.3 | 2,247.0 |
| Meghalaya | — | — | — | 301.9 | 750.1 | 1,940.5 |
| Nagaland | — | 224.8 | 332.9 | 649.2 | 1695.7 | 4,060.0 |
| Sikkim | — | — | — | — | 2244.0 | 5,717.7 |
| Tripura | — | — | — | 147.3 | 421.7 | 1,316.9 |
| Per capita average of the group | 37.3 | 85.4 | 78.7 | 182.9 | 474.9 | 1,118.2 |
| *Richer States* | | | | | | |
| Punjab | 54.8 | 66.2 | 48.3 | 72.2 | 147.3 | 230.7 |
| Haryana | | | | 76.3 | 178 2 | 234.8 |
| Maharashtra | 25.8 | 42.2 | 28.1 | 47.3 | 92.8 | 173.8 |
| Gujarat | | 54.1 | 37.0 | 57.7 | 113.7 | 224.6 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Karanataka | 34.8 | 66.0 | 46.0 | 57.0 | 113.8 | 184.0 |
| West Bengal | 27.7 | 44.4 | 32.3 | 48.0 | 107.1 | 153.5 |
| Kerala | 29.1 | 72.0 | 53.0 | 79.8 | 145.1 | 201.9 |
| Tamil Nadu | 32.8 | 55.6 | 35.9 | 47.7 | 121.5 | 161.3 |
| Per capita average of the group | 35.2 | 59.8 | 41.6 | 61.0 | 128.6 | 201.0 |
| *Backward States* | | | | | | |
| Andhra Pradesh | 31.0 | 63.0 | 46.1 | 53.4 | 138.3 | 208.2 |
| Rajasthan | 38.6 | 80.2 | 59.4 | 82.2 | 150.5 | 243.7 |
| Orissa | 44.9 | 79.8 | 46.1 | 70.0 | 109.0 | 301.1 |
| Madhya Pradesh | 37.1 | 68.0 | 43.9 | 60.9 | 118.9 | 243.6 |
| Uttar Pradesh | 19.1 | 48.3 | 35.2 | 57.8 | 144.0 | 218.6 |
| Bihar | 22.0 | 46.5 | 33.4 | 58.1 | 118.3 | 223.8 |
| Per capita average of the group | 25.9 | 54.2 | 37.9 | 56.7 | 127.2 | 214.5 |
| All-India average | 30.0 | 57.8 | 41.3 | 65.2 | 144.8 | 254.8 |

*Source*: Appendix 2.

for various schemes formulated by different ministries. The grants and loan components of the assistance were worked out by cumbersome procedures. As a result of this system, a situation arose where financially stronger States could so order their affairs that they could get a larger percentage of total Central assistance as grants by taking up a larger number of revenue account schemes which attracted a larger component of grant assistance. This kind of choice was not available to States whose own resources on revenue accounts were meagre. During the Third Plan, the grant component out of total Central assistance was 19 per cent in the case of Madhya Pradesh and 26 per cent in the case of Maharashtra. For solving this problem, since the Fourth Plan, the system of block loans and grants was adopted and it was decided that each State should receive 30 per cent of the total assistance every year as grant, the balance of 70 per cent being loan. But the special category States have a privileged treatment in this respect too. The pattern of assistance followed for these States is 90 per cent grants and 10 per cent loans. According to this system, the relatively richer and relatively poor States are taken at par and backward States are overburdened by loans and their servicing leaves a continuous pressure on their exchequers.

The trends of the Planning Commission transfers are examined in Table 2. The per capita plan assistance for the Second Plan is c lculated on the basis of population in 1951, for the Third Plan and three annual plans the basis of calculation is population according to the 1961 census, and for later plans, the per capita assistance is based on 1971 population. The per capita average of the group is calculated by dividing the total assistance to the group by the population of the States in the group. The following conclusions may be drawn from the Table:—

(a) The per capita plan assistance for the special category States has been much higher than the national average and this gap increased remarkably since the Fourth Plan, when these States got more than three times the Plan assistance as compared to the national average. During the Sixth Plan, the per capita plan assistance to these States is 4.4 times as compared to the national average.

(b) In case of non-special category States, the Plan assistance has not, at all, been distributed on the basis of backwardness of a State. Up to the Fifth Plan period, the backward States got less per capita plan assistance as compared to relatively richer states. It is only during the Sixth Plan that the per capita share of backward states has slightly increased but the difference is not sufficient to provide a stimulus for economic development in backward States.

(c) Uttar Pradesh and Bihar which accounted for 26 per cent population of the country have got smaller amount of per capita assistance as compared to the relatively richer States. Up to the Fourth Plan these states received almost minimum amount of per capita assistance as compared to all other states in the country. Though in the Fifth and the Sixth Plans, their share has slightly increased, yet these States still got less per capita assistance as compared to two richest States of the country, viz. Punjab and Haryana.

Hemlata Rao tested the relationship between the plan assistance and the relative backwardness of a State by regressing the total plan assistance against the index of backwardness and the coefficient of determination and regression coefficients turned out to be statistically insignificant. On the basis of this study, she concluded that the actual plan transfers were guided by neither 'need' nor 'effort' (tax efforts) of the States.[8]

Thus neither the Finance Commission transfers nor the Planning Commission transfers were directed by the consideration of reducing Inter-State imbalances. Federal transfers were hardly recommended on the criterion of the level of development or development potentialities of a State.

Due to inequitable federal transfers, inter-State disparities do exist in the Indian economy. These imbalances are clear from the per capita plan outlays for the Sixth Plan (1980-1985) given in Table 3.

The backward states of the country, which can neither mobilise a sufficient amount of savings from their own resources nor are these receiving an adequate amount of assistance from the Centre, are forced to keep their plan outlays at a low level and these are further entangled in the vicious circle of poverty.

Inter-State imbalances may be measured with the help of various indicators:

1 These can be measured with the help of a number of persons below the poverty line as the percentage of the total population[9] of the State. The Seventh Finance Commission estimated these percentages for 1970-71 on the basis of minimum per capita consumption expenditure level on the basis of Dandekar-Rath[10] criterion. Later on the Planning Commission[11] made estimates of percentages of the population below the poverty

**Table 3**
**Per Capita Plan Outlays in the Sixth Plan (1980-1985)**

| *States* | *Per capita plan outlay* | *States* | *Per capita plan outlay* |
|---|---|---|---|
| *Special Category* | | | |
| Assam | 560 | Meghalaya | 1,780 |
| Himachal Pradesh | 1,333 | Nagaland | 2,727 |
| Jammu & Kashmir | 1,505 | Sikkim | 3,935 |
| Manipur | 1,678 | Tripura | 1,189 |
| *Relatively Richer* | | | |
| Punjab | 1,179 | Karnataka | 612 |
| Haryana | 1,406 | West Bengal | 643 |
| Maharashtra | 986 | Kerala | 610 |
| Gujarat | 1,085 | Tamil Nadu | 653 |
| *Backward States* | | | |
| Andhra Pradesh | 580 | Madhya Pradesh | 729 |
| Rajasthan | 593 | Uttar Pradesh | 532 |
| Orissa | 572 | Bihar | 462 |

*Source*: Sixth Five-Year Plan 1980-1985, p. 56.
*Note*: Per capita plan outlay is calculated on the basis of population in 1981.

line for 1977-78 by using the all-India poverty line of Rs. 65 per capita per month on 1977-78 prices (Rs. 75 in urban areas). According to these estimates, Orissa, Bihar, Madhya Pradesh, etc. had the largest percentage of population below the poverty line in both the periods. The rank coefficient of correlation of both these estimates comes to 0.7928 which shows that no significant change has taken place in this direction. The Seventh Finance Commission also accepted this fact in the words: "We are conscious that the estimates of 1970-71 are somewhat outdated but we believe that this should not make any material difference to our purpose in the light of the general experience that *the incidence and distribution of poverty have not changed significantly in recent years.*[12]

2 Measurement of inter-State imbalances with the help of the percentage of population below the poverty line has some limitations.

**Table 4**

**Per Capita SDP in Various States (at Current Prices)**

(*Rupees*)

| *State/Years* | *1960-61* | *1970-71* | *1977-78* |
|---|---|---|---|
| *Special Category* | | | |
| Assam | 333.0 | 570 | 994 |
| Himachal Pradesh | 328.3 | 676 | 1,251 |
| Jammu & Kashmir | 289.0 | 557 | 1,146 |
| Manipur | × | 408 | 888 |
| Meghalaya | × | 644 | 1,056 |
| Nagaland | × | 508 | 1,100 |
| Tripura | 329.8 | 563 | 1,149 |
| *Relatively Richer States* | | | |
| Punjab | 451 | 1,067 | 2,317 |
| Haryana | × | 932 | 1,935 |
| Maharashtra | 468 | 811 | 1,677 |
| Gujarat | 393 | 845 | 1,626 |
| West Bengal | 464 | 729 | 1,252 |
| Karnataka | 305 | 675 | 1,255 |
| Tamil Nadu | 334 | 616 | 1,203 |
| *Backward States* | | | |
| Rajasthan | 267 | 629 | 1,153 |
| Kerala | 315 | 636 | 1,141 |
| Andhra Pradesh | 287 | 586 | 1,030 |
| Orissa | 276 | 541 | 912 |
| Madhya Pradesh | 285 | 489 | 951 |
| Uttar Pradesh | 297 | 493 | 891 |
| Bihar | 221 | 416 | 759 |
| All States average | 334 | 625 | 1,162 |

*Sources*: 1. for 1961, NCAER: Distribution of National Income by States 1960-61.
2. for 1970-71, Report of the Finance Commission 1978 Annexure VII. 3, p. 88.
3. for 1977-78, Planning Commission.

*Note*: × Indicates that States did not exist.

The poverty line is an arbitrary concept and estimates may not be reliable. Further, this does not highlight whether the high percentage of the population is due to the low level of economic development or it is as a result of uneven distribution. Therefore, we can measure imbalances with the help of SDP. The changes taking place in the per capita SDP are shown in Table 4. It is clear that the special category States are having, on the whole, higher per capita income as compared to the backward States. Punjab, Haryana, Maharashtra and Gujarat continue to occupy high ranks in all the three periods under consideration and Uttar Pradesh and Bihar occupy the lower places. The coefficients of variations come to 20.87, 25.47 and 32.06 for 1960 61, 1970-71 and 1977-78, respectively which indicate that income disparities among the States are increasing. The coefficient of rank correlation between 1970-71 and 1977-78 comes to 909 which indicates that disparities are not reducing.

3 While the problem of inter-State imbalances may be less acute in terms of differences in the per capita income, these are sharper when assessed in terms of the relative standards of essential administrative and social services. While the per capita expenditure on education, scientific services and research in 1978-79 (based on 1971 population) was Rs. 75.8, Rs. 65.9 and Rs. 54.9 in Kerala, Punjab and Maharashtra, respectively, it was Rs. 28.8 in Uttar Pradesh and Rs. 26.6 in Bihar. In the case of medical services, public health, sanitation and water supply the per capita expenditure in the same year was as high as Rs. 26.8 and Rs. 25.5 in Punjab and Haryana, respectively, it was only Rs. 8.9 in Bihar and Rs. 12.3 in Uttar Pradesh. In the case of administrative services the per capita expenditure in 1977-78 was Rs. 30.2 and Rs. 27.2 in Maharashtra and Punjab, respectively, it was only Rs. 12.7 in Uttar Pradesh and Rs. 12.9 in Bihar.

4 The Planning Commission[13] also pointed out the existing imbalances in the field of agriculture and industries in various states. Due to lack of diffusion of the new seed-fertilizer technology, the value of agricultural output per head of rural population ranged between Rs. 888 in Rajasthan and Rs. 3,361 in Punjab in 1977-78. In the field of manufacturing industries even in 1971, around 27.5 per cent of the employment in manufacturing was concentrated in nine towns. All these variables clearly show that inter-State imbalances in the economy exist and more equitable distribution of federal transfer should mitigate them.

Now we proceed to analyse some defects of the present system of federal transfers:

1 The basic defect of the system is that excessive weightage has been given to population in both types of transfers recommended by the Finance Commission as well as by the Planning Commission. Since population is taken to represent the average needs of a State, it has been considered to be the most suitable criterion. But population may serve the best purpose in the federations which are not characterised by vast differences in natural conditions, level of economic development, distribution of population, etc. but these conditions are not found in India. Madhya Pradesh has a much lower level of economic development as compared to Maharashtra but the Sixth Finance Commission recommended lower shares in income-tax as well in excise duties to the former as compared to the latter. On the basis of the Seventh Finance Commission award, Maharashtra is to receive a larger share in income-tax but the share of Union excise duties has gone down due to low weight assigned to population as compared to earlier awards. The same anomaly is there in the case of the distribution of the plan assistance as 60 per cent weight is assigned to population. During 1974-78, Madhya Pradesh received a Central plan assistance amounting Rs 374 crores while the share of Maharashtra was Rs. 383.5 crores. If need is considered a basic criterion, it demands that less developed States should get larger per capita transfers while population criterion guarantees only per capita transfers to developed as well as undeveloped States.

2 Economic backwardness of a State has been recognised as one of the criteria for federal transfers but no composite index of backwardness has been evolved so far. In the case of the Finance Commission transfers, each commission evolved its own formula. So far only partial indicators like population per hospital bed, percentage of rural population to total population, percentage of enrolment in primary school to the population in age group 6-11 years, road mileage etc. have been accepted as the indicators of backwardness and what relative weights have been assigned to them and in what direction is not explained.

3 Successive finance commissions have followed a negative approach of 'filling in the revenue gaps only' rather than a positive approach intending to narrow, as far as possible, disparities in the availability of various administrative and

social services between the developed and less developed States. This approach, in the words of Thimmaiah, "has been particularly responsible for the financial laxity on the part of some state governments and the financial stringency faced by the poorer States."[15]

4 As far as the question of the Central assistance to States through the Planning Commission is concerned, up to the Third Plan no set criteria guided the quantum of assistance and it was decided in the light of the gaps in the resources of individual States in relation to the plan outlays decided upon. To bring some objectivity in the distribution of assistance, the NDC decided a formula in September 1968, known as the Gadgil Formula. According to the modified formula, requirements of special category States are first met out of the total pool of Central assistance. The balance is distributed among the remaining 14 States on the basis of the formula in which 60 per cent weight is given to population; 20 per cent of the assistance is distributed among States having the per capita income below the national average; 10 per cent on the basis of tax efforts; and 10 per cent is distributed for special problems of individual States. On the basis of this formula in the Sixth Plan (1980-1985), out of a total assistance of Rs. 12,545 crores, Rs. 3,245 crores have been allocated to eight special category states and the amount comes to 25.18 per cent of the total. If the assistance to hill areas and N.-E. Council is included, the share of these states comes to 31.5 per cent. As the Gadgil Formula does not provide any guidelines for the quantum of assistance to these states, a large part of resources are drained off to areas which have low potentialities for economic development. According to one study[16], a correlation of the distribution of Central assistance in accordance with this formula with the States' per capita income shows that there was a negative correlation of 0.23 in the Fourth Plan period and 0.10 in the Fifth. Further, due to large weight given to population, those states, which are relatively poor but simultaneously have low population, get low share. Out of the 60 per cent component of the Central assistance distributed on the basis of population in the revised Fifth Plan (Rs. 2,580 crores), Orissa got only Rs. 110 crores, Rajasthan Rs. 206 crores and Madhya Pradesh Rs. 208 crores but the relatively richer state Maharashtra received Rs. 252.8 crores.[17] A weightage of 10 per cent given to tax efforts also penalises poor States as these

States seem to be on the saturation point of taxable capacity.

Considering these defects of the Gadgil Formula, it was decided that part of the plan assistance will be distributed on the IATP (Income-Adjusted Total Population) formula in which the total population of a State is multiplied by increase of the per capita income. During the Sixth Plan (1980-1985), out of the total assistance of Rs. 9,300 crores, only Rs. 1,600 crores are to be distributed according to IATP formula and the rest on the basis of the modified Gadgil formula. The main defect of the system is that less weightage has been given to IATP formula which seems to be more progressive.

For more equitable distribution of transfers, it is necessary that larger resources should go to the backward States having a large population and more development potentialities. A change in the criteria for distribution is necessary to achieve this purpose. Some suggestions in this direction are as follows:

1 The SDP is a better indicator of the economic backwardness of a State than the population which is termed merely as a 'scale factor' by the Seventh Finance Commission (p. 86, para 34). The relative shares of the States in the Central plan assistance as well in the share of income-tax and excise duties, etc. may be distributed on the basis of per capita SDP. If the per capita SDP is taken as a criterion, two methods, viz, 'deviation method' and 'inverse ratio methods' are possible. The 'inverse of per capita income' is a better variable than 'deviation' because 'deviation' criterion results in a positive transfer only to a few states. In the case of federal transfers, some States may be given low weight but no State can be denied these benefits. Hence, the inverse of per capita SDP is a better criterion. But the SDP criterion is not free from its limitations. It ignores variations in distribution of income; further, if all the transfers are determined on the basis of per capita SDP, the States,which enjoy higher per capita SDP due to their own efforts, may be in a disadvantageous position. Therefore only 30 per cent of the Central plan assistance and the proceeds from income-tax and excise duties should be distributed on the basis of inverse ratios of per capita SDP.

2 The 'removal of poverty' is declared as the main objective of successive five-year plans. Though poverty cannot be removed, yet its incidence in some backward states can be reduced with the help of liberal federal transfers. Therefore, a part of the

federal transfers should be distributed on the basis of 'population below poverty line'. The poverty ratio is a better indicator of the deprivation of a state than the per capita income because it reflects the distribution of income as well as its level. But this indicator also has some limitations. The estimates of population below the poverty line are not as scientific as these are in the case of the per capita SDP. Further, the poverty line itself has to be drawn at an arbitrary level on the basis of subjective judgment. Lastly, the use of this index will favour those states which maintain a large proportion of the poor people through the benign neglect or active income concentration policies.[18] Due to these limitations of the index, not more than 30 per cent weightage should be given to the criterion.

3 If the inverse of the per capita SDP and the ratio of population below the poverty line are taken as criteria, some populous states like Maharashtra and West Bengal would be in a disadvantageous position. Hence, 30 per cent of the plan assistance and proceeds from income and excise duties should be distributed on the basis of population.

4 The rest of the transfers should be allowed on the basis of various criteria like contribution in case of income-tax and excise duties, tax efforts in case of plan assistance, etc.

5 In the case of grants-in-aid distributed by the Finance Commission, 'deficit in budgets' should continue as a criterion but more emphasis should be given to 'specific grants' for upgrading social, economic and administrative services in the States where their standard is much below the national average.

6 Not more than 15-20 per cent of the Central plan assistance should go to the special category states (as compared to 26.8 per cent in the Sixth Plan).

7 As for the loan and grant components in the Central assistance for State plans, the ratio is 70:30 for all the 14 non-special category states. No distinction is made between the relatively rich and the relatively poor States. Inter-state imbalances can be reduced if the grant component in the total assistance for some backward states like Uttar Pradesh, Bihar, Madhya Pradesh and Orissa, etc. is increased to 50 per cent.

8 As the above approach takes into account different variables of various states, the Central plan assistance to the non-special category states and proceeds from income-tax and excise duties

should be distributed on the basis of this approach. In the case of minor taxes like the distribution of additional excise in lieu of sales-tax and estate duty, etc. various approaches may be adopted according to the nature of the tax. Besides these correctives, the State Governments have a crucial role to play for evening out inter-State disparities, identifying the local development potential and providing the administrative and financial support needed for the programmes of development. All these efforts dovetailed together may reduce inter-state imbalances.

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## Appendix I
### Transfers to States Under the Awards of Finance Commissions

(*Rs. crores*)

| *States/Plans* | *Second Plan* | *Third Plan* | *Three annual plans* | *Fourth Plan* | *Fifth Plan* | *Sixth Plan* |
|---|---|---|---|---|---|---|
| *A. Special Category* | | | | | | |
| Assam | 89.3 | 68.2 | 87.8 | 197.1 | 470.1 | 518.6 |
| Himachal Pradesh | — | — | — | 50.4 | 211.5 | 325.0 |
| Jammu & Kashmir | 19.6 | 26.7 | 39.6 | 119.5 | 241.0 | 376.9 |
| Manipur | — | — | — | 34.5 | 131.7 | 194.0 |
| Meghalaya | — | — | — | 20.3 | 89.8 | 134.1 |
| Nagaland | — | 0.68 | 35.1 | 81.5 | 136.9 | 240.6 |
| Sikkim | — | — | — | — | 0.5 | 36.8 |
| Tripura | — | — | — | 27.4 | 135.7 | 199.8 |
| Total of the group | 108.9 | 95.6 | 162.6 | 530.8 | 1,417.5 | 2,025.8 |
| Percentage of the group in total | 12.0 | 6.2 | 9.4 | 10.2 | 13.3 | 9.7 |
| *B. Relatively Richer States* | | | | | | |
| Punjab | 45.4 | 70.4 | 38.7 | 110.4 | 194.5 | 419.5 |
| Haryana | | | 20.7 | 71.8 | 138.1 | 308.5 |
| Maharashtra | 107.3 | 135.3 | 157.2 | 497.6 | 828.6 | 1,714.6 |
| Gujarat | 17.9 | 103.8 | 73.8 | 230.3 | 425.0 | 963.8 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Karnataka | 61.4 | 96.8 | 130.5 | 246.6 | 448.9 | 1005 |
| West Bengal | 92.2 | 115.5 | 118.4 | 449.1 | 921.5 | 1597 |
| Tamil Nadu | 64.5 | 107.4 | 125.1 | 360.7 | 633.4 | 1,503.6 |
| Total of the group | 308.75 | 629.3 | 664.4 | 1,966.7 | 3590 | 7,512.0 |
| Percentage of all States total | 42.8 | 40.8 | 38.0 | 38.0 | 33.0 | 36.0 |
| *C. Relatively Poor States* | | | | | | |
| Andhra Pradesh | 78.2 | 141.8 | 140.5 | 399.8 | 869.6 | 1,522.5 |
| Kerala | 31.4 | 76.7 | 113.4 | 233.4 | 527.01 | 770.3 |
| Rajasthan | 40.9 | 80.6 | 78.9 | 262.6 | 616.9 | 902.8 |
| Orissa | 41.1 | 111.4 | 140.2 | 271.5 | 623.7 | 9,84.4 |
| Madhya Pradesh | 61.7 | 102.5 | 97.8 | 244.8 | 630.9 | 1,597.4 |
| Uttar Pradesh | 122.9 | 170.6 | 226.2 | 761.6 | 1,525.2 | 3,314.7 |
| Bihar | 83.5 | 123.9 | 126.6 | 496.1 | 969.7 | 2,212.8 |
| Total of the group | 459.8 | 816.7 | 917.8 | 2,669.9 | 5,763 | 11,304.9 |
| Percentage of all States total | 45.2 | 53.0 | 52.6 | 51.8 | 53.4 | 54.3 |
| All-States total | 907.5 | 1,541.7 | 1,745.0 | 5,267.4 | 10,780.8 | 20,842.9 |

*Source*: Reports of the finance commissions.

## Appendix II
## Central Assistance to State Plans

(*Rs. crores*)

| *States/Plan* | *Second Plan* | *Third Plan* | *Three annual plans* | *Fourth Plan* | *Fifth Plan* | *Sixth Plan (allocations)* |
|---|---|---|---|---|---|---|
| *A. Special Category* | | | | | | |
| Assam | 30.6 | 99.8 | 84.2 | 173.5 | 336.1 | 827.0 |
| Himachal Pradesh | — | — | — | 98.4 | 184.6 | 437.3 |
| Jammu & Kashmir | 19.4 | 61.2 | 58.2 | 138.6 | 504.5 | 1,009.9 |
| Manipur | — | — | — | 26.1 | 76.6 | 249.6 |
| Meghalaya | — | — | — | 30.5 | 75.7 | 196.0 |
| Nagaland | — | 10.8 | 15.9 | 33.5 | 87.5 | 209.5 |
| Sikkim | — | — | — | — | 46.9 | 119.5 |
| Tripura | — | — | — | 29.8 | 65.4 | 204.1 |
| Group total | 50.0 | 171.8 | 158.3 | 530.4 | 1,377.4 | 3,242.9 |
| Percentage of all-States total | 4.7 | 6.8 | 8.8 | 15.0 | 17.3 | 23.3 |
| *B. Relatively Rich States* | | | | | | |
| Punjab | 88.3 | 134.4 | 51.7 | 97.5 | 198.9 | 300.0 |
| Haryana | | | 46.4 | 76.3 | 178.2 | 234.8 |
| Maharashtra | 74.3 | 166.8 | 110.0 | 238.9 | 467.8 | 875.9 |
| Gujarat | 49.7 | 115.5 | 76.4 | 153.6 | 303.8 | 599.7 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Karanataka | 67.5 | 156.5 | 109.2 | 167.0 | 333.5 | 539.2 |
| West Bengal | 72.9 | 155.2 | 112.7 | 212.7 | 474.4 | 680.2 |
| Kerala | 37.8 | 121.7 | 89.7 | 170.1 | 309.2 | 430.1 |
| Tamil Nadu | 95.3 | 186.8 | 120.9 | 196.5 | 500.6 | 664.8 |
| Group total | 485.8 | 1,032 9 | 718 | 1,312.5 | 2,766.5 | 4,325.0 |
| Percentage of all-States total | 45.9 | 41.0 | 40.0 | 37.1 | 34.8 | 30.9 |
| *C. Relatively Poor States* | | | | | | |
| Andhra Pradesh | 96.2 | 220.5 | 161.5 | 232.2 | 601.8 | 905.7 |
| Rajasthan | 59.4 | 161.4 | 119.5 | 212.7 | 386.8 | 626.3 |
| Orissa | 65.7 | 139.7 | 80.7 | 155.4 | 370.5 | 659.5 |
| Madhya Pradesh | 95.6 | 219.5 | 141.9 | 253.6 | 494.8 | 1,013.4 |
| Uttar Pradesh | 120.6 | 356.3 | 259.4 | 510.4 | 1,271.9 | 1.929.0 |
| Bihar | 83.8 | 215.9 | 155.2 | 327.2 | 666.4 | 1,260.5 |
| Group total | 522.5 | 1,313.3 | 918.2 | 1,691.5 | 3,792.2 | 6,394.4 |
| Percentage of all-States total | 49.4 | 52.2 | 51.2 | 47.9 | 47.9 | 45.8 |
| All-States total | 1,058.3 | 2,515.0 | 1,794.5 | 3,534.7 | 7,936.3 | 1,3962.3 |

*Sources*: Planning Commission.

# 17

# Regional Imbalances and Fiscal Equalisation in India

BY

R.K. SINHA

IN every federation, wide differences exist between the various member-states in respect of matters such as area and natural resources; population, including its demographic and occupational structure; personal income, earnings and wealth per head; and sometimes language, religion and culture as well.[1] However, one of the features which is not found in a group of independent national states is the possibility of unimpeded factor movements across state boundaries. With the movement of labour from the poor states to rich ones in course of time, differences in earnings for particular class of labour tend to diminish or eliminated altogether.[2] The same results are also achieved in favourable circumstances by a reverse movement of capital and trained manpower from the rich to the poor states and investment in land development, mineral exploration and industrialisation, thereby modifying the resource endowments.[3] Punjab and Haryana perhaps provide a good example of this. Moreover, even in the absence of factor mobility, free trade across the state boundaries yields the same result by equalising earnings for similar classes or workers.[4]

However, there are many residual obstacles to factor mobility, particularly in those federations where linguistic and cultural differences are important and there are also many qualifications to the factor price equalisation theory which is based on the assumption of identical production function and zero transport costs.[5] In any case, however, equality of earnings for similar class of workers would lead to an overall equality of per capita personal income only if demographic and occupational structure were the same in different states.[6]

By and large, it is not surprising to find that per capita income differences persist to a greater or lesser extent among the member-states of all federations. In the United States, the differences range from over 30 per cent below the national average in Mississippi to over 20 per cent above in New York, whereas, in Canada, such differences range from 43 per cent below the national average in New Foundland to 15 per cent above in Ontario. In Australia, such differences range from nearly 13 per cent below the national average in Tasmania to only about 5 per cent above in Victoria and N.S.W.[7] In India, the differences in the per capita income range from 36 per cent below the national average in Bihar to about 73 per cent above in Punjab. This wide gap in the per capita income exists in spite of the three decades of planned development.

The fiscal significance of such differences among the States lies in their effects on the relative ability of a State to raise revenue, on its citizens' need for governmental services and possibly on the relative cost of administering such services. In special circumstances, the low fiscal capacity might be offset by low needs, and/or low costs. However, by and large, the low fiscal capacity is usually accompanied by high welfare and educational needs, and occasionally by a higher level of per capita administration costs because of smallness or sparsity of population. In such circumstances, a State will need to raise its tax rates above, or reduce its services below, the levels prevailing in other States. In fact, if neither course is politically practicable for a State, it will be forced to incur a budgetary deficit.

These fiscal disparities are generally alleviated through the mechanism of tax-sharing and federal grants to the states. In the present study, an attempt has been made to analyse the regional imbalances and fiscal equalisation in India and to suggest a framework for the future.

India is a Union of 22 States and 9 Centrally administered Union territories. These States differ from one another significantly in both physical and economic aspects. In terms of population, the biggest State, Uttar Pradesh, has 110 million people spread over an area of nearly 300,000 square kilometeres, giving a density ratio of 377. Sikkim, having the smallest population of 31.5 million, has also the lowest density ratio of 31. It is Kerala, 17th in area ranking, which has the highest density of population—654 people for one sq. km.[8] In terms of per capita income, comparable data are available only for 1977-78; these show that the highest figure for Punjab (Rs 2,027) is almost thrice as high as the lowest for Bihar (Rs 737),[9] whereas the share of Bihar in the value of mineral production in 1978 was the highest (30 per cent) in the country.[10]

There is a growing evidence to show that inter-regional disparities in various dimensions of development have remained undiminished in spite of overall development during the last three decades. Of late, these have acquired alarming proportions and are threatening to strike at the very roots that sustain the national economy. Not only were the vertical disparities accentuated during the period, the horizontal balance also showed distinct signs of deterioration.

Indicators of inter-state disparities can be grouped into six categories.[11] These categories are:

1 Indicators of income, poverty and unemployment;
2 agricultural indicators;
3 industrial indicators;
4 infrastructure indicators;
5 social service indicators; and
6 resource allocation indicators.

In 1979-80, it was estimated that 316.84 million people were living below the poverty line of which 259.56 million were in rural areas and 57.28 million in urban areas.[12]

As evidenced from Table 1, the States where the percentage of population living below the poverty line was higher than the all-India average were Orissa, Bihar, Madhya Pradesh, Tamil Nadu, West Bengal, Assam and Uttar Pradesh. These are States where more than 72 per cent of the total poverty population lives. The same States also having nearly two-thirds of the total pool of unemployed in the country.

Data collected in the 32nd round of the National Sample Survey for 1977-78 for the first time reveal that the poorest households suffer from the highest rate of unemployment. In households spending less than Rs. 11 per capita per month on consumption, the unemployment rate was as high as 29 per cent in the urban areas and 22 per cent in the rural areas. In households spending Rs. 11 to Rs. 21, and Rs. 21 to Rs. 34 per capita per month, the unemployment rates were as high as 16 per cent and 10-12 per cent, respectively. In higher expenditure brackets, the unemployment rates fall steadily; and in household spending Rs. 100 or more, the rate was only 2 per cent in rural areas and 4 per eent in urban areas.[13] In India, the poorest suffer the most and the least poor suffer the least from involuntary unemployment. In fact, the correlation between the incidence of poverty and the incidence of unemployment across households is plainly positive.[14]

**Table 1**

**Poverty, Income and Unemployment in Major States**

| States | *Percentage of population below poverty line in 1977-78* | *Percentage share in all-India employment* | *Percentage unemployment rate 1977-78* | *Per capita net domestic product at current price in Rs.* *1970* | *1979* | *Percentage share of States in net domestic product 1979-80* |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Andhra Pradesh | 42.18 | 11.9 | 10.67 | 586 | 1176 | 7.3 |
| Assam | 51.10 | 0.5 | 1.81 | 539 | 960 | 2.3 |
| Bihar | 57.49 | 8.8 | 8.01 | 402 | 773 | 6.1 |
| Gujarat | 39.04 | 3.9 | 6.24 | 829 | 1,623 | 6.2 |
| Haryana | 24.84 | 1.2 | 6.41 | 845 | 1,600 | 2.6 |
| Karnataka | 48.34 | 6.4 | 9.36 | 685 | 1,267 | 5.6 |
| Kerala | 46.95 | 11.6 | 25.69 | 557 | 1,091 | 3.0 |
| Madhya Pradesh | 57.73 | 3.1 | 3.09 | 488 | 828 | 4.3 |
| Maharashtra | 47.71 | 10.2 | 7.99 | 809 | 1,903 | 13.3 |
| Orissa | 66.40 | 3.7 | 8.13 | 482 | 843 | 2.5 |
| Punjab | 15.13 | 1.3 | 4.82 | 1,030 | 2,278 | 4.8 |
| Rajasthan | 33.76 | 1.9 | 2.90 | 620 | 913 | 3.6 |
| Tamil Nadu | 52.12 | 16.6 | 15.59 | 583 | 1,350 | 7.5 |
| Uttar Pradesh | 50.09 | 7.0 | 4.12 | 486 | 981 | 10.2 |
| West Bengal | 52.54 | 9.4 | 10.15 | 735 | 1,330 | 8.5 |
| All-India | 48.13 | 100 | 8.18 | 633 | 1,376 | 100 |

*Source*: *Economic Times*, March 6, 1982.

On the other hand, the correlation across states between the per capita income and the incidence of poverty is negative. States with a relatively high per capita income have a low poverty ratio and vice versa. As for example, the income per capita in Punjab for 1977-78 (Rs. 2,027) is nearly three times the income per capita in Bihar (Rs. 737). But the poverty ratio in Bihar (57.49 per cent) is nearly four times the poverty ratio of Punjab (15.13 per cent). In these states ranked according to their per capita income and their poverty ratio, the correlation and coefficient between two rankings turns out to be 0.5.[15] However, this correlation is not highly significant as there are states in India where the average income as well as poverty ratio is high. Such a situation exists in Maharashtra and West Bengal. This has been possible because of the existence of modern industrial complexes in and around metropolises and abject poverty in the hinterlands.

However, the above covers only the inter-state dispersion of poverty income and unemployment in the latest year for which data are available. More important for us is to examine whether disparities in relation to poverty, income and unemployment are increasing or decreasing. Many studies have analysed the trends in the inter-state income disparity[16] and the study by Ashok Mathur has covered the largest period.[17] According to this study, during the first decade of the plan period, there was a small decrease in the coefficient of variation (CV) of SDP per capita across the states—from 25 per cent in 1950-51 to 24 per cent in 1960-61. In the middle of the decade, it declined to 21 per cent but again went up to 24 in 1960-61. For the next one-and-a-half decades, estimates made of SDP by the States Statistical Bureau show that the CV rose from 20 per cent in 1960-61 to 22 per cent in 1975-76.[18] Therefore, it can easily be concluded that, in the first decade of the plan period, the inter-state income disparity showed a small decline but since then this disparity has been increasing. The CV of SDP per capita (at 1970-71 prices) has risen again from 26 per cent in 1970-71 to 33 per cent in 1977-78. This trend can be seen in columns 5 and 6 of Table 1.

There are wide variations in the incidence of poverty in different states. However, there is only one study of trends in the poverty ratio in different states, calculated on an uniform basis for a long period.[19] The study concluded that the ratio for 14 states taken together for 12 years did not have a significant trend. The ratio averaged 50.2 per cent over the period. However, while examining the trend in the rural poverty ratio in each State, the study observed that the ratio increased significantly in only Assam and West Bengal, and declined significantly in Andhra Pradesh. In all other states, the ratio did not record any significant upward or downward trend. The inter-state CV of the rural poverty ratio averaged 24.5 per cent over the period and recorded no significant trend.[20]

A review of the trend in the inter-state variation in unemployment is not possible because the person-day unemployment rates in different states between two periods i.e., 1972-73 and 1977-78, are not available. The former relate to the whole labour force while the latter only to the labour force of age-group 15 to 59 years. But assuming that such a difference may not affect the inter-state dispersion significantly, the inter-state CV of unemployment rates in 1972-73 and 1977-78 have increased very slightly from 67.9 per cent to 68.3 per cent.[21]

Thus after three decades of planning, we confront a situation where the ratio of the maximum to minimum per capita state income and poverty ratio is 3:1, and the ratio of the maximum and minimum employment rate is 14.1.

Vertical disparities in rural areas generated and accentuated by the process of agricultural development has attracted the attention of many economists.[22] However, the regional dimension has received scant attention. For the first time, the study Bhalla and Alagh[23] has brought the question to a sharp focus on the basis of a district-wise analysis of levels and growth rates in Indian agriculture. Of the 289 districts covered by the study, as many as 71, or about one-fourth, recorded negative growth during 1962-65/1970-73. In another group of 62 districts, the growth was positive but low: less than 1.5 per cent a year. In 46 per cent districts, agriculture was stagnant or declining. Cnly 50 districts, representing less than one-fifth of the total number, achieved a high growth rate exceeding 4.5 per cent. And a large number of districts (106) averaged only a moderate growth rate of 1.5 to 4.5 per cent per annum.

In Andhra Pradesh, Bihar, Kerala, Madhya Pradesh, Maharashtra, Orissa, West Bengal and Himachal Pradesh, there was not a single district with a high growth rate. On the contrary, in Andhra Pradesh, Bihar, Maharashtra and Orissa, the largest proportion of the districts belonged to the negative growth category, whereas, in Punjab, Haryana, Rajasthan and Uttar Pradesh, the largest proportion of the districts belonged to the high or moderate growth groups.

Thus, the geographical pattern of agricultural growth has been highly uneven, with production booming in some regions and sinking elsewhere. By and large, through the process of agricultural growth, inter-regional distances have increased quite significantly. The CV in agricultural productivity per hectare has increased marginally from 3.2 in the sixties to 3.4 in the seventies, and that of agricultural productivity per worker from 3.1 to 4.2.[24] The increase in these values overtime indicates the reversal of the biblical principle into a law of modified underdevelopment. Those that have, more shall be given to them.[25] The variation in the latter is greater than in the former indicates that the disparities in the living conditions for the masses are far more acute than are indicated by the variations in land productivity.

However, the coefficient of inter-regional variation in the case of the use of technological inputs per 10,000 hectares of NSA has decreased during the period in the case of tractors from 6.83 to 6.48, for tubewells from 5.14 to 3.10 and for the percentage of gross irrigated area to the GCA from .87 to .80. These figures indicate a marginal spread in the otherwise regionally concentrated use of technological inputs in Indian agriculture. The CV for the indicator pertaining to the increase in the value of output per hectare, on the other hand, is very high, its value being 12.77.[26] This is indicative of the fact that despite the relative spread of technological inputs during the sixties, the benefits of the new agricultural strategy have remained highly concentrated in a few regions. State-level data on other indicators shown in Table 2 corroborates this picture. As seen in Table 2, the highest output per person in Punjab was more than three times the lowest in Bihar. The growth rate of food production over the 18-year period in Punjab (6.4 per cent per annum) turns out to be seven times the rate in Madhya Pradesh (0.9 per cent).

Similar is the story of the relative status of the States with regard to major inputs like irrigation, water and fertiliser. In 1979-80, the fertiliser consumption per hectare in Punjab was 108.5 kg. Assam, on the other hand, had the lowest level of fertiliser use—only 2.1 kg per hectare. Orissa, Madhya Pradesh and Rajasthan too used less than 10 kg and Bihar only 16.3 kg per hectare.

According to the Planning Commission estimates, in Tamil Nadu, the major and medium irrigation potential created by the end of the Sixth-Plan period is expected to be as high as 82 per cent of the estimated maximum. But it would be only 32 per cent in Madhya Pradesh. In Bihar, Gujarat, Maharashtra and Orissa, the potential created will be only 43 to 44 per cent of the maximum.[27]

The process of industrialisation over the last three decades has been a striking feature of the Indian economy. During the period, industrial production has gone up by about five times. Apart from

**Table 2**

**Inter-State Agricultural Indicators**

| *Name of States* | *Value of farm output per person of rural population 1975-76 (in Rs.)* | *Growth rate of production of foodgrains between the triennial ended 1961-62 & 1978-79 (%)* | *Fertilizer consumption per hectare of gross cropped area 1979-80 (in kg.)* | *Percentage of irrigated area to total area under food production 1976-77* |
|---|---|---|---|---|
| Andhra Pradesh | 506 | 1.7 | 45.1 | 40.9 |
| Assam | 453 | 2.2 | 2.1 | 32 6 |
| Bihar | 341 | 1.8 | 16.3 | 33.0 |
| Gujarat | 607 | 4.2 | 37.0 | 16 2 |
| Haryana | 1,032 | 5.1 | 40.7 | 48.0 |
| Karnataka | 592 | 3.0 | 37.2 | 15.5 |
| Kerala | 479 | 1.1 | 36.1 | 35.7 |
| Madhya Pradesh | 459 | 0.9 | 7.6 | 10.3 |
| Maharashtra | 555 | 2.5 | 21.5 | 10.4 |
| Orissa | 515 | 1.4 | 9.3 | 19.3 |
| Punjab | 1,161 | 6.4 | 108.5 | 81.9 |
| Rajasthan | 600 | 2.5 | 8.6 | 17.6 |
| Tamil Nadu | 442 | 1.9 | 75.2 | 47.8 |
| Uttar Pradesh | 427 | 2.5 | 43.6 | 40.9 |
| West Bengal | 511 | 2.5 | 31.5 | 25.5 |
| All-India | 519 | 2.6 | 41.4 | 27.3 |

*Source*: Basic Statistics Relating to Indian Economy ,Vol. 2, States, CMIE, Bombay, 1980.

the quantitative increase in the output, the industrial structure has been widely diversified, covering broadly the entire range of consumer, intermediate and capital goods sector. In most of the manufactured products, the country has achieved a large measure of self-sufficiency. Impressive as these achievements are, regional imbalances in industrial development have not been corrected to the extent required. Even within the states, industries have tended to gravitate towards existing centres, the backward areas remaining substantially untouched.

Maharashtra and Gujarat continue to be the most industrialised states in India. As seen in Table 3, during 1976-77, the highest value added by manufacture per capita (VAMP) was highest in Maharashtra (Rs. 413) and Gujarat (Rs. 322). At the other end were Bihar and Uttar Pradesh, with low VAMP levels of the order of one-fourth to one-fifth of Maharashtra and Gujarat levels. The middle group VAMP exceeding Rs. 200 included Haryana, Punjab, Karnataka, Tamil Nadu and West Bengal.

The situation with respect to the proportion of industrial workers to the total working force is similar. In 1971, it was 13 per cent or more only in Maharashtra, West Bengal, Gujarat, Kerala and Punjab. In the industrially backward States of Bihar, Uttar Pradesh, Madhya Pradesh and Rajasthan, it centred around 8 per cent.

As seen in Table 3, the expectation that massive investment in the Central sector projects would have a wide-ranging trickledown effect, in stimulation of small and ancillary industries, has not been realised. In spite of the highest investment in Bihar and Madhya Pradesh in the Central public sector undertakings, these continue to be the most backward States in the country. This only reminds us of the fact that more massive investment in a few capital-intensive dustries is not sufficient to generate widespread and sustained industrial development in otherwise backward regions. The investment policy for these regions must be structured to have strong intra-regional multiplier effects.[28]

As can be seen in Table 4, during the last two decades, the inequality as measured in terms of per capita value added in the factory sector has tended to decline significantly. The indices for the developed states of Maharashtra, Gujarat and West Bengal have shown a declining tendency over the period. However, these States are still having per capita value added higher than the all-India average. The only exception among major states is Tamil Nadu which has improved its position in relation to the all-India average. In contrast, the indices for most of the backward States have improved in relation to the all-India average. However, there has been a determination in the position of Bihar and Assam.

Building up of the infrastructure is a *sine qua non* of economic development. Economic development involves an optimal utilisation of natural and human resources in the country for the maximisation of social welfare on a continuing basis for its population. It involves maximisation in production, equity in distribution and maximisation

**Table 3**
**Industrial Indicators**

| *States* | *Per capita value added by manufacturer 1976-77 (Rs.)* | *Industrial worker as percentage of total working force 1977* | *Number of industrially backward districts* | *Backward districts as % of total area* | *Per capita financial assistance from all India financial institutions 1969-70 to 1977-78 (Rs.)* | | *Percentage share in Central Govt. investment (gross block) March 1979* |
|---|---|---|---|---|---|---|---|
| | | | | | *Sanctions* | *Disbursals* | |
| Andhra Pradesh | 119 | 11.1 | 14(22) | 73 | 44 | 27 | 3.3 |
| Assam | 118 | 5.5 | 7(10) | 77 | 28 | 25 | 2.4 |
| Bihar | 78 | 7.2 | 16(31) | 52 | 27 | 02 | 18.4 |
| Gujarat | 322 | 13.8 | 10(19) | 67 | 189 | 103 | 4.9 |
| Haryana | 203 | 12.0 | 4(11) | 39 | 92 | 62 | 1.4 |
| Karnataka | 207 | 12.5 | 11(19) | 66 | 94 | 62 | 3.4 |
| Kerala | 140 | 18.0 | 5(11) | 44 | 50 | 38 | 2.4 |
| Madhya Pradesh | 111 | 8.0 | 36(45) | 82 | 22 | 13 | 11.8 |
| Maharashtra | 413 | 14.9 | 13(26) | 54 | 131 | 99 | 6.2 |
| Orissa | 98 | 7.3 | 8(13) | 60 | 30 | 16 | 4.5 |
| Punjab | 236 | 13.3 | 5(12) | 50 | 55 | 35 | 2 2 |
| Rajasthan | 94 | 8.3 | 16(26) | 62 | 43 | 26 | 1.9 |
| Tamil Nadu | 227 | 15.2 | 9(16) | 65 | 92 | 66 | 3.9 |
| Uttar Pradesh | 91 | 7.9 | 38(57) | 68 | 38 | 19 | 4.2 |
| West Bengal | 237 | 16 0 | 13(16) | 82 | 65 | 41 | 6.9 |
| All-India | 194 | 11.2 | 262(406) | 70 | 65 | 42 | 100.0 |

Figures in brackets indicate the total number of districts.

*Source*: For Columns (2) and (8); CMIE, Basic Statistics Relating to Indian Economy, Vol. 2, States, Bombay, Nov. 1980.

**Table 4**

**Index of Per Capita Value Added in the Factory Sector**

*Index=All-India Average 100*

| | *1960-61* | *1965-66* | *1977-78* |
|---|---|---|---|
| Maharashtra | 296 | 274 | 270 |
| Gujarat | 226 | 179 | 205 |
| Haryana | — | 100 | 145 |
| West Bengal | 257 | 254 | 141 |
| Tamil Nadu | 104 | 121 | 133 |
| Punjab | 65 | 162 | 114 |
| Karnataka | 61 | 82 | 92 |
| Assam | 113 | 51 | 79 |
| Kerala | 70 | 62 | 74 |
| Andhra Pradesh | 39 | 44 | 63 |
| Madhya Pradesh | 35 | 38 | 56 |
| Orissa | 22 | 64 | 50 |
| Rajasthan | 22 | 28 | 49 |
| Bihar | 61 | 62 | 48 |
| Uttar Pradesh | 39 | 41 | 40 |

*Source*: CMIE, Basic Statistics Relating to Indian Economy, Vol. 2, States, November 1980.

in employment. This, in turn, implies not only savings, investment and capital formation but also the creation and maintenance of an infrastructure. Such an infrastructure has to serve both human and non-human capital requirements. And it has to be adequate in volume, appropriate in its mix and co-ordination and be accompanied by an efficient system of maintenance, repairs replacements and extensions. It is only such an infrastructure that can keep the economic machine in continuous motion and enable an optimal utilisation of national resources.[29]

In spite of such an importance of infrastructural facilities in economic development, imbalances continued to exist in India. These have not only slowed down the pace of our economic growth but also weakened the economic unity of India. There exist wide variations in the availability of infrastructural facilities among various States. A look at Table 5 indicates that while the per capita power consumption in Andhra Pradesh, Assam, Bihar, Kerala, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal was

**Table 5**

**Infrastructure Indicators**

| *States* | *Per capita power consumption in Kwh 1979-80* | *Percentage of villages electrified 1980* | *Road length in km per 100 sq. km of area 1972* | *Railway route length in km per 1000 sq. km of area 1979* | *Number of Post offices per lakh of population 1980* | *Literacy percentage 1981* | *Number of hospitals per 1000 sq. km* | *Composite Index* |
|---|---|---|---|---|---|---|---|---|
| Andhra Pradesh | 95 | 63.4 | 38 | 17 | 31.3 | 29.9 | 2.1 | 88 |
| Assam | 34 | 20.8 | 73 | 28 | 16.1 | — | 0.7 | 88 |
| Bihar | 79 | 30.5 | 46 | 31 | 15.2 | 26.0 | 1.2 | 100 |
| Gujarat | 240 | 64.1 | 27 | 29 | 25.9 | 43.8 | 1.0 | 121 |
| Haryana | 250 | 100 | 67 | 33 | 19.7 | 35 8 | 1.9 | 153 |
| Karnataka | 153 | 61.4 | 55 | 15 | 26.6 | 38.4 | 1.8 | 97 |
| Kerala | 104 | 100 | 232 | 23 | 17.8 | 69.2 | 19.5 | 147 |
| Madhya Pradesh | 99 | 33.3 | 23 | 13 | 19.0 | 27.8 | 0.6 | 61 |
| Maharashtra | 223 | 73.8 | 53 | 17 | 18.6 | 47.4 | 2.5 | 117 |
| Orissa | 116 | 37.3 | 74 | 12 | 27.0 | 34.1 | 1.6 | 80 |
| Punjab | 328 | 100 | 90 | 43 | 23.6 | 40.7 | 2.9 | 207 |
| Rajasthan | 104 | 43.3 | 18 | 16 | 28.5 | 24.1 | 20.8 | 70 |
| Tamil Nadu | 181 | 99.0 | 130 | 29 | 24.9 | 45.8 | 2.9 | 142 |
| Uttar Pradesh | 96 | 35.7 | 63 | 30 | 16.8 | 27.4 | 2.4 | 113 |
| West Bengal | 113 | 35.4 | 158 | 42 | 14.2 | 40.9 | 3.9 | 144 |
| All-India | 134 | 45.1 | 49.0 | 18.0 | 21.0 | 36.2 | 1.6 | 100 |

*Sources*: 1. Columns 1 to 8, *Commerce*, Annual Number, 1980.
2. Column 9, CMIE, Basic Statistics Relating to Indias Economy, Nov, 1980.

lower than the all-India average of 134 Kwh in 1979, it was above the average in Gujarat, Haryana, Maharashtra, Punjab and Tamil Nadu. The difference between the highest and the lowest per capita power consumption was also substantial. With 328 Kwh Punjab ranked the first among all the States in the country while it was as low as 34 Kwh in Assam. The same imbalance prevails in rural electrification. While Punjab, Haryana and Kerala had achieved 100 per cent rural electrification by August 1980, it was as low as 20 per cent in Assam, 31 per cent in Bihar and 33 per cent in Madhya Pradesh. In the field of road transport also, disparities were equally glaring. For example, with 232 km. of road length per 100 sq. km. of area at the end of March 1979, Kerala ranked the first in the country. On the other hand, the road length per 100 sq. km. of area was as low as 18 km. in Rajasthan, 23 km. in Madhya Pradesh and 27 km. in Gujarat.

The composite index of the level of infrastructural development for 1978-79 stood at the highest level in Punjab (207) and at the lowest (61) in Madhya Pradesh. This index is a weighted sum of eight indicators, measuring the availability of power, road and railway transport, the development of irrigation, communications, health, education and banking facilities.

As seen in Table 6, the physical quality of life index[30] has been highest for Kerala (100) and the lowest for Uttar Pradesh. The index exceeded 50 for only Haryana, Punjab and Maharashtra. For Andhra Pradesh, Bihar, Gujarat, Madhya Pradesh and Assam, it was lower than 25. For rest of the states, it ranged between 25 and 50.

Some of the indicators summarised in Tables 5 and 6 show that the literacy rate still ranges from 26 per cent in Bihar to 69 per cent in Kerala, the expenditure on health from Rs. 11 in Uttar Pradesh to Rs. 28 in Haryana; and the expenditure on education from Rs. 27 in Bihar to Rs. 76 in Kerala.

Thus, from the point of view of social indicators also, there exist among States wide variations in the availability of social services such as education and health. One interesting point to note is that though Gujarat has a high industrial development status, it remains backward in social services development. On the other hand, Kerala suffers from a high incidence of poverty and unemployment; it has managed to acquire a high social service rating because of the high priority given to the development of health and education services in its successive five-year plans. Although economic backwardness has generally been associated with the low level of social service

**Table 6**
**Social Service Indicators**

| *States* | *Per capita expenditure on health (in Rs.) 1979-80* | *Per capita expenditure on education 1979-80* | *Infant mortality per 100 life birth 1971* | *Life expectancy at birth 1971* | *Physical quality life index* |
|---|---|---|---|---|---|
| Andhra Pradesh | 21.2 | 36.5 | 113.69 | 53.89 | 20.6 |
| Assam | 17.0 | 38.1 | 112.22 | 53.53 | 22.7 |
| Bihar | 12.2 | 27.7 | 103.62 | 54.70 | 23.4 |
| Gujarat | 22.9 | 47.9 | 152.20 | 55.33 | 24.0 |
| Haryana | 28.0 | 46.4 | 100.00 | 60.00 | 52.1 |
| Karnataka | 19.9 | 43.1 | 100.27 | 50.52 | 37.6 |
| Kerala | 28.7 | 76.5 | 55.65 | 61.00 | 100.00 |
| Madhya Pradesh | 17.2 | 29.9 | 151.69 | 53.89 | 14.8 |
| Maharashtra | 24.8 | 51.6 | 97.32 | 58.72 | 57.6 |
| Orissa | 17.2 | 37.6 | 103.30 | 56.30 | 35.2 |
| Punjab | 30.6 | 58.8 | 103.29 | 61.23 | 61.6 |
| Rajasthan | 25.3 | 39.1 | 147.80 | 60.23 | 31.4 |
| Tamil Nadu | 20.9 | 45.9 | 116.20 | 55.00 | 36.4 |
| Uttar Pradesh | 11.7 | 27.7 | 159.26 | 54.29 | 5.3 |
| West Bengal | 22.0 | 43.2 | 100.25 | 57.26 | 45.8 |
| All-India | 20.2 | 40.1 | — | — | — |

*Source*: 1. Columns 2 and 3—Reserve Bank of India Bulletin, September-October, 1979.
2. Columns 5 and 6 CMIE, Basic Statistics Relating to Indian Economy, Col. 2 States, November, 1980.

development, Indian experience reveals that it is possible for a particular region to be economically better off and socially backward and vice-versa.

"Inequality and the trend towards rising inequality stand as a complex of inhibitions and obstacles to development and, consequently, there is an urgent need for reversing the trend and creating greater equality", observed Prof. Gunner Myrdal in his book *Asian Drama*. However, contrary to it the figures presented in Tables 7-A and 7-B depict a different story. Nowhere in the plan period an earnest attempt was made to reduce the inequality in resource allocation for development. Although one of the important objectives of the five-year plans in India has been the removal of regional disparities, which would also mean inter-State disparities, yet a look at Table 7-A indicates that from plan to plan the per capita plan outlay of backward States not only compares badly with that of the richer States but has undergone a relative deterioration.

The per capita allocation of the plan outlay of Haryana has increased to Rs. 481 by the end of the Fifth Plan from Rs. 91 in 1966-67 whereas the per capita plan outlay of Bihar has increased from Rs. 40 to Rs. 155 during the same period. All along the three decades of the plan period, the per capita plan outlay for Bihar remained the lowest among the States and it has consequently been below the national average. As a result, the growth rate of the backward States has always been low and has resulted in further accentuating the regional disparities.

In fact, the ability of Bihar in raising its own resources for development purposes is low and much less than that of the richer States. The per capita tax revenue collected in 1979-80 was highest at Rs. 174 for Punjab and lowest at Rs. 40 for Bihar. The percentage of tax revenue to net the domestic product for 1977-78 was highest for Punjab (10.32) and lowest for Bihar (5.78).

As a result, the more advanced States like Punjab and Haryana have a per capita development expenditure of about three times the level of the less developed States. Consequently, the rate of economic development is faster in the more developed States which leads to an accentuation of the existing regional balance.

Since finance is the life-blood of a government, some of the most important problems in a federation arise in that sphere. Important among those problems are the division of tax powers and the evolving of the methods of adjustment of finances between the Centre and the States to keep them in equilibrium. As a system of government, the chief strength of federalism lies in the opportunities

**Table 7A**
**Resource Allocation Indicators Per Capita Plans Outlays**

(Rupees)

| *Major States* | *First Plan 1951-56* | *Second Plan 1956-61* | *Third Plan 1961-66* | *Annual Plans 1966-69* | *Fourth Plan 1969-74* | *Fifth Plan 1974-78 Four years* | *Revised Sixth Plan 1978-83* | *Sixth Plan 1980-85* |
|---|---|---|---|---|---|---|---|---|
| Haryana | — | — | — | 91 | 358 | 481 | 1,179 | NA |
| Punjab | 175 | 146 | 212 | 90 | 316 | 531 | 943 | 1,238.60 |
| Maharashtra | 37 | 57 | 103 | 83 | 199 | 372 | 782 | 1,032.60 |
| Gujarat | 58 | 76 | 108 | 84 | 204 | 376 | 784 | 1,135.80 |
| Madhya Pradesh | 34 | 48 | 84 | 44 | 114 | 254 | 603 | 732.18 |
| Karnataka | 46 | 62 | 100 | 70 | 128 | 276 | 555 | 647.14 |
| Rajasthan | 39 | 53 | 97 | 56 | 120 | 237 | 532 | 621.16 |
| West Bengal | 54 | 48 | 80 | 39 | 82 | 200 | 509 | 638.68 |
| Andhra Pradesh | 33 | 52 | 91 | 58 | 98 | 236 | 491 | 613.65 |
| Kerala | 31 | 49 | 101 | 73 | 156 | 224 | 467 | 607.84 |
| Tamil Nadu | 28 | 57 | 98 | 71 | 134 | 201 | 458 | 674.52 |
| Uttar Pradesh | 25 | 32 | 72 | 53 | 132 | 237 | 440 | 563.04 |
| Assam | 29 | 57 | 103 | 61 | 136 | 190 | 433 | 563.13 |
| Orissa | 56 | 54 | 120 | 60 | 113 | 207 | 421 | 563.91 |
| Bihar | 25 | 40 | 67 | 40 | 85 | 155 | 371 | 481.34 |
| All-India | 38 | 51 | 92 | 61 | 142 | 262 | 560 | 747.35 |

*Source*: 1. D.T. Lakdawala, Plan Finances in a Federal Economy, Dr. V.S. Krishna Memorial Lecture, March 1979.
2. Planning Commission, Draft Sixth Five-Year Plan (Revised) 1978-82, New Delhi, March 1980.

**Table 7B**
**Economic Indicators**

| *Major States* 1 | *Per capita development expenditure 1979-80* (*Rs.*) 2 | *Per capita non-development expenditure 1979-80* (*Rs.*) 3 | *Per eapita tax-revenue collect 1977-78* (*Rs.*) 4 | *Per capita tax revenue as per cent of State income 1976-77* (*Rs.*) 5 | *Per capita tax revenue to net domestics product 1977-78* (*Rs.*) 6 |
|---|---|---|---|---|---|
| Haryana | 280 | 67 | 147 | 9.4 | 9.73 |
| Punjab | 242 | 72 | 174 | 8.2 | 10.32 |
| Karnataka | 208 | 58 | 102 | 9.2 | 9.11 |
| Maharashtra | 207 | 87 | 141 | 9.0 | 9.74 |
| Kerala | 200 | 54 | 100 | 9.0 | 9.74 |
| Gujarat | 194 | 64 | 124 | 8.4 | 10.13 |
| Orissa | 180 | 46 | 38 | 4.0* | 4.45 |
| Andhra Pradesh | 177 | 45 | 85 | 8.8 | 8.56 |
| Rajasthan | 172 | 51 | 67 | 6.7 | 7.13 |
| West Bengal | 157 | 47 | 87 | 6.9 | 7.64 |
| Madhya Pradesh | 148 | 38 | 62 | 8.0 | 7.19 |
| Tamil Nadu | 138 | 55 | 87 | 8.8 | 8.76 |
| Assam | 137 | 41 | 54 | 5.3 | 6.06 |
| Uttar Pradesh | 116 | 43 | 53 | 6.3 | 6.94 |
| Bihar | 98 | 31 | 40 | 5.3 | 5.78 |
| All-India | 167 | 53 | — | — | — |

*Sources*: *relates to 1975-76.
(1) Columns 2 and 3, *R.B.I. Bulletin*, Sept-Oct. 1979.
(2) Columns 4 and 6, D.T. Lakdawala, op. cit. Column *Economic Trends*, April 1-15, 1979 FICCI, New Delhi.

it provides for decentralisation of decision-making and for greater responsiveness on the part of the governments to diverse interests in the communities they represent, within a unified planning and policy framework, which permits centralised decision-making where this is more efficient and also offers scope for achieving greater equality between and within States.[31]

Thus, federalism has been conceived as a means of reconciling unity, efficiency and equality in government with decentralisation, responsiveness and diversity. By and large, the problems of finance in a federation fall into two major groups.[32] One group relates to balancing the resources and responsibilities at each level, the other relates to the Central intervention:

(a) to bring about more efficient solutions in area where the autonomous actions of the regional governments may lead to less-than-optimum solutions, and
(b) to reduce inequalities between regions and to ensure horizontal equality.

Although both these problems are interrelated, we shall discuss only the second as it directly concerns fiscal equalisation.

Invariably in every federation, there exist vertical as well as horizontal fiscal imbalances. Vertical fiscal balance has been defined as a situation in which government at each level can command the financial resources necessary for it to carry out its expenditure responsibilities and be held accountable for both spending and taxing decisions.[33] As expenditure needs change overtime, vertical balance implies the existence of a flexible source of taxation revenue for each level of government. Vertical imbalance arises because of:

(i) the concentration of financial power and flexible revenue resources in the hands of the union Government; and
(ii) the rapid growth in the costs of providing education, health, transport and urban measures for which the States continue to have the main responsibility.

Horizontal fiscal balance has been defined as a situation in which each State in a federal system has the capacity to provide services at a standard comparable to that of other States provided that it imposes taxes and charges at a comparable standard. However, States Governments cannot be expected to have equal fiscal capacity except by change. Horizontal fiscal balance implies the existence of some form of revenue-sharing arrangements or equalisation grants to remove the inequalities.

The achievements of vertical fiscal balance is not dependent on revenue-sharing or inter-governmental grants arrangements as it is possible to conceive of the system of responsibility-sharing without revenue-sharing. However, inter-governmental fiscal equalisation in one form or the other is a necessary condition for horizontal fiscal balance. In fact, an effective system of fiscal equalisation is one of the principal requirements for an efficient, equitable and responsive federal system. In other words, it is the means of reconciling equality and diversity, of giving all citizens in the federation access to public goods and services on a comparable basis while simultaneously permitting greater freedem of choice in relation to the scale, pattern and financing of these services.[34]

Fiscal equalisation is increasingly becoming an important element in determining the flow of inter-governmental transfers in every federation. In Canada, equalisation grants are given to those provinces which are below the national average in terms of revenue-raising capacity. In the United States, the State and Local Assistance Act, 1972, provides for some measure of equalisation by giving grants which are generally higher in per capita terms for low-income states than for higher income states.[36] Among the older federations, Australia perhaps has a minimum of inter state income inequalities.[37] However, fiscal equalisation is attempted through special grants, paid to less populous or financially weaker states.[38] Inter-governmental financial transfers in India are determined by the Finance Commission and the Planning Commission. However, for the type of equalisation needed in India, the approach of the Planning Commission is more appropriate.

By and large, there seems to be a consensus among federations for giving a relatively larger assistance to the financially weaker states. However, they have yet to solve the question as to how much more it should be. In fact, much will depend on how fiscal equalisation is defined or on what exactly is sought to be equalised.

The concept of equalisation has been interpreted from one extreme to the other. At the one extreme, it can mean equal, absolute federal payments to each State, regardless of differences in their needs and capacities and, at the other, a hypothetical situation where not only the federal payments are made exclusive to the poor states but also the whole grant funds are raised in the richer states alone. Between these extremes, equalisation can mean equal per capita payments to all states or equal payments per programme units. By and large, some equalisation schemes seek to equalise the performance levels of certain services, thereby unequal per capita federal support for the states. Contrarily, the other approach may tend to equalise fiscal capacities of different states, leaving actual performance levels to the discretion of individual states.[39]

Which of the courses discussed above is actually adopted will depend on a number of factors, such as the extent and nature of inter-state economic disparities and the general philosophy regarding the role of government in the economic life of a country. The distinctive features of the problem of regional inequalities in India demand an approach to equalisation which seeks the removal of inter-state inequalities.

The problem of inter-state inequalities exists in almost all federations in some form or another. However, certain features of inequality prevailing among the States make the problem qualitatively different from that in the developed federations.

The older federations like the U.S.A., Australia and Canada are highly developed countries. These federations have relatively very little backward areas. As a result, the cost of financing development is well within the reach of the federal government. Besides, the unit governments are also financially very sound. But in the case of the Indian federation, the size of the backward areas is larger. Out of the 402 districts in the country, 262 districts have been declared industrially backward. Moreover, the financial capacity of the Central Government as well as the Governments of the better-off States to help backward states is severely limited by the overall scarcity of financial resources.

Again, there exists a wide gap between the levels of development in the backward regions of developed federations and the backward states. The backward areas in advanced federations are generally those where the problem is of arrested growth. In these areas, the basic conditions of growth such as high literacy rates, availability of skilled and semi-skilled labour and adequate transport and communication facilities already exist, whereas backward states in India have yet to be touched by the process of economic development. Most of these states remain industrially and agriculturally backward and the basic economic and social infrastructure has yet to be developed to reach the national average.

These distinctions have two important policy implications,[40] viz. (i) it underlies the magnitude of the problem in India; and (ii) it provides justification for treating the issue of fiscal equalisation as part and parcel of the problem of national growth instead of treating it as a problem of income distribution. The type of equalisation relevant for India cannot be achieved merely by income transfer alone. Financial assistance has to be an integrated part of the long-term developmental strategy. In fact, discriminatory transfers to less developed states should invariably aim at equalising the opportunities for growth.

Since the major elastic sources of tax revenue were allocated to the Central Government, the Constitution did acknowledge that the resources of the State Governments would prove inadequate for the discharge of their functions. Accordingly, it provided for the obligatory sharing of income-tax receipts (Article 270) and permissive sharing of excise duties (Article 272) between the Centre and the States and grants-in-aid of the revenue to the States (Article 275). Articles 268 and 269 mention items of taxes which are to be allocated completely to the States, whether collected by the Centre or by the States.

In addition to such assistance to the States by the Centre, Article 282 provides for grants by the Centre to the States for public purposes. Further, Article 293(1) provided for loan assistance by the Centre to the States. The Article states: "The Government of India may . . . . make loans to any State . . . ." In fact, this is also a permissive provision and not an obligation on the part of the Centre.

However, the Constitution did not indicate either the total share of States or the allocation principle with regard to income tax, excise duty or grants-in-aid except that these were to be decided by the Finance Commission (Article 280). Thus, the total share of the States as well as its allocation among them has been governed by periodical awards of the Finance Commission. Both the grants and the loans provided by the Centre to the States under Articles 282 and 293 are determined by the Planning Commission on the basis of the overall plan needs of both the Centre and the States.

Thus, inter-governmental transfers are determined by the Finance Commission and the Planning Commission.

Fiscal equalisation has not been expressed as an explicit objective by any of the finance commissions. However, a reference was made in the terms of reference of the Sixth Finance Commission which states that "the commission shall make recommendations as to the requirements of states which are backward in standards of general administration for upgrading the administration with a view to bringing it to the levels obtaining in the more advanced States."[41] Since then it is being mentioned in the terms of reference of the subsequent finance commissions. In fact, indirect references have often been made by the earlier finance commission to the desirability of bringing about a reduction in inter-state inequalities. The First

Finance Commission listed this aim as one of the main considerations which shaped their recommendations.[42] The Second Finance Commission showed its preference for some kind of equalisation when it criticised as inequitable the weight given to the collection factor in the distribution of income-tax revenue.[43] The Fourth and Fifth Finance Commissions decided to distribute part of the excise revenue on the basis of the relative economic and social backwardness of the State.[44] The Sixth Finance Commission has given further recognition to the special difficulties of backward States, and, for the first time, has given them access to resources on a liberal scale to come up to the national average in important administrative and social services.[45] The Seventh Finance Commission did more in this direction.[46] It decided that the shares of the States in the divisible pool of excise be determined by giving equal weight to the population factor, the inverse of the per capita SDP, the percentage of the poor in each State and a formula of revenue equalisation.[47]

Each finance commission had evolved its own method of assessing the relative backwardness of the States. In view of the smallness of the net proceeds of excise, its effect on reduction of inter-state imbalance has been modest. By and large, they have never attempted a critical evaluation of the overall distributional pattern resulting from their recommendations. Nor have they tried to adopt a specific model of equalisation on which to base their recommendations.[48]

With regard to tax-sharing, the States' share in income-tax revenue has invariably been distributed on the basis of State population and collection of such revenue in each State. At present, the percentage weights given to the population and collection factors are 90 and 10, respectively. The Second, Fifth and Sixth Finance Commissions had also recommended the same weightage; it was 80 and 20 under the recommendations of the First, Third and the Fourth Finance Commissions.[49]

The size of the devolution of the excise duties has been increasing on the recommendations of the successive finance commissions. From 40 per cent on tobacco, matches and vegetable products (First Finance Commission) it has been enlarged to 40 per cent of excise on all commodities (Seventh Finance Commission). In adition, the entire collection of electricity duty attributable to each State is being transferred to them since 1979-80. The inter-state distribution of excise revenues, more or less, is based on a formula which makes some explicit commitment to equalisation. The First Finance commission felt that the objectives of having an equitable distribution to augment the resources of a State could be achieved only by distribution on the basis of population. The Second Finance Commission felt it necessary to apply a corrective in favour of those States which were not getting full benefit due to distribution only on population basis. Thus, they worked out the States' share as 90 per cent on the basis of population and 10 per cent for adjustment purposes. The Third Finance Commission followed the principles laid down by the earlier commission but put emphasis for adjustment to be made on the basis of relative financial weakness, disparity in development, percentage of the scheduled castes, the scheduled tribes, etc., among the states. The Fourth Finance Commission felt that population should be a major factor in determining the distribution. It laid emphasis on taking into account the relative economic and social backwardness of a State. It distributed the states' share of 80 per cent on the basis of population and 20 per cent on the basis of relative backwardness. The Fifth Finance Commission, more or less, followed the recommendations of its predecessor except that of the 20 per cent, two-thirds was to be distributed only among states with a per capita income below the per capita income of all the states and one-third on the basis of relative backwardness. The Sixth Finance Commission only increased the weightage of backwardness from 20 per cent to 25 per cent. The Seventh Finance Commission, however, departed from the earlier principles and recommended that the share of States in the divisible pool of excise be determined by giving 25 per cent weightage each to the population, inverse of the per capita state domestic product, percentage of the poor in each State and revenue equalisation.[50]

Thus, in spite of the work of seven finance commissions, no definite rational principle has yet been evolved to determine:

(i) the total share of the States in the Centre's tax resources, and

(ii) the relative share of each State.

This indeed is a very unsatisfactory state of affairs and provides scope each time that a finance commission is appointed for a variety of pressures and pulls to modify the awards of the previous finance commissions.[51]

With regard to the grants-in-aid, the approach of the finance commissions seems to be most unsatisfactory. Grants-in-aid were recommended by the First Finance Commission only for the seven States after taking into account the budgetary needs of the states, the standard of social services, special obligations imposed on the states and certain broad purposes of national importance. The commission also recommended a special grant to some states in which school enrolment was below the national average. In fact, it was an attempt in the direction of equalisation of performance levels of primary education in the States. Since the Planning commission provided for the expansion of social services, the Second Finance Commission did not go into the question of the maintenance of the minimum social service.[52] The Third Finance Commission recommended additional grants to the States for improvement of their communications. Since then, the involvement of the Finance Commission in the levels of social services in the States has been discontinued. This discontinuance has been criticised as an abdication of its responsibility.[53]

The Sixth Finance Commission made the most significant departure from the approach of earlier finance commissions of enabling the States that were backward in standards of general administration to come up to a certain minimum level. For this purpose, the commission identified certain administrative and social services as of crucial importance. However, the Seventh Finance Commission used the grants-in-aid only as a residual item to fill the revenue gaps of the States which are left in spite of the larger devolution of tax shares and debt relief.[54]

In view of the particular type of equalisation needed in India, the approach of the Planning Commission is even more important than that of the Finance Commission. The States are called upon to share with the Centre almost equal responsibility for financing plan outlays. However, the financial resources available to the States are higely inadequate to meet their needs of plan finances. Thus, a transfer of resources is inevitable if the States are to carry out their development programmes.

Until the beginning of the Fourth Plan, there were no definite principles for inter-state distribution of plan assistance. In fact, the nature of this assistance was such as to create inflexibility in its use and inequity in allocation.[55]

The size of the State plan outlays was determined mainly by the amount of 'own' resources and partly by other factors such as the carryover from an earlier plan or the progress on multipurpose river valley projects. As seen in Table 8, the distribution of the Central assistance did not specifically benefit the poor States.

To simplify the procedure for the release of the Central assistance, to avoid adoption of standard schemes unsuited to local conditions and needs as well as to ensure equity among States in ragard to the grants assistance to the plan, it was decided that in future there would be no schematic patterns of assistance. In 1969, the Planning Commission, in agreement with the Central and State Governments, evolved a rational óbjective formula. The accepted formula is also known as the Gadgil Formula. The formula states:

> "after providing for the requirements of Assam, Nagaland and Jammu & Kashmir, the Central assistance to the remaining States for the Fourth Plan be distributed to the extent of 60 per cent on the basis of their population, 10 per cent on their per capita income if below the national average, and 10 per cent on the basis of tax effort in relation to the per capita income, and that another 10 per cent be allotted in proportion to the commitments in respect of major continuing irrigation and power projects. The remaining 10 per cent, it was decided, should be distributed among the States so as to assist them in tackling certain special problems, like those relating to the metropolitan areas, floods, chronically drought-affected areas, and tribal areas.[56]

However, when evaluated from the standpoint of inter-state equalisation and the co-ordination of Central and State Governments efforts, the formula does not appear to be an improvement over earlier arrangements.[57] If it is an improvement, it is only in the sense that the weight given to the equalisation objective has now become definitive.[58] Table 8 which deals with the comparison of the per capita Central assistance under the Fourth Plan with that under the earlier plans shows that the new approach has not resulted in any larger weight being given to the equalisation objective.

The Committee on Centre-State Financial relations, appointed by the Prime Minister recommended that, instead of wholesale revision of the Gadgil formula, the Central assistance should be divided into two parts: that available without any transfer of Centrally sponsored schemes to be distributed on the basis of the Gadgil formula and the amount available as a result of transfer of Centrally sponsored schemes to the states on the basis of a formula linked to income-adjusted total population. The formula has been evolved on the basis of population multiplied by the inverse of the per capita income. It is popularly known as the Income Adjusted Total Population (IATP).

However, both the Gadgil formula as well as the IATP formula give undue emphasis to the population basis of assistance. The population criterion is a neutral criterion and does not serve the equity objective.

The promotion of planned regional development has been major

**Table 8**
**Average Annual per capita Central Assistance**

(*in Rs.*)

| *Major States* | *Second Plan* | *Third Plan* | *Annual Plans 1966-69* | *Fourth Plan 1969-74* |
|---|---|---|---|---|
| Punjab | 9.69 | 13.23 | 13.30 | 14.03 |
| West Bengal | 4.84 | 8.89 | 9.40 | 10.10 |
| Gujarat | 5.38 | 10.81 | 10.78 | 12.20 |
| Maharashtra | 4.15 | 8.43 | 8.23 | 10.04 |
| Kerala | 4.98 | 14.40 | 15.62 | 16.82 |
| Tamil Nadu | 5.97 | 11.08 | 11.00 | 10.40 |
| Haryana | — | — | 17.50 | 16.03 |
| Average 1—7 | 5.59 | 10.66 | 10.91 | 11.67 |
| Mysore | 6.28 | 13.27 | 13.75 | 12.07 |
| Andhra Pradesh | 5.73 | 12.25 | 14.60 | 11.31 |
| Uttar Pradesh | 3.52 | 9.66 | 10.49 | 11.83 |
| Bihar | 3.93 | 9.29 | 9.64 | 11.98 |
| Orissa | 8.17 | 15.58 | 13.73 | 15.12 |
| Rajasthan | 6.58 | 16.01 | 17.11 | 17.18 |
| Madhya Pradesh | 6.61 | 13.56 | 12.91 | 13.16 |
| Average 8-14 | 5.22 | 11.74 | 12.35 | 12.67 |

*Source*: Fiscal Equalisation in a Federal System, op. cit, Table IV-3.

objectives of our planning and the Central assistance has to play a positive role in reducing inter-state disparities in the economic development. However, as seen in Table 9, during 1951-79, the per capita plan outlays of the poorer states have deteriorated. For the period, the highest per capita plan outlay of Rs. 1,660 was for Punjab and the lowest of Rs. 479 for Bihar. The outlay for Punjab was Rs. 929 more than the state average whereas it was Rs. 2[illegible]5 below for Bihar.

It has also been shown by many studies that the Finance Commission transfers during 1956-57 have not been very progressive. I.S. Gulati and K.K. George have demonstrated that during the whole period up to the Fifth Plan, the per capita statutory transfer to four States with the lowest per capita income was less than to five States with the highest per capita income. The six middle-income States also receive less than the five States with the highest per capita income.[59]

**Table 9**

| *Major States* | *Per capita plan outlays* | *Deviation from average* |
|---|---|---|
| Punjab | 1,660 | +926 |
| Haryana | 1,671 | +937 |
| Maharashtra | 997 | +263 |
| Gujarat | 1,032 | +298 |
| Karnataka | 768 | + 3[illegible] |
| West Bengal | 586 | —148 |
| Kerala | 708 | — 25 |
| Tamil Nadu | 660 | — 74 |
| Andhra Pradesh | 669 | — 65 |
| Rajasthan | 695 | — 39 |
| Orissa | 696 | — 38 |
| Madhya Pradesh | 667 | — 67 |
| Uttar Pradesh | 636 | — 98 |
| Bihar | 479 | —255 |
| State average— | 734 | |

*Source*: "Inter-State Disparities", State Planning Institute, Government of Uttar Pradesh.

Similar trend continued with the award of the Sixth Finance Commission. A. Bagchi in his study has shown that three States with the lowest per capita income received smaller amounts per capita than the five States with the highest per capita income.[60] It has been further corroborated by a recent study of the National Institute of Public Finance and Policy. The study has shown that some of the poorer States, like Bihar, Madhya Pradesh and Uttar Pradesh, have got substantially lower per capita transfers than the all-states average both during the annual plans and the Fourth Plan periods.[61] Thus, the system of devolution and grants-in-aid adopted by the finance commissions, while progressive in the sense of devolving funds per capita which form a larger proportion of lower per capita revenues, has not been systematically designed to lift up the poorest States.[62] As a result, in spite of the award of successive finance commissions, disparities in the standards of important services have been widened.

The progressivity of past transfers of resources has been the main cause of the persistent regional imbalances.[63] If the inherited disparities are to be reduced, an element of high degree of progressivity has to be introduced. The present structure of inter-governmental transfers in India is hardly based on a rational appraisal of the issues involved. It is too deeply rooted in the decisions of the past and can hardly be considered to promote equalisation in any sense. This is more true in the case of the Finance Commission. Successive finance commissions have continued to follow Sir Otto Niemeyer's approach which was meant for a colonial country. In fact, their approach has been out of date and out of tune with the changed objectives of public and needs of the country.[64] Consequently, the financial transfers from the centre to the States only make insignificant contribution to the objective of equalisation,

The multiplicity of agencies making uncoordinated recommendations for various categories of transfers adds to the difficulties. In the area of grants-in-aid, confusion has arisen because the Planning Commission has encroached upon the field of the Finance Commission and started making current transfer in respect of expenditure on revenue account.[65] However, this is not the basic cause of the issue; the main issue is to evolve a rational approach to which the different agencies may be made to subscribe.

If the nation is really interested in the removal of inter-regional inequalities, a strategy of regional development involving

(a) the identification of backward regions;

(b) the assessment of their growth potential;

(c) the formulation of plans to exploit fully the growth potential over a specified time period; and

(d) assessment of the fiscal capacity of each State

have to be evolved. The financial component of the plans thus formulated will indicate the warranted level of expenditure. On the other hand, the estimates of fiscal capacity will yield the level of warranted 'own' revenue to be raised by each State to help finance the level of warranted expenditure in the State. The amount of equalisation grant for each State may then be calculated simply as difference between the warranted expenditure and warranted revenue.

However, from an operational point of veiw, this approach requires precedence to be given to the Planning Commission over Finance Commission as equalisation grant need to be specifically related to the plan expenditure of the States. Under the present financial arrangement, the Finance Commission cannot achieve fiscal equalisation; at best the Planning Commission perhaps can.

To achieve fiscal equalisation in the desired direction, what is needed is the introduction of more and more progressiveness in the transfer of resources from the Centre to the States. The main factors influencing the resource transfer either through the Finance Commission or the Planning Commission have been (1) population, (2) tax collection, (3) some index of backwardness and (4) outlays required for large irrigation and power projects or the upgradation of particular services.

Since population is a natural criterion and does not serve the equity objectives, the undue importance assigned to it in various formulae should be minimised. Also allocations in proportion to tax effort and the expenditure on big projects generally tend to be progressive as tax collections and the expenditure on big projects are systematically higher in States with per capita higher income. Thus, it is in the interest of fiscal equalisation that these criteria should be dispensed with from all formulae dealing with inter-governmental financial transfers. What is needed most is that allocations be made only in terms of State backwardness and the index to judge the backwardness should be the poverty ratio as one of the avowed objectives of the Five-Year Plan, in the eradication of poverty and attainment of full employment. The nation cannot escape its obligations to assist the poor States. The nation is too volatile to accept for long the prospect for fewer States and stagnation for the majority. With alteration and adaptation, the existing framework of both the Finance Commission and the Planning Commission can accomplish the purpose.

At present, the dialogue between the backward States and the Centre reflects complete surrender or more confrontation, depending on the political equation between the Centre and the States. Sometimes it is more a rhetoric than a joint quest, more an ultimatum than an understanding and more a hostility than a sympathy. The real issue of bringing fiscal equalities and removal of inter-state imbalances is in danger of becoming lost for the meagre satisfactions of political posturing.

India today is at the crossroads. A crossroad implies an opportunity to carry foward in the direction one has come, or to change direction. I believe the nation will choose the other way. In the words of our Prime Minister: "Let us help them to lend their energies with unity and discipline in the great endeavour to reach towards a brighter future".[66]

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# 18

# Regional Imbalances in Co-operative Marketing Structure and Economic Development of India with Particular Reference to Bihar

BY

INDRA KANT JHA

IN underdeveloped countries like India, the chief objective of an economic plan is to bring into existence new forms of productive capital which will add to the people's income, give them adequate employment and remove the problems associated with mass proverty. Despite consistent efforts to achieve these objectives over the years, the country has not been able to attain to high degree of development on these fronts and is an example of a "dual society" which comprises "a better-off" urban India and a woefully poor rural India. The main contributory factor for this state of affairs is regional and inter-regional imbalances. This study will highlight regional imbalances in relation to "agricultural cooperative marketing structure" which has been one of the important obstacles to economic development of the state of Bihar.

Marketing is an extension of the function of production. However, at the existing stage of development of this country, this has assumed the most crucial significance. Over the years, the basis of agricultural production was production for self-consumption. There was not much agricultural surplus and the little that there was began to be marketed through the traditional hats, bazars, traders, and moneylenders. The problem of marketing assumed considerable concern after the Green Revolution in this country during the mid-sixties. With the modernization of agriculture and introduction of high-yielding varieties of seeds together with provision of water and fertilizer as well as several other requisites of advanced agriculture, farm output increased by three to four times over traditional agriculture. Obviously, agricultural surplus at the farmers' level emerged and the problem was how to dispose of the surplus produce so that the farmer gets a fair return over sizable investment which he had to make for producing the stuff. The outlook of the farmer has changed. He is now not producing for self-consumption but for the market. Surely, traditional marketing structure is not appropriate to his needs. The defect of traditional marketing is well-known and modernization of agriculture could not be sustained by the traditional marketing structure. It was realised by planners, administratiors, economists and the farmers themselves that it was not enough to produce the crop or an animal product like eggs or milk but it must be marketed well. Indeed, modern agricultural production requires that the farmers must identify and assess their marketing channels and have the strategy of marketing their produce.

Under the traditional marketing system, the concept of marketing was very limited. Today agricultural marketing is conceived in a very wide sense, involving all aspects of market structure, both functional and institutional, based on technical and economic considerations and includes pre- and post-harvest operations, assembly, grading, transportation, storage and sale to the consumer. The modernization of agriculture cannot proceed far unless appropriate marketing system develops. If the farmers are not able to obtain remunerative income for the cost that they have incurred, it will act as a disincentive to agricultural producers. In fact, there are a number of instances when an agriculturist has adopted all the methods of advanced agriculture and borrowed money for investment on seeds and fertilizers but, because of his sad experience of marketing the produce, he has been discouraged to carry on advanced agriculture. It, therefore, goes without saying that agricultural development cannot be conceived in isolation but has to have corresponding improvement in the marketing system.

Another significant aspect of development of marketing is to provide food and other agricultural needs to the growing urban and industrial population. The population has to be provided foodgrains, vegetables, milk, meat, eggs, etc., at reasonable prices at the time and place needed by them. It is estimated that the consumer pays, in many cases, 100 to 200 per cent more than the farmer receives. This is due to unorganised and defective marketing system. The function of efficient marketing system is to reduce this price-spread between the producer and the consumer. In brief, the objectives of efficient marketing are:

1 to enable agricultural producers to get a remunerative price for their produce,

2 to lift all the surplus agricultural produce which the farmers are willing to sell,

3 to reduce price-spread between the producer and the consumer, and

4 to make available all surplus farm products to consumers at a reasonable price, without impairing the quality of the produce.

This has also been emphasised in the report of the Food and Agricultural Organization, thus "Marketing is the crux of the whole food and agriculuture problem. It would be useless to increase the output of food, it would be equally futile to set up optimum standards of nutrition, unless means could be found to move the food from the producer to the consumer at a price which represents a fair remuneration to the producer and is within the consumer's "ability to pay". To achieve the objectives of the marketing system, a network of marketing facilities has to be created. It will include a number of measures for pre- and post-harvest operation such as threshing, drying, processing, grading, etc.

Agricultural marketing in India starts at the village level itself or in the nearest hats or bazars. It is estimated that there are about 22,000[1] village hats and bazars where the farmers sell their produce. Besides, there are 4,145 larger markets. These are also described as secondary markets or wholesale markets. Broadly, a hat or a bazar serves an average area of 8 to 16 kilometres, whereas the secondary serves an area of 775 sq km and a population of 1.35 lakhs. There is a wide variation in the location and area served by these markets. Most of the villages depend on hats and bazars for sale of their produce. Generally, traders from the town come to these hats to buy the produce. They also bring with them consumer goods of low and cheap quality and sell it to the villagers at quite a high rate. There are small traders who visit the village from door to door and buy the produce from the farmer at a very low price. Moreover, big agents of big traders also visit the villages periodically and buy their produce. Investigations have shown that there is a considerable difference between village and market prices.[2] The Agricultural Commission has quoted a differential between village and market prices per quintal in Tungabhadra Project area at Rs. 1.75 and Rs. 6.55. It is a staggering difference and so efforts must be made to minimise this gap.

What is required for efficient marketing of agricultural produce is that a dependable market should be near by the village. The distance of the market from the village should be such that a farmer could walk the distance or reach by a bullock cart within an hour. What is needed is that the existing 22,000 village hats and bazars are provided with all the facilities of an efficient marketing system.

Whereas these village hats and bazars came up to meet the traditional needs of the village people, today new growth centres are emerging such as command areas of new irrigation projects and other areas in which modern production processes have been adopted and marketable surplus is thus emerging. There are also areas in which new products such as soyabean or sunflower and other new agricultural products are being produced but there is no marketing outlets for such products. During the course of development of new areas, new products are developing and there would be need for establishing new markets for marketing such products. The National Commission on Agriculture has estimated that by the end of the century there will be need for about 30,000 market centres with the following facilities:

1 Physical facilities for grading, weighing and storage should be available in the market;
2 there should be an agency which should take charge of the cultivators' produce, advance him money for his immediate needs, process the produce, arrange for further marketing at the next point and then make final payment;
3 an alternative of personal dealing and disposal should also be available to the cultivator;
4 there should be means of communication for market information, i.e., posts and telegraphs offices with a provision for telephone;
5 shops selling production inputs and domestic necessities should be available to the producer in the localities where the markets are situated; and
6 facility of inter-village and intra-village road communication should exist in the proposed market area.

For a country of the geographical dimension as ours, divided into villages, blocks and tehsils, districts, states and numerous varieties of agricultural produce have to have heirarchy of marketing structure from village hats and bazars to wholesale markets, terminal markets and specialized markets.

A multi-pronged attack has to be made to improve the marketing system. Some efforts in this direction have been made by establishing regulated markets in order to protect the sellers of agricultural produce from the malpractices of private traders. In Bihar, the number of regulated markets increased from 45 in 1961 to 100 in 1974 and 115 in 1979-80. There has been considerable progress in some other states. Each regulated market is administered by a market committee consisting of representatives of growers, traders, commission agents and the Government. The representation of growers on market committees has been around 50 per cent in different states, but the chairmen are not always the representatives of the growers.

To evolve a suitable marketing structure for sustaining and promoting the needs of growing agriculture, it is appropriate and necessary to give a brief review of co-operative marketing system as it has evolved and developed in this country. Historical review would provide us an insight into the successes, failures and inadeqacies of the co-operative marketing system and could provide us valuable guidance for restructuring the system for better performance. The main objective for which co-operative marketing societies are established is to enable the agricultural producers to market their produce to their best advantage. The co-operative marketing system aims to streamline the whole process of movement of agricultural produce from the farm to the consuming centres. The co-operative marketing structure can adopt various methods to strengthen farmers' marketing capability for obtaining the maximum benefit of the marketing system. The co-operative marketing society will not only enable them to sell their produce at a fairly remunerative price but can also provide credit to members on the security of their produce and thus enhance their holding powers; can arrange for storage of their produce; and can introduce various systems of improved marketing such as grading, pooling and various other modern management practices.

The growth of the co-operative marketing system in this country on a concerted and organised basis began from the mid-fifties and there is by now a well laid-out co-operative marketing structure with 3,592 primary cooperative marketing societies of various types 380 central co-operative marketing societies in some states, 29 state-level co-operative marketing federations and one national-level co-operative marketing feaderation (NAFED). The remarkable achievement of co-operative marketing in this country can be seen in co-operative sugar factories and dairy co-operatives like 'Amul'.

Co-operative marketing has functioned best where it has combined marketing and processing. Co-operative processing societies are essentially an advanced form of co-operative marketing and much remains to be done in this direction. Vast varieties of agricultural produce are grown is this country which do not enter into the mainstream of marketing because there is no marketing agency to handle these produts. Efforts at organising co-operative marketing and processing in a number of fruit and vegetable products are urgently required to improve the conditions of agricultural producers as well as serving the consumers.

A look at Tables 1 and 2 shows that there has been very uneven growth of co-operative marketing in this country. Punjab, Uttar

**Table 1**

**State-wise and commodity-wise value of agricultural produce marketed by co-operatives during 1978-79**

(*Rs. in lakhs*)

| *States/U. T.s.* | *Foodgrains* | *Sugarcane* | *Others* |
|---|---|---|---|
| Andhra Pradesh | 384.55 | ——— | 212 78 |
| Assam | 1,825.00 | 90.00 | 55.00 |
| Bihar | 80.00 | 1,139.00 | 3 00 |
| Gujarat | 810.00 | 4,500.00 | 389.71 |
| Haryana | 6,986.75 | 1,184.96 | 1,086.53 |
| Himachal Pradesh | 24.65 | ——— | 8.99 |
| Jammu & Kashmir | ——— | ——— | 99.50 |
| Karnataka | 4,067.78 | 3,308.77 | ——— |
| Kerala | ——— | ——— | 4,207.49 |
| Madhya Pradesh | 3,765.80 | 78.32 | 774.77 |
| Maharashtra | 4,080.00 | 21,706.05 | 1,191.28 |
| Manipur | 5.00 | ——— | 0.96 |
| Meghalaya | 30.50 | ——— | 33.59 |
| Nagaland | ——— | ——— | ——— |
| Orissa | ——— | ——— | 1,054.76 |
| Punjab | 11,481.23 | 938.22 | 5.90 |
| Rajasthan | ——— | 128.80 | 981.08 |
| Tamil Nadu | 391.70 | 3,020.00 | ——— |
| Tripura | ——— | ——— | 33.52 |
| Uttar Pradesh | 14,709.79 | 19,303.29 | 73.64 |
| West Bengal | 278.99 | ——— | 985.32 |
| All Union territories | 102.90 | ——— | 28.81 |
| Total | 49,024.64 | 55,397.41 | 11,226.63 |

*Source*: Annual Report of N.C.D.C., 1980-81.

**Table 2**
**State-wise and crop-wise co-operative processing units on 31 March 1980**

| *States/U. T.s.* | *Rice Mills* | | *Rice Bran Oil Units* | | *Dal Mills* | | *Sugar Factories* | |
|---|---|---|---|---|---|---|---|---|
| | 0 | I | 0 | I | 0 | I | 0 | I |
| Andhra Pradesh | 145 | 145 | 1 | 1 | 2 | 2 | 19 | 13 |
| Assam | 31 | 30 | 1 | 1 | — | — | 2 | 1 |
| Bihar | 12 | 12 | — | — | 1 | — | — | — |
| Gujarat | 29 | 26 | — | — | — | — | 15 | 13 |
| Haryana | 13 | 13 | — | — | 1 | 2 | 4 | 4 |
| Himachal Pradesh | — | — | — | — | — | — | — | — |
| Jammu & Kashmir | 22 | 22 | — | — | — | — | — | — |
| Karnataka | 84 | 80 | 1 | 1 | 1 | 1 | 16 | 12 |
| Kerala | 8 | 7 | — | — | — | — | 2 | 2 |
| Madhya Pradesh | 96 | 94 | 1 | 1 | 42 | 33 | 2 | 2 |
| Maharashtra | 127 | 125 | 1 | 1 | 2 | 2 | 69 | 62 |
| Manipur | — | — | — | — | — | — | — | — |
| Meghalaya | — | — | — | — | — | — | — | — |
| Nagaland | — | — | — | — | — | — | — | — |
| Orissa | 71 | 69 | 2 | 2 | — | — | 2 | 2 |
| Punjab | 22 | 17 | — | — | — | — | 4 | 4 |
| Rajasthan | 7 | 7 | — | — | 7 | 4 | 1 | 1 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Tamil Nadu | 28 | 28 | 1 | 1 | — | — | 9 | 9 |
| Tripura | — | — | — | — | — | — | — | — |
| Uttar Pradesh | 22 | 19 | — | — | 19 | 17 | 21 | 16 |
| West Bengal | 30 | 26 | — | — | — | — | — | — |
| Arunachal Pradesh | — | — | — | — | — | — | — | — |
| Chandigarh | — | — | — | — | — | — | — | — |
| Delhi | — | — | — | — | — | — | — | — |
| Goa | — | — | — | — | — | — | 1 | 1 |
| Lakshadweep | — | — | — | — | — | — | — | — |
| Pondicherry | — | — | — | — | — | — | 1 | — |
| Other (NAFE) | — | — | — | — | 1 | 1 | — | — |
| Total | 747 | 720 | 8 | 8 | 76 | 61 | 168 | 142 |

*Source*: Annual Report of N.C,D.C., 1980-81.

Pradesh, Maharashtra, Haryana, Karnataka and Madhya Pradesh are considerably ahead of other states. Whereas the total value of foodgrains marketed by co-operatives in Punjab was Rs. 11,481 lakhs in 1978-79, it was a meagre Rs. 80 lakhs in Bihar. Bihar is far behind several other states and vigorous efforts are required for stepping up marketing activity of the co-operatives, particularly of foodgrains. The performance of co-operative marketing in foodgrains in the state is almost negligible. The only area in which co-operative marketing has made some advance is in sugarcane. During 1978-79, the sugarcane sale and purchase society sold sugarcane worth Rs. 1139 lakhs. However, this too is too small in comparison with Maharashtra with Rs. 21,706 lakhs, Uttar Pradesh with Rs. 19,303 lakhs and Gujarat with 4,500 lakhs. In the case of sugarcane, co-operative marketing has limited impact unless it is combined with processing. The same could be true of a large number of agricultural products which are perishable in character and whose value emerges after processing. Indeed, to make a dent on marketing in this country, processing has to be an essential adjunct of marketing societies. Efforts for organising co-operative processing societies are conspicuous by their absence in Bihar. Some of the processing societies like the Fruit Preservation Society are functioning at far below their rated capacity.

Marketing development has been considerably behind our attempts to increase agricultural production. Despite recommendations of various commissions and committees to promote the co-operative marketing system for small growers of agricultural produce, the traditional marketing system continued until the Rural Credit Survey Committee Report made categorical recommendations for organising co-operative marketing as an essential condition for co-operative development in this country. The development of co-operative marketing in Bihar and for the rest of the country as a whole also started during the Second Five-Year Plan in the wake of reorganisation of co-operative credit societies by linking credit with marketing.

For a considerable period, the country was indeed obsessed with the problems of credit, and co-operative activity was generally confined to co-operative credit societies. That was how originally the co-operative movement was conceived. Under the provisions of the Co-operative Societies Act of 1904, there was no scope for organising non-credit societies. Immediately after the passing of this Act, it was realised that it should allow for the growth of other types of society also. And thus the Co-operative Societies Act of 1912 enabled the formation of non-credit societies. Sporadic growth of co-operative marketing societies started in different parts of the country but the idea did not catch on in Bihar so much so that there were only three co-operative marketing societies in the State in 1930.[3]

The Royal Commission on Agriculture had strongly recommended that co-operative sale societies must be organised as quickly as possible to support the agricultural production. This idea was further strongly supported by the Bihar and Orissa Banking Enquiry Committee which observed that, unless there is a development of a separate institution of co-operative marketing societies, agricultural producers would not get a fair deal. However, despite the recommendations of these committees, the Government was apathetic to provide necessary finance and other requisites for formation of co-operative marketing societies.

Thus the real history of co-operative marketing development in this state started on the basis of the recommendations of the All India Rural Credit Survey.

By 1968-69, the establishment of co-operative marketing societies in Bihar had proceeded steadily and their number stood at 286. There were 4,303 sugarcane supply societies and 237 milk supply societies. By 1978-79, the number of societies increased to 298. The sugarcane supply societies have been merged with the primary credit societies or marketing societies and now they do not exist as separate entities. Over this period, new types of specialised marketing societies have developed and their number is 122. There has been further effort to organise more milk marketing societies and their number is 282. Besides, there are other livestock and livestock product societies, including 'ghee unions' and 'poultry unions' numbering 245.

We do not get a clear picture of co-operative marketing societies merely by the number of societies. What has happened during this period is that their coverage has widely increased. The membership covered by 286 marketing societies in 1969 was 23,753 and their membership in 1978 increased to 46,160. Similarly, the membership of specialised societies is 7,553 as against none in 1969. There has also been an increase in the membership of milk supply unions from 5093 in 1968 to 8,358 in 1978, likewise, the membership of livestock societies has doubled from 1906 in 1968 to 4,000 in 1978. Thus coverage of the marketing societies has almost doubled between 1969 and 1978 without any appreciable increase in the number of societies.

**Table 3**

**Primary Agricultural Co-operative Marketing Societies since 1968-69 to 1977-78**
**Trend of Progress**

| Year | No. of fruits and vegetable societies | General purposes societies | Total number | No. of societies state partnered | Membership | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Agricultural credit (a) | (b) Marketing | (c) Other types | (d) Growers | (e) Others | (f) Nominal |
| 1968-69 | 12+1 (tobacco) | 273 | 286 | 275 | — | 862 | 10,598 | 8,652 | 2,685 | 561 |
| 1970-71 | 12+1 (tobacco) | 277 | 290 | 279 | 13,665 | — | 1,800 | 17,388 | 2,900 | 600 |
| 1973-74 | 12+1 (tobacco) | 286 | 299 | 288 | 14,398 | — | 2,002 | 24,287 | 2,824 | 459 |
| 1976-77 | 50 | 298 | 348 | 298 | 11,024 | 127 | 4,175 | 23,005 | 9,539 | 470 |
| 1977-78 | 50 | 298 | 348 | 298 | 11,024 | 134 | 4,175 | 23,067 | 9,530 | 473 |

*Source*: Statistical Statements Relating to the Co-operative Movemen' in India Part II, 1968-69 to 1977-78.

**Table 4**

**Marketing and Distribution Operations from 1968-69 to 1977-78**

| Year | Societies not doing any marketing business | | No. of societies doing marketing business | | | | | | No. of Societies undertaking distribution of | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number | State partnered | Total | Less than Rs. 1 lakh | Rs. 1 lakh and over but less than Rs. 5 lakhs | Rs. 5 lakhs and over but less than Rs. 10 lakhs | Rs. 10 lakhs and over but less than Rs. 20 lakhs | Rs. 20 lakhs and over | Agricultural requisites | Consumer goods |
| 1968-69 | 62 | 27 | 224 | 106 | 90 | 25 | 3 | — | 190 | 93 |
| 1970-71 | 52 | 47 | 238 | 135 | 93 | 9 | 1 | — | 175 | 102 |
| 1973-74 | 52 | 49 | 247 | 146 | 97 | 3 | 1 | — | 229 | 232 |
| 1976-77 | 79 | 73 | 269 | 172 | 92 | 4 | 1 | — | 218 | 238 |
| 1977-78 | 79 | 73 | 269 | 170 | 93 | 5 | 1 | — | 221 | 242 |

*Source*: ibid.

The structure of co-operative marketing in Bihar follows the same pattern of usual pyramidical sturucture as in the rest of the country. The usual structure is the National Agricultural Co-operative Marketing Federation (NAFED) at the national level, State co-operative marketing federations (Biscomaun in Bihar) and primary co-operative marketing societies at the block/mandi level (Vyapar Mandal). Thus at the state level it is a two-tier structure with Vyapar Mandals at the Block level and 'Biscomaun' at the state level. In Andhra Pradesh, Gujarat, Tamil Nadu, Maharashtra, Punjab, Uttar Pradesh and Himachal Pradesh an intermediate tier at the district level also exists.

The functioning of the primary co-operative marketing societies is far from satisfactory, and most of them are doing only distribution business of agricultural requisites of a very small order. While talking of the primaries, one most repeated criticism needs to be noted. The Dantwala Committee had clearly recommended for locating primary marketing societies at the mandi level which is the real transaction point of the agricultural produce. But very few Vyapar Mandals in Bihar are located at the block headquarters. Thus just by the mere locational factor, Vyapar Mandals become ineffective institutions for handling agricultural produce. This needs to be remedied in Bihar in order to make co-operative marketing structure functional and effective.

Bihar has two-tier co-operative marketing structure—'Vyapar Mandals' at the block level and 'Biscomaun' at the State level. The 'Biscomaun' was established in 1954 by converting the Patna Central Co-operative Store. It was further restructured in 1957 by undertaking all marketing functions which the State Co-operative Bank was conducting.

It is evident, from Table 5 that qualitative achievement of the co-operative marketing in regard to supply of production requisites in Bihar is not satisfactory. The Table shows that Uttar Pradesh, Punjab, Gujarat, Maharashtra, Tamil Nadu, Haryana and Orissa have got a better supply of production requisites. By the end of 1977-78, Bihar had the supply of production requisites of the value of Rs. 24,46,000 only whereas in Uttar Pradesh it was of the order of Rs. 102,17,75,000 in Punjab Rs. 82,90,04,000, in Gujarat Rs. 80,12,57,000 during the same period.

Although Biscomaun is making efforts to improve its marketing efficiency, it is still lagging behind the functioning of several apex bodies of various states. There is, no doubt, that it has included several commodities such as potatoes, fertilizer, jute, seeds, coal, etc.

**Table 5**

**Supply of Production Requisites as Owners and as Agents during 1977-78 (at State level)**

(*Amounts in thousands of Rs.*)

| *State* | *Fertilisers* | *Seeds* | *Agricultural implements* | *Pesticides* | *Others* | *Total* |
|---|---|---|---|---|---|---|
| Andhra Pradesh | 8,64,80 | — | — | — | — | — |
| Assam | — | — | — | — | — | — |
| Bihar | 11,74 | 1,61 | — | 1,20 | 9,91 | 24,46 |
| Gujarat | 77,40,44 | 1,36,84 | 6,62 | 1,28,67 | — | 80,12,57 |
| Haryana | 35,88,66 | 1,18,45 | 34 | 20,23 | — | 37,27,68 |
| Himachal Pradesh | 2,15,81 | — | — | — | — | 2,15,81 |
| Jammu & Kashmir | 4,69,12 | 20,34 | 6 | — | — | 4,89,52 |
| Karnataka | 21,28,64 | — | — | 44,34 | — | 21,72,98 |
| Kerala | 4,49,74 | — | — | — | — | 4,49,74 |
| Madhya Pradesh | 26,12,06 | — | 2,08,54 | 8,92 | — | 28,29,52 |
| Maharashtra | 45,51,15 | — | 2,33,85 | — | 36 | 47,85,36 |
| Manipur | 85,00 | — | — | — | — | 85,00 |
| Meghalaya | 48,24 | 1,51 | 25 | — | — | 50,00 |
| Nagaland | — | — | — | — | — | — |
| Orissa | 15,35,20 | — | — | — | — | 15,35,20 |
| Punjab | 82,44,89 | — | 78 | 44,37 | — | 82,90,04 |
| Rajasthan | 16,82,25 | — | — | 8,03 | — | 16,95,28 |
| Tamil Nadu | 43,19,42 | — | — | — | — | 43,19,42 |
| Uttar Pradesh | 101,41,83 | 75,23 | 69 | — | — | 102,17,75 |
| West Bengal | 11,39,89 | 73,81 | 841 | 7,10 | — | 12,29,21 |

*Source*: R.B.I. Statistical Statements relating to the Co-operative Movement in India, Part-II, 1977-78.

in its marketing and distribution operations, it has not been able to keep pace with cooperatively developed states of the country.

One of the important factors which influences the development of the marketing societies is the predominance of village sales. This applies both to the foodgrains and the cash crops. For instance, 40 to 60 per cent of marketed quantity of foodgrains and cash crops is sold by the growers at the village of residence. It takes place because of immediate need for money of the agricultural producers.

Facilities for processing of agricultural produce are not sufficiently developed in the vicinity of villages or at the market centres. Wherever they are in existence, in most cases, they are owned and controlled by private agencies who appropriate a large portion of the consumers' price. The 'Biscomaun' has, however, established or proposed to establish rice mills, jute mills, pulse mills and fodder mills at some of the important market centres.

In several parts of the State, the absence of regulation of marketing has also affected the working of marketing cooperatives. It is, however, equally true that even where the markets are regulated, the operational efficiency of the market committees is low, with the result that they are not able to secure the expected benefits for the cultivators. Many of these market committees are not able to provide even the necessary amenities for making the cultivators' stay at the market place/yard comfortable and economical.

Another important problem the agricultural producers face in Bihar is inadequate provision of storage facilities. Whatever storage facilities are available at the market centres are hardly adequate for the millers and the traders, with the result that those cultivators who bring their produce directly to the market are under pressure to dispose of their produce as early as possible, preferably on the day of their arrival itself.

Inadequacy of marketing finance is also one of the problems which is important in the development of marketing societies. The practice of borrowing from the trading agencies on the condition that sales would be made to them is prevalent in almost all districts of Bihar. The traders either agree to pay the price that would be prevailing at the time of harvest or fix it below the market price. Payment of the price is, however, frequently delayed. Pledge finance in some cases given by cooperative is insignificantly small in volume.

There is the absence of pooling of produce to effect bulk sales. This is due laregly to the absence of grading of agricultural produce, although attempts at standardisation and grading of agricultural produce are being made by the Bihar State Agricultural Marketing Board. While the absence of grading could be attributed to such factors as lack of technically qualified personnel, the absence of pooling, etc., could be only due to inaction on the part of the authorities and the shortcomings of the marketing societies.

It appears that marketing function of the Biscomaun is very poor and, therefore, needs to be improved. It devotes energies and resources largely to distribution activities. Profitability in supply activities has made the Biscomaun forgetful for the real objectives for which it has been set up.

Although suitable arrangements for supervision and inspection of marketing societies/Vyapar Mandals have been made, they are viewed as formal checking and verification of records. Little attention is paid to irregularities in the working of the societies. Hence efforts are required to be made of removing unhealthy features in working of many of Vyapar Mandals.

The sales pattern shows a slightly different order of importance of the crop group. The proportion of cultivators reporting sale of crop is cent per cent in the case of jute sugarcane growers. Next in this order come potato growers who range between 50 to 70 per cent in the potato-growing area. In the case of wheat growers, the proportion of persons selling wheat depends on a number of factors such as area cropped, yield per acre and necessary expenses to be met by them. In the case of paddy growers, the proportion goes on declining as it is grown as a subsistence crop by a sizable proportion of cultivators.

An established system of co-operative credit offers a good base for the development of co-operative marketing as we have already given a hint on the linkage of co-operative credit with marketing in the foregoing pages. But at this stage, it can be stressed that the level of development of co-operative credit influences significantly the progress of agricultural marketing co-operatives. The progress will go on maintaining its speed only when there is absence of strong traditional ties of cultivators with traders and existence of a sound management by persons with known integrity to inspire confidence among cultivators.

The fundamental objective that agricultural requisites and other essential commodities should be made available to the members of co-operative societies at reasonable prices has not been achieved to any appreciable extent. The reason for such a situation is that the business activity is conducted by the marketing societies purely as a means of earning profit and not as a means of strengthening the co-operative organisation. Another shortcoming of the distribution activities of marketing societies is that they are oriented more to the needs of the urban or semi-urban consumers at the marketing societies headquarters than to those of the agriculturist members in their area.[4]

In short, there must be proper co-ordination between two tiers existing in Bihar and profit motive should never be allowed to influence business activities of the marketing societies.

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3. Origin and Growth of Co-operatives Movement in Bihar, Co-operative Department, Government of Bihar, 1964, p. 5.
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# 19

# Regional Imbalances in Indian Economy with Special References to Bihar

BY

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PLANNING is meant for development. However, as a tool of balanced regional development, it has been a subject matter of controversy during recent years. India started planning soon after independence with a view to developing and giving shape to its economy which was distorted by the British rule of over 200 years. During this regime, nothing substantial was done for the growth of the Indian economy in a systematic way. Indian economy remained basically an appendage to the British empire. India has now entered the Sixth Five-Year Plan (1980-85) but the challenging problem of regional imbalances have emerged even after more than 30 years of planning in the country. Whereas the objective of planning has been to achieve growth with social justice, the basic objective of our five-year plans is to secure the fullest possible utilisation of resources of each region so that it contributes its best to the national pool and takes its due share. Economists and politicians have drawn the attention of the planners as well as the Finance Commission towards the growing inter-state imbalances in the Indian economy. The regional imbalances have two facets—imbalances within the various regions of a State; imbalances growing among various States of the country. This study concerns the inter-state growing regional imbalances with special reference to Bihar.

There are certain economic indicators to judge the problem of regional imbalances. The per capita income is an important economic indicator for this purpose. It is derived by dividing the state income with the State's population whereas the State income is generated by investment. The level of living standards of the people of various states can very well be studied by comparing the per capita income of the people. In various states, not only sharp differences in per capita income are visible but also wide variations in the degree of people living below the poverty line are found. We can have an idea about the per capita income and the people living below the poverty line in various states from Table 1.

**Table 1**
**Per Capita Income and the percentage of people living below the poverty line among major States of the country**

| *States* | *Per capita income 1978-79 (Rs.)* | *Percentage of population below the poverty line in 1977-78* | | |
|---|---|---|---|---|
| | | *Rural* | *Urban* | *Combined* |
| Andhra Pradesh | 1,002 | 43.89 | 35.68 | 42.18 |
| Assam | 961 | 52.65 | 37.37 | 51.10 |
| Bihar | 735 | 58.91 | 46.07 | 57 49 |
| Gujarat | 1,452 | 43.20 | 29.02 | 39.04 |
| Haryana | 1,472 | 23.25 | 31.74 | 24.84 |
| Karnataka | 1,146 | 49.88 | 43.97 | 48 34 |
| Kerala | 987 | 46.00 | 51.44 | 46.95 |
| Madhya Pradesh | 854 | 59.82 | 48.09 | 57.73 |
| Maharashtra | 1,694 | 55.85 | 31.62 | 47.71 |
| Orissa | 825 | 68.97 | 42.19 | 66-4) |
| Punjab | 2,101 | 11.87 | 24.66 | 15.13 |
| Rajasthan | 925 | 33.75 | 33.80 | 33.76 |
| Tamil Nadu | 1,351 | 55.68 | 44.79 | 52.12 |
| Uttar Pradesh | 930 | 50.23 | 49.24 | 50.09 |
| West Bengal | 1,279 | 58.94 | 34.71 | 52.54 |
| All-India weighted | — | 50.82 | 39.19 | 48.13 |

*Source*: (*i*) R.B.I. Bulletin, September, 1981.
(*ii*) Seventh Finance Commission.
(*iii*) Sixth Five-Year Plan (1980-85), Planning Commission, Government of India, p. 16.
(Figures of Union territories have not been taken into account.)

It is clear from the table that there is wide variation in the per capita income of various states. The highest per capita income is of Punjab (Rs. 2,101), followed by Maharashtra (Rs. 1,694) and then by Haryana (Rs. 1,472). The per capita income of Bihar stands at Rs. 735 only which is the lowest among the major states.

There is the highest percentage of people living below the poverty line in the rural areas in Orissa (68.9), followed by Bihar and West Bengal (58.9) both states. In urban population, the percentage of the people living below the poverty line is the highest in Kerala (51.4) followed by Uttar Pradesh (49.2) and then by Madhya Pradesh (48.1). Bihar stands fourth with 46.1 per cent. The percentage of the combined rural as well as urban population living below the poverty line is the highest in Orissa (66.4), followed by Madhya Pradesh and Bihar (57.7 each). Thus, insofar as the per capita income is concerned, Bihar stands at the lowest and in the matter of poverty, the position of Bihar is miserable as is evidenced from the table.

Another determinant of growth are the per capita Net Domestic Product and per capita power consumption, the position regarding which can be gauged from Table 2.

It is evident from Table 2 that the highest position regarding the per capita NDP goes to Punjab, followed by Maharashtra, Gujarat and then by Haryana. Bihar has come to the lowest rung of the ladder in this regard. The lowest *NDP* of Bihar (Rs. 773) is Rs. 606 less than the National Average.

Power is an important indicator of growth as the wheels of the economy cannot move without power. The highest per capita power consumption is in Punjab (328 Kwh) followed by Haryana (250 Kwh) and then by Gujarat and Maharashtra (240 and 223 Kwh, respectively). Bihar has a poor position also in the per capita power consumption (79 Kwh). Besides, the transmission and distribution loss of power in Bihar is the highest (23.70) which is only next to Rajasthan (26.60).

Thus there is a wide inter-state variation in some of the important economic indicators of the State which indicate regional imbalances. Insofar as both the per capita income and the per capita Net Domestic Product is concerned, Bihar has the lowest position. Regarding the people living below the poverty line, Bihar has comparatively a sizable proportion, excepting a few states.

An important factor to determine the level of growth is the volume of investment of different development projects by the Government. Investment is the function of two main factors: One is the

**Table 2**

**Per Capita Net Domestic Product and per capita Power Consumption**

| *States* | *Net Domestic Product at 1979 prices (in Rs.)* | *Per capita power consumption 1979-80 (in Kwh)* | *Transmission and distribution loss (1979-80)* |
|---|---|---|---|
| Andhra Pradesh | 1176 | 95 | 20.54 |
| Assam | 960 | 34 | 20.26 |
| Bihar | 773 | 79 | 23.70 |
| Gujarat | 1,623 | 240 | 16.73 |
| Haryana | 1,600 | 250 | 21.68 |
| Karnataka | 1,267 | 153 | 21.94 |
| Kerala | 1,091 | 104 | 11.39 |
| Madhya Pradesh | 828 | 99 | 20.24 |
| Maharashtra | 1,903 | 223 | 17.74 |
| Orissa | 843 | 116 | 18.26 |
| Punjab | 2,278 | 328 | 19.41 |
| Rajasthan | 913 | 104 | 26.60 |
| Tamil Nadu | 1,350 | 181 | 18.63 |
| Uttar Pradesh | 981 | 96 | 18.63 |
| West Bengal | 1,330 | 113 | 12.97 |
| National Average | 1,379 | 134 | |

*Source*: (*i*) Figures of NDP has been obtained from the *Economic Times*, March 6, 1982.

(*ii*) The per capita power consumption as well as transmission and distribution figures have been taken from the *Commerce*, Vol. 145, No. 3714, August 14, 1982, p. 219.

rate of interest and another is the marginal efficiency of the capital. Apart from these, the attitude of the people towards investment and saving and the administration of the various States are also important factors to determine the pace of development. The implementation of various projects successfully in the interest of the State is an important factor to bring about the desirable results. Bihar has been poorly placed insofar as the per capita income and the per capita NDP are concerned. It is the urgent need of the hour to tone up the per capita income and the per capita NDP which could be determined by the volume of investment and the fair implementation of various developmental projects through fair administration. It is evident from Table 3 that Bihar, being rich in mineral resources, has poor per capita plan outlay.

**Table 3**

| *States* | *Per capita plan outlay 1951-79 (in Rs.)* | *Deviation from the average* |
|---|---|---|
| Punjab | 1,660 | +996 |
| Haryana | 1,671 | +937 |
| Gujarat | 1,032 | +298 |
| Karnataka | 768 | + 34 |
| West Bengal | 586 | −1400 |
| Kerala | 709 | − 25 |
| Tamil Nadu | 660 | − 74 |
| Andhra Pradesh | 669 | − 65 |
| Rajasthan | 695 | − 39 |
| Orissa | 696 | − 38 |
| Madhya Pradesh | 667 | − 67 |
| Uttar Pradesh | 636 | − 98 |
| Bihar | 479 | −225 |
| Maharashtra | 997 | +263 |
| State average | 734 | 0 |

*Source*: The per capita outlay figures are obtained from "Inter-State Disparities: Some Issues and Pointers for Policy Formulations, 1979," State Planning Institute, Government of Uttar Pradesh.

From Table 3 it is clear that Haryana, Punjab and Gujarat stand first and third in the matter of the per capita plan outlay (Rs. 1,671, Rs. 1,660 and Rs. 1,032, respectively). Bihar has the lowest per capita plan outlay (Rs. 479). In the matter of lowest per capita plan outlay Bihar is followed by West Bengal (Rs. 586) and by Uttar Pradesh (Rs. 636). Bihar's per capita State Average plan outlay stands at Rs. 734, while Haryana, Punjab and Gujarat have the plus deviations of Rs. +937, Rs. +926 and Rs. +298, respectively. It means that the per capita plan outlay of these states has far exceeded the per capita State Average plan outlay. Bihar has the highest minus deviation (−270) as compared to State Average (734). It signifies that Bihar has the lowest per capita plan outlay.

It can be seen from Table 4 that so far as the per capita value added by manufacture is concerned, it is lowest in Bihar, amounting to Rs. 91 only, as compared to the highest in Kerala (Rs. 413), followed by West Bengal (Rs. 322). The all-India average in this regard stands at Rs. 194. Thus the per capita value added by manufacture is Rs. 103 less than the all-India average which stood at Rs. 194. The index of per capita value added in the factory sector in Bihar is only Rs. 48 which stands the lowest only next to Uttar

**Table 4**

**Index of Per Capita Value Added in the Factory Sector, by Manufacture and the Value of Farm Output Per Person of Rural Population**

| *States* | *Per capita value added by the factory sector (index all-India average=100 1977-78)* | *Per capita value added by manufacture, 1976-77 (in Rs.)* | *Value of farm output per person of rural population 1975-76 (in Rs.)* |
|---|---|---|---|
| Maharashtra | 270 | 119 | 506 |
| Gujarat | 205 | 118 | 453 |
| Haryana | 145 | 78 | 341 |
| West Bengal | 141 | 322 | 660 |
| Tamil Nadu | 133 | 203 | 1032 |
| Punjab | 114 | 207 | 592 |
| Karnataka | 92 | 140 | 479 |
| Assam | 79 | 111 | 459 |
| Kerala | 74 | 413 | 555 |
| Andhra Pradesh | 63 | 98 | 515 |
| Madhya Pradesh | 56 | 236 | 1,161 |
| Orissa | 50 | 94 | 600 |
| Rajasthan | 49 | 227 | 442 |
| Bihar | 48 | 91 | 427 |
| Uttar Pradesh | 40 | 237 | 511 |
| All-India average | — | 194 | 519 |

*Source* : C.M.I.E., Bombay.

Pradesh (Rs. 40). The value of farm output per person of rural population in Bihar is Rs. 427 only which is the lowest except Haryana (Rs. 341). All these economic indicators speak about the poor rate of return of industrialisation in Bihar, which is expressed through the per capita value added by the factory sector, per capita value added by the manufactures and per person value of farm output of rural population.

The Centre-State financial relationship in the devolution of resources and the transfer of assistance is a significant factor for boosting up investment and growth of the economy of a state. The difference in the quantum of the Central assistance is found to be an important factor in the low per capita income of Bihar as compared to other States of India. Bihar has been receiving in the past less amount of per capita Central assistance as compared to the volume of per capita assistance for all states. The Sixth Finance Commission adopted population as a dominant factor in the distribution of shareable taxes. There was a strong belief that in some quarters population as a measure in the distribution of shareable taxes should be the basis which will favour the backward states. However, the population as the basis has become, in fact, a neutral factor. It is neither equalising nor disequalising since it secures equal devolution in terms of the per capita assistance. The population as a basis can serve as an index of need only when it is assured that the existing disparities between the states as well as their needs are in comformity with the national objectives.

**Table 5**

**Per Capita Assistance for Bihar as Compared to Per Capita Assistance for all States**

| *Plans* | *Per capita assistance for Bihar (in Rs.)* | *Per capita Central assistance for all States (in Rs.)* |
|---|---|---|
| First Plan | 5.00 | 24.00 |
| Second Plan | 18.75 | 26.00 |
| Third Plan | 43.60 | 55.00 |
| Fourth Plan | 57.00 | 99.00 |
| Fifth Plan | 37.00 | 57.81 |

*Source*: Memorandum to the Seventh Finance Commission, Finance Department, Government of Bihar, 1978.

In this connection it is a crucial point to note that till the Fifth Plan, the per capita Central assistance for Bihar was considerably low as compared to the per capita Central assistance for all states. This is evidenced from Table 5.

It is shown from Table 5 that the per capita assistance for Bihar has been substantially low as compared to the per capita Central assistance for all States during various plans. As for instance, during the First Plan, the per capita assistance for Bihar amounted to Rs. 5 only, whereas the per capita Central assistance for all states during the same plan stood at Rs. 24. Thus there remains a gap of Rs. 19. During the Second Plan, the amount of per capita assistance for Bihar stood at Rs. 18.75 while for all states it stood at Rs. 26. During the Third and Fourth Plans the per capita assistance in the case of Bihar stood at Rs. 43.60 and Rs. 57 while for all states it was found to be at Rs. 55 and Rs. 99. During the Fifth Plan period, there was a sizable reduction in the per capita Central assistance both in the case of Bihar and for all States but the amount of gap remains wide to the tune of about Rs. 21.

Another factor to influence the volume of investment is market borrowings by the State Governments and the State public undertakings. Every year, the limit of public borrowings by the States is fixed on an ad hoc basis without having any objective principle.

Prior to the nationalisation of banks in 1969, the allocation of market borrowings to individual states used to be determined by:

(a) Capacity of the capital market for absorption of State securities in consultation with the Reserve Bank of India;
(b) accessibility to the capital market; and
(c) response of the capital market to loans floatations by different states and State public undertakings.

The latter two criteria are heavily weighed in favour of the advanced states. Most of the major banks, insurance companies and other financial institutions had their headquarters in metropolitan cities. This is one of the main reasons that Maharashtra, West Bengal and Tamil Nadu had a natural advantage over other states in raising market loans. Table 6 gives an idea about the market borrowings. Table 6 shows that insofar as the per capita loan floated is concerned, the position of Bihar is the lowest in comparison to other major states of India. There is found to be a wide range of variation in the per capita loan floated among the various states ranging from the lowest of 2.94 in the case of Bihar to highest of 10.08 in the case of Rajasthan. In physical terms, the loans floated in Bihar amounted to Rs. 16.56 crores only.

**Table 6**
**Market Borrowings (Gross) of the State Government During 1974-75 and 1976-77 and Per Capita Loans Floated**

| *States* | *Loan floated (in crores of Rs.) 1976-77 B.F.* | *Per capita loan floated 1976-77 B.F.* |
|---|---|---|
| Andhra Pradesh | 26.38 | 6.06 |
| Assam | 9.35 | 6.40 |
| Bihar | 16.56 | 2.94 |
| Gujarat | 19.26 | 1.21 |
| Haryana | 8.04 | 8.04 |
| Karnataka | 20.87 | 7.12 |
| Kerala | 10.85 | 5.09 |
| Madhya Pradesh | 10.00 | 2.40 |
| Maharashtra | 31.08 | 6.17 |
| Orissa | 15.59 | 7.12 |
| Punjab | 13.71 | 10.08 |
| Rajasthan | 23.06 | 8.94 |
| Tamil Nadu | 28.68 | 6.96 |
| Uttar Pradesh | 43.58 | 4.93 |
| West Bengal | 14.76 | 3.33 |

*Source*: Memorandum to the Seventh Finance Commission, Finance Department, Government of Bihar, 1978.

The per capita plan outlay for different states is another important factor in causing regional imbalance. As a matter of fact, it is the plan outlay during the course of different plans which determines the pace of development as various development projects are launched on the basis of plan outlay. One can get a picture of the per capita plan outlay for different states during different plans from the Table 7.

It is evident from Table 7 that the per capita plan outlay for Bihar is considerably low. As for instance, during the First Plan the per capita plan outlay in Bihar stood at Rs. 18.89 while it was maximum at Rs. 101.02 in Punjab. In the Second, Third, Fourth and in some years of the Fifth Plan also, Bihar has a substantially low per capita outlay as is evidenced from the above Table.

One of the central objectives of the Indian planning, more especially after the Third Five-Year Plan, was to achieve balanced regional growth. But after examining the problem of regional

**Table 7**

**Per Capita Plan Outlay for Different States During Different Plan Period**

(*Figures in Crores*)

| *States* | *Plan I* | *Plan II* | *Plan III* | *Plan IV* | *1974-75* | *1975-76* | *1976-77* |
|---|---|---|---|---|---|---|---|
| Andhra Pradesh | 34.71 | 52.30 | 95.82 | 104.04 | 20.28 | 36.27 | 60.31 |
| Assam | 31.71 | 49.77 | 111.31 | 174.09 | 36.75 | 40.15 | 49.77 |
| Bihar | 18.89 | 41.92 | 71.41 | 99.01 | 29.96 | 33.53 | 42.91 |
| Gujarat | 46.41 | 78.03 | 115.19 | 182.34 | 55.67 | 53.66 | 72.38 |
| Jammu & Kashmir | 39.95 | 73.44 | 171.97 | 413.86 | — | — | — |
| Karnataka | 48.45 | 57.02 | 106.28 | 126.95 | 37.79 | 47.44 | 58.32 |
| Kerala | 32.47 | 50.20 | 107.43 | 128.10 | 34.64 | 42.25 | 52.35 |
| Madhya Pradesh | 36.05 | 49.90 | 89.07 | 94.52 | 56.53 | 51.64 | 65.23 |
| Maharashtra | 46.41 | 58.16 | 109.62 | 191.71 | 54.73 | 63.44 | 91.17 |
| Orissa | 68.04 | 53.01 | 127.68 | 109.79 | 32.52 | 40.75 | 56.93 |
| Punjab | 101.02 | 82.35 | 125.19 | 214.11 | — | — | — |
| Rajasthan | 41.95 | 55.16 | 104.53 | 124.42 | — | — | — |
| Tamil Nadu | 28.22 | 52.43 | 101.62 | 140.98 | 27.18 | 34.59 | 48.79 |
| Uttar Pradesh | 26.26 | 33.24 | 75.97 | 151.70 | 28.90 | 43.94 | 58.66 |
| West Bengal | 58.55 | 47.81 | 86.03 | 73.64 | 35.37 | 58.37 | 52.37 |

*Source*: Memorandum to the Seventh Finance Commission, Finance Department, Government of Bihar, 1978.

imbalances caused mainly by investment disparities, it was found that this has not been achieved. The growing regional imbalances in the Indian economy, more especially in Bihar, are indicated by the per capita income and the people living below the poverty line. It is ascertained that the per capita income in the state is the lowest and the percentage of the people living below the poverty line is the highest. Besides, the NDP is also found to be the lowest while the transmission and distribution loss of power is the highest. This proves that inter-state regional disparities of incomes have been widened as is evident from Tables 1 and 2. As income is generated by investment, Bihar has a very poor per capita plan outlay as is evidenced from Table 3. Because of the poor per capita plan outlay, the rate of industrialisation is also poorly indicated as is seen from the per capita value added by the factory sector, per capita value added by manufacture and per person value of farm output of rural people (Table 4). The cause of the poor per capita plan outlay is the low per capita assistance to Bihar from the Centre as can be seen from Table 5. The investment from market borrowings by Bihar is also poor as compared to other States. The per capita loan floated stands at the lowest as one can see from Table 6. Thus the overall reason of widening disparities of incomes in Bihar in comparison to other states is the low per capita plan outlay from the First to the Fifth Plan as is very well evidenced from Table 7.

Attempts should, therefore, be made to tone up investment. For this is a fair administration and the attitudes of the people are important. They should be responsive to the change of technology to suit the demand of the hour. Successful implementation of the plans is necessary. There should be considerable increase in the quantum of Central assistance. In the mid-term appraisal of the Fourth Plan, the Planning Commission admitted that an analysis of the allocation of the Central assistance during the Fourth Plan shows that, even under the revised forumla, the per capita Central assistance to Bihar and Uttar Pradesh which are the two most backward states, remained below the average of the assistance given to all states. The absence of a method by which Central assistance can be linked with the level of development and sectoral requirements is a problem that needs fuller examination. The problem posed by the Planning Commission itself is yet to be studied in depth. A method should be evolved to link Central assistance with the level of development. Even during the Fifth Plan period, Bihar failed to receive Central assistance at the National Per Capita Average, what to speak about a rate commensurate with its level of development.

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# 20

# Regional Imbalance in Development: Case of North Bihar

BY

D. JHA

DEVELOPMENT means rise in income, standard of living and quality of life of the people. Development does not mean merely creation of an urban settlement, erection of an industrial complex or laying of roads and railway lines. There is obviously a distortion in development if its benefits are shared by only some people in certain areas of the country. Development would be contorted if all the income generated in this country is not equitably shared by all the inhabitants of this country.

Over the years, planners and administrators have adopted various techniques of development for the economic uplift of the country. It has, however, lately been realised that some development has taken place in the form of more industrial installations, dams and canals, schools, hospitals, etc. However, the number of people living below the poverty line has increased rather than diminished. It has also been revealed that a certain geographical area of the country has a higher index of development than several other areas. This is true in the macro-framework of the country as a whole as well as within the area of state also. Thus, while north-eastern and eastern states are relatively less developed in the country, North Bihar would be considered less developed in the economy of Bihar.

There may be numerous factors responsible for this imbalance. In a democratic polity such imbalance disturbs and disrupts the cohesive character of society and becomes self-defeating in nature. One of the reasons for this imbalance is the overemphasis on sectoral planning. Sectoral planning is bound to create an imbalance because of difference in natural imbalance in the availability of resources. It, however, misses the focus of development—defined as acquisition of capability by the people inhabiting all the regions of the country. Balanced development does not mean equal development of all areas. There will be differences in the nature and level of development, according to natural endowment and human capabilities of the people inhabiting that region. All the regions have their own characteristics for development and because of numerous geographical differences as well as cultural milieu of the people, the development of each region will require a different solution. It is for this reason that a very generalised prescription for development may not be appropriate and effective in all the regions of a country. Regions are differentiated by physical and cultural characteristics, resource endowments and the quality of the population. A region is characterised by homogeneity in these matters and, therefore, an integrated picture of a region is helpful for balanced economic development.

Different regions may call for different priorities, such as road in one area, industry in another, education and health in yet another, tubewell irrigation on one area and lift-irrigation in another. Therefore, each region has its own peculiar solution of its problem as differentiated from the adjoining areas. A region is an area of internal similarity, both physically and culturally. A region has similar problems and prospects as distinct from the adjoining areas. The essence of a region is similarity of conditions and problems. Administrative boundaries may not have much economic significance due to this unmatching of economic and administrative boundaries. Regional planning aims at reducing income differences among different regions. Although some effort in this direction has been attempted in this country, there has been no organised attempt for regional planning either at the national or state level. A realistic concept would be that we treat man in a given specific environment. To state the truism, the development of man lies in the way he manipulates his environment. It is believed that by regional planning necessary social and economic interaction may be brought about to bring the desired changes in the social structure. Each homogeneous area has its own growth, stimulus and society's aggregate welfare can be maximised if each region of the country has a growth according to its potentiality.

The merits of the above analysis can be more clearly grasped by illustrating the case of North Bihar in the economy of Bihar. Whatever may have been the causes for such a disparity, the fact is that such imbalances upset the stability of the economic system. This also shows wrong priorities and unsound planning. Bihar has three distinct regions. The area north of the Ganges generally covers North Bihar and the area south of the Ganges is South Bihar and Chotanagpur Plateau. They do constitute distinct regions both physically and culturally and surely different order of priorities and programmes, techniques and methods will have to be adopted.

Despite North Bihar's vast potential of very intelligent manpower, its economy is presently at an utterly low level. Out of 1,73,000 sq. km. geographical area of the State, North Bihar has an area of 53,8,000 sq. km. and it is 31 per cent or almost about one-third of the State. South Bihar has an area of 40,000 sq. km. and it is 23 per cent of the total area of the State.

Although the geographical area of the North Bihar region is only 31 per cent of the total geographical area of Bihar, it has to contain 43 per cent of this State's total population as against 31.82 per cent in South Bihar and 25 per cent in Chotanagpur Plateau. Out of Bihar's total population of 563 lakhs, 263 lakhs reside in North Bihar, 153 lakhs in South Bihar and 142 lakhs in Chotanagpur. Of the total number of households in the State, 47 per cent are in North Bihar, 25 per cent in South Bihar and 27 per cent in Chotanagpur. There is a very high pressure of population in this area which can well be seen by the density of population per sq. km. which is 489 in North Bihar, 392 in South Bihar and 178 in Chotanagpur. The pressure of population becomes serious when we find that North Bihar has 18 per cent of the scheduled caste population as against 11 per cent in South Bihar and 10 per cent in Chotanagpur. A comparative picture with South Bihar and Chotanagpur has been shown to indicate regional imbalances and need for correcting this anomaly.

From the point of view of literacy also, the North Bihar region is more backward than other parts of this State. Bihar's average literacy is 20 per cent of the total population. It is only 17 per cent in North Bihar, 24 per cent in South Bihar and 20 per cent in Chotanagpur.

One of the criteria for development is urbanisation and looking at the problem of this region as urban and rural population we observe that only 5 per cent of the population live in urban areas as against 12.6 per cent in South Bihar and 16 per cent in Chotanagpur. Thus the North Bihar area contains largely rural population which is 95 per cent. Density of population in the rural area is 469 per sq. km. in this area, as against 348 in South Bihar and 153 in Chotanagpur. Its economy is further subjected to hard pressure because it has a very high percentage of agricultural labourers to total workers.

| *Natural division* | *Area (000 sq. km.)* | *Population (1971) (lakhs)* | *Density (per sq. km.)* | *Scheduled Castes (lakhs)* | *Literacy (per cent)* |
|---|---|---|---|---|---|
| North Bihar | 53.8 (30.9) | 263.1 (46.7) | 489 | 47.1 (59.0) | 17.1 |
| South Bihar | 40.4 (23.3) | 158.2 (28.1) | 392 | 18.3 (23.0) | 24.3 |
| Chotanagpur | 79.7 (45.8) | 142.2 (25.2) | 178 | 14.1 (18.0) | 20.4 |
| Total | 173.9 (100.0) | 563.5 (100.0) | 324 | 79.5 (100.0) | 19.9 |

| *Natural division* | *Urban population (lakhs)* | *Percentage of urban population to total* | *Total workers (lakhs)* | *Percentage of workers to total population* | *Percentage of agricultural workers to bkl. workers* |
|---|---|---|---|---|---|
| North Bihar | 13.6 | 5.2 | 81.23 | 30.9 | 87.8 |
| South Bihar | 19.9 | 12.6 | 48.08 | 30.4 | 80.2 |
| Chotanagpur | 22.8 | 16.0 | 45.59 | 32.4 | 74.5 |
| Total | 56.3 | 10.0 | 174.89 | 31.0 | 82.2 |

| *Natural Division* | *Total area irrigated (000 acres)* | *Percentage of gross area irrigated to gross area sown* | *Net area sown ('000 acres)* | *Percentage of net area sown to total area* | *Total cropped area ('000 acres)* |
|---|---|---|---|---|---|
| North Bihar | 1,846 | 16.6 | 8,952 | 68 | 12,284 |
| South Bihar | 4,319 | 51.0 | 5,979 | 60 | 8,305 |
| Chotanagpur | 477 | 8.0 | 5,960 | 30 | 6,657 |
| Total | 6,642 | 26.0 | 2,891 | 49 | 27,245 |

| *Natural division* | *Percentage of total cropped area to total area* | *Percentage of marginal farmers holdings to total holdings* | *Percentage of small farmers holding to total holdings* |
|---|---|---|---|
| North Bihar | 93 | 70 | 13 |
| South Bihar | 84 | 61 | 16 |
| Chotangapur | 39 | 51 | 16 |
| Total | 64 | 63 | 15 |

| *Natural division* | *Working factories (number)* | *Percentage of workers employed in factories to total workers* |
|---|---|---|
| North Bihar | 5,300<br>(32.0) | 0.6 |
| South Bihar | 6,126<br>(37.0) | 1.2 |
| Chotanagpur | 5,083<br>(31.0) | 3.6 |
| Total | 16,503<br>(100.0) | 1.6 |

| *Natural division* | *Surfaced roads (km)* | *Railway length (km)* | *Number of pumps energised (1972)* | *Number of villages electrified* | *Number of pump-sets energised* |
|---|---|---|---|---|---|
| North Bihar | 5,819<br>(35.0) | 1,701<br>(34.0) | 8,520<br>(12.0) | 2,133<br>(11.0) | 10,248<br>(12.0) |
| South Bihar | 6,168<br>(38.0) | 1,599<br>(32.0) | 61,161<br>(83.0) | 5,600<br>(29.0) | 72,523<br>(83.0) |
| Chotanagpur | 4,431<br>(27.0) | 1,748<br>(34.0) | 3,701<br>(5.0) | 1,469<br>(5.0) | 4,744<br>(5.5) |
| Total | 16,418<br>(100.0) | 5,038<br>(100.0) | 73,382<br>(100.0) | 9,202<br>(14.0) | 87.515<br>(100.0) |

| | *Production of pulses and food-grains (800 tonnes) 1970-71* | *Number of hospitals and dispensaries (1973)* | *Hospital beds (1973)* |
|---|---|---|---|
| North Bihar | 2,811 | 373 | 1,750 |
| | (36.0) | (35.0) | (24.0) |
| South Bihar | 3,669 | 394 | 4,546 |
| | (47.0) | (36.0) | (63.0) |
| Chotanagpur | 1,386 | 304 | 880 |
| | (17.0) | (29.0) | (13.0) |
| Total | 7,866 | 1071 | 7,176 |
| | (100.0) | (100.0) | (100.0) |

The average percentage of agricultural labourers to total workers in the State is 39 per cent but it is 46.4 per cent in North Bihar, 40 per cent in South Bihar and 34 per cent in Chotanagpur. A very small proportion of the people in this area are engaged in non-agricultural activities.

Economic development consists broadly of diversification in employment. As the economy grows, more people become engaged in non-agricultural activities in various secondary and tertiary occupations. Presently, it is 12 per cent in North Bihar against 20 per cent in South Bihar and 25 per cent in Chotanagpur. The fact of high population pressure in this region coupled with a low base of economic development puts heavy strain on the economy and calls for speedy measures for development. A detailed background of the population of the region is shown in Table 1.

The economy of this region is predominantly agricultural in character which makes the people of this region very largely dependent on agriculture which, in turn, is highly subjected to the vagaries of nature. North Bihar is more dependent on agriculture than South Bihar and Chotanagpur. The percentage of persons dependent on agriculture is 87.8 in North Bihar and 74.4 in Chotanagpur.

One of the most prominent factors for economic development is the existence of infrastructural facilities. In a private enterprise economy, where most of the economic activities have to be conducted by private individuals, the existence of infrastructural facilities will spur them to initiate activities for setting up industries. The essential requirements for this purpose is the availability of electricity, transport and communications. From all these points of view, this region is too ill-equipped. The per capita consumption of electricity is only 10 units in this area as against 41.6 per cent in South Bihar and 174.69 per cent in Chotanagpur. The provision of electricity plays a key role not only for industrial development of the area but also for its agricultural development. It helps diversification of economic activities which ultimately result in the economic development of the area.

The main resource of this region is rich fertile land but its full potentiality of productivity cannot be realised unless assured water supply is available to the farmers. It has been found that there is plentiful ground water resources in this area and if efforts are made to utilise this resource the agriculture of this area will surely get transformed. Little has so far been done in this regard. Out of the total number of 73,387 pumpsets energised in this state, only 11.4 per cent are located in this area as against 83 per cent in South Bihar.

While mentioning the comparative development in South Bihar and Chotanagpur, the purpose is only to point out that a great deal needs to be done to promote development in this area. In the modern economy, electricity is a very important catalyst for development but there has been virtually not much effort in providing electricity in this area. A very fast rate of progress can be attained if electricity is available for energising pumpsets and for other productive purposes. The quality of services has to be of a high order. Even whatever power connections are provided, they are of a very low quality and operate at a very low level of efficiency. There is too frequent load shedding, tripping, etc.

To repeat, this area is very well endowed with highly fertile land and a large number of crops, vegetables and fruits are grown in this area. One researcher has counted 56 variety of cereals, oilseeds, pulses, fruits and vegetable crops grown in this area but the farmers are not able to secure proper prices for the produce in the absence of a suitable marketing structure where these could be sold. This is because most of the villages in this area are inaccessible for most part of the year. There are many villages where it is not possible to go from June to December. A great boost to the economy of this area can be given if transport and communication facilities are available to the villagers. The lack of transport and communication facilities imposes enormous limitations on the movement of goods and produce in and out of this area and as a result economic activity operates at a very low level.

In modern economics, financial institutions play a crucial role in the development of a region. Business operations in the present-day economy are largely operated on institutional lines for its working capital and block capital requirements. Banks today play a pivotal role in pushing up economic development. This area has been very much under Zamindari influence for more than 150 years. The people of this area have suffered a great deal on account of exploitative activities of zamindars, private traders and money-lenders. One could not expect ecónomic activities on modern commercial lines on the basis of private money-lending. Modern commercial economic activities could sustain only when modern financial institutions meet their capital requirements.

But in spite of 30 years of planning, no modern financial institutions have taken roots in the socio-economic life of the people of this region.

There are many blocks and marketing centres where no financial institutions of any kind exist. Out of the 775 commercial bank offices in Bihar, only 253 are located in this area. There are neither commercial bank branches nor co-operative institutions to meet the credit needs of the farmers. Most of the co-operative societies are not functioning. Co-operative institutions of various kinds must be organised and strengthened to meet the various kinds of services and needs of the farmers in the context of challenges of economic development.

About 40 per cent of the sown area of this State is located in this region. So far as the provision of irrigation facilities is concerned, the gross area irrigated to net area sown is only 22.9 per cent. This is 70 per cent in South Bihar and 8.4 per cent in Chotanagpur.

Almost all the districts of this area are listed as backward districts. The per capita income in this area is 156 only as against the State average of Rs. 215 at constant prices. As many as 77 per cent of the people of this area are living below the poverty line.

Before attempting to suggest some concrete measures for development of this area, let us identify some basic weaknesses and deficiencies from which this area suffers so that the growth effort is properly directed and the economy moves forward in the right direction of development:

1. This area, by and large, is too much exposed to the vicissitudes of nature. Floods and drought are the greatest scourge from which this economy suffers almost every year, causing immense havoc in the region and paralysing almost all developmental efforts. Almost every year some part or the other of this area suffers

immense devastation either by flood or drought and sometimes by both. Numerous valuable lives are lost, cattle perish and crops worth crores are damaged, causing immense suffering to the people. The primary task for development of this area, therefore, is to insulate the area against floods.

Very often floods damage one area and drought engulfs another. Drought occurs due to the failure of rain, inadequate rainfall or untimely rainfall. There are a large number of big and small rivers in this area and flood waters flow through these rivers and submerge this area. Presently, the entire water resources are wasted. Therefore, development of this area very largely depends upon the proper harnessing of the water resources of this area.

Economic development of this region is dependent on proper utilisation of the available resources. About 95 per cent of the people of this area live in rural areas and 88 per cent are engaged in agriculture for their sustenance. During the last decade agriculture has made a breakthrough in several parts of the country and in some pockets of this State also. Modern techniques have immense potential for the development of agriculture. Experience has shown that the per acre agriculture production can be doubled and trebled by applying modern techniques in farming operations. Therefore, the major thrust of development in this area has to be modernisation of its agriculture as quickly as possible.

Presently, a major part of agriculture is conducted for subsistence purposes. Modern scientific agriculture could be successful only when farmers' attitude towards agriculture changes from subsistence to commercial considerations. Subsistence farming limits their choice for pattern and outlook for investment. Modernisation of agriculture requires investment in seeds, fertilisers, pesticides, irrigation, etc. They have to pay interest charges for the borrowings. Therefore, unless the farmers get adequate return over their investment in these items, modern agricultural practices cannot be pushed far enough.

Modern scientific agriculture could be pursued if farmers choose the combination of crops which gives them maximum return. New strains of crops are being evolved which have great potential if agriculture is conducted on modern lines. One major shift in agriculture practices which have opened up vast potentials for raising per acre yield is advancement of cropping sequence. It has been found that if the cycle of cultivation is advanced by one month, i.e. paddy cultivation is rearranged in such a way that it could be harvested by the end of October, then the field will be free for the sowing of rabi crop in November. This way the farmers can get two main crops—paddy and wheat—in the same field in the same agricultural season.

It is not possible to practise extensive cultivation in this area because almost every inch of cultivable land has been brought under plough. Therefore, intensive cultivation is the only way out to raise farm production in this area. There is need for the cultivation of some new crops which have shown immense scope for profitable cultivation such as soyabean, sunflower, groundnut, etc. Once the farmers develop a commercial outlook towards cultivation, the scope for cultivation of these crops could be considerably enhanced.

The modern agricultural practices will necessitate reorganisation of farm lay-out. This area suffers from very extreme type of subdivision and fragmentation of land. A number of modern agricultural devices such as the use of tractors, power tillers, etc. cannot be possible if the farms continue to be fragmented. Therefore, consolidation of holdings is an important precondition for practising modern farm techniques here.

Modern agriculture necessitates controlled water supply. Although the average rainfall in this area is around 50-60 inches, it is not possible to practise modern farming on the basis of the rain-fed water supply. It is not the aggregate volume of rainfall which is material for cultivation but its seasonality and timeliness. Modern farming requires water in certain quantity at a certain time during the crop growth. Therefore, to push modernised farming forward, controlled irrigation has to be devised. This area is fortunate in having vast potential of ground water. Indeed, prospect for agriculture development for this area very largely depends on our efforts for utilisation of ground water resources.

Growth has been associated with industralisation. With economic development pacing ahead, the dependence of the population on agriculture has diminished. In fact only 5 per cent of the population is engaged in agriculture in the U.K. and 6 per cent in the U.S.A. One of the important reasons for poverty and low level of income of the people of this region is their too much dependence on agriculture. The condition of those engaged in agriculture will considerably improve if some portion of the population is shifted from agriculture to non-agricultural pursuits.

There is no conflict in the choice for agricultural development and industrial development. In fact, each supports the other to a very large extent. Industries supply fertilizers, pesticides, agricultural implements and tools to the agricultural sector and agriculture in turn supplies labour force and raw materials for industrial development. A growing agriculture provides market for a number of industrial commodities. Besides, as tne income of the farming community increases, their demand for a number of secondary and tertiary activities increases and thus secondary and tertiary industries grow.

The pattern of industrialisation in a region is partly determined according to the resource endowment. North Bihar does not possess mineral deposits worth mention. And yet industrialisation based on agricultural raw materials could be pushed ahead. Once agriculture becomes modernised and agricultural production increases, there will be need for large-scale processing industries to process the agricultural products such as rice mills, dal-mills, vegetable and fruit canning, cold storage, sugar mills, paper mills, flour mills, oil mills, etc. Modern agriculture cannot be sustained in the absence of modern processing industries. At present, farmers are not able to get full benefit of price in the market. Once they organize processing these products, they will be able to get full benefit of the market price.

Agricultural development does not mean only development of crop production. In fact, agricultural development would necessitate considerable diversification of the occupational pattern of rural households. In the initial years of development, it may be additional or supplementary activity of rural households but as development takes roots, specialised type of farm activity will emerge. Gujarat has brought prosperity to the rural households by what is called white revolution. An advanced agriculture will make available the amount of fodder to sustain dairy farming. This will also be necessary to supply the protein requirements of the population and enrichment of dietary composition. Since agricultural business alone will not engage them fully, they could boost up their income by organising dairies, poultry, piggery, goat raising, sheep rearing, etc. North Bihar has big potential for development of pisciculture in its numerous ponds, rivers, nullahs, chaurs, etc.

This area is famous for growing a number of horticultural products. Mango grown in this region has a high quality, which could fetch high income if scientifically nurtured. Its traditional orchards are fast disappearing. Besides yielding fruits and fuel, it has numerous other advantages. Agricultural households could considerably raise their income by organising cultivation of mango, lichi, banana, guava and several other horticultural products. This region is uniquely suited for cultivation of lotus seed (Makhana). This needs to be modernised.

The role of infrastructure for economic development need no emphasising. In fact, this is the base on which any development can succeed. One of the main reasons for backwardness of this region is low level of infrastructure development. The most crucial item of infrastructure for spurring economic development is the provision of electrical energy to all the households. It will not only enable the farmers to energise their pumping sets but also provide them numerous rural and cottage industries. At present, only 10 per cent of the villages are electrified. Attempts should be made to supply electricity to all villages in the next ten years.

Another major infrastructure, which has considerable influence on spurring development, are telephones, telegraphs, etc. The existence of these facilities provides incentives for growth of their activities.

Due to low level of economic activity, unemployment/under-employment prevails to a very large extent. Development loses its significance if unemployment exists. The major objective of development in the situation of our economy is the provision of employment opportunities to all those willing to work. The exact nature and quantum of unemployment needs to be investigated. However, this has one lesson for the planners that, at the present stage of development, the technique of production has to be labour-intensive. This will also promote more equitable distribution of income.

One form of unemployment which has assumed explosive character is the existence of educated unemployment. Special schemes and measures need to be devised to provide employment to all educated persons seeking work.

Economic development is very closely associated with the acquisition of new knowledge. Every attempt at economic development necessitates change and new knowledge. Modernisation of economic operations requires knowledge about the use of the various devices. Therefore, education assumes special significance in a developing economy. Only literate persons can read instructions for the use of new devices. Even more important than reading and writing is the knowledge of doing things. Educational programmes have to be so devised so that these are consistent with the urges for development. In the earlier stage of development, there is greater urgency for promoting 'functional literacy'. Agricultural workers must be taught how to use the various inputs and how much to use. Village artisans must be taught how to step up the quantity and quality of their production by using modern tools and implements. In the interest of economic development, educational development should be mainly for promoting literacy, particularly functional literacy. One of the basic objectives of planning in this country is promotion of social justice. It is not enough to produce more. It is equally important that what is produced is equitably distributed. Concentration of income in a few hands creates a lot of social tension and distorts the processes of production. Therefore, policies and programmes must be so devised that the poorer sections of society have their proper share of the produce.

The focus of development has to be the Man; indeed, the amelioration of the condition of the smallest man residing in this area should be the main aim of development.

The road to prosperity is indeed a long one. It has taken centuries for Western countries to come to the present level. The technique of planning has provided a short-cut but how 'short' it could be depends on the effectiveness of planning, determination and zeal of the people. The genius of the people of this region will enable them to overcome obstacles in the way of development and attain a quick growth once they resolve to do it. In the ultimate analysis, it is the Man who brings about development and if the people of this region become committed for development, this can feed the entire population of Bihar and also export outside the State.

# 21

## Major Recommendations

ONE National Seminar on 'Planning for Development and Regional Imbalances in India' (With Special Reference to Bihar) under the auspices of the L.N. Mishra Institute of Economic Development and Social Change, Patna, was held on September 29 and 30, 1982. More than 50 papers were presented and discussed in three technical sessions. Almost all the speakers highlighted the issues and problems of regional imbalances—both inter-regional and intra-regional.

Regional disparities like other imbalances and distortions in the economy are the manifestations of the contradictions of the mode of production and the consequent pattern of distribution. Over the five-year plans, inter-regional disparities have widened as revealed by the relative range between the highest per capita and the lowest per capita income States, the coefficients of variations in the per capita income and the expenditure and the Ginni coefficient of inequality.

The per capita income in Bihar during 1978-79 has been estimated at Rs. 777 against the country's average of Rs. 1249. Hence, the per capita income of Bihar is 69 per cent of the national average. According to 1971 census, 2.5 per cent of the total population of the State was engaged in the manufacturing industries against the national average of 5.6 per cent. In spite of the pious declarations such as "equitable fiscal transfer", backward States like Bihar have remained backward, seven finance commissions and five-year plans notwithstanding. Even the Seventh Finance Commission's award has favoured affluent States with larger surpluses. The formula adopted by different finance commissions have often tended to help the already advanced States. There cannot be an equitable fiscal transfer unless there is a positive weightage in favour of economically less developed States like Bihar. Central financial assistance to different States for development expenditure has been taken more advantage of by the advanced States. A State where one out of every six persons in the country, who are below the poverty line, lives surely deserves to be treated as a special problem State. The metropolitan areas and other already industrially advanced regions still attract a disproportionately large part of industrial and related activity which cannot be justified in terms of allocation of resources on the economics of least cost. Special planning should, therefore, be made imperative and recognised as a necessary complement to economic planning instead of basing major locational decisions on political pressurising and horse-trading.

The bulk of the Central investment in Bihar is also highly capital-intensive, mostly on heavy industries, with restricted employment potential. This would be clear from the following:

The industrial complexes that have developed around Jamshedpur, Dhanbad and Ranchi provide attractive opportunities for the growth of ancillary and auxiliary industries. The ancillary industrial estates at Adityapur and Ranchi have achieved some degree of success but still the bulk of purchases made by the large Central public undertakings in Bihar are from outside the State and hardly 15 per cent of the so called ancillary industries are really ancillary to the parent industry hereby. Out of the total number of 1,188 licences granted from 1978 to 1980, Bihar's share has been 19 which is approximately 1.6 per cent. While there has been an increase of over 30 per cent in the number of licences issued, it has gone down from 12 in 1978 to 3 in 1979 and 4 in 1980.

Regional economic planning provides the framework within which the exercises for development are set. In less prosperous regions, the basic problems are whether and how economic development can be promoted and new opportunities of employment provided. But the procedures of regional planning are complex and the implementation of regional plans depends upon close co-operation at the national and local levels. Plan for a region must be realistic in terms of resources which the nation can devote to them and the aspirations of different regions must be reconciled. For regional planning, the prime considerations necessary for the successful performance are:

(a) Indentification of the specificness of the region within the overall context of the needs of the nation;
(b) an accurate assessment of the limits and opportunities imposed on natural resources of the region;
(e) meaningful decision about the spatial distribution of economic activity on the basis of cost-benefit analysis;

(d) to forecast a region's probable future course of action in advance and appropriate action be taken in time for indicating the probable gap between regional development and aspirations; and

(e) outlining of a suitable regional development strategy.

The preparation of regional plans might involve the following stages:

First, the preparation of forecasts, indicating how the economy as a whole is likely to evolve and the effects on a particular sector; second, an assessment of the consequences of these developments for the region and the preparation of a draft strategy; and, third, an appraisal by the national authorities of the resources which can be devoted to regional development and an attempt to rate these with the regional draft strategies of different regions. In respect of Bihar, the delineation of regions by the Town and Country Planning Organisation, Ministry of Works and Housing, Government of India, may be of immense use on which basis, within the three main regions, seven sub-regions, namely the Tirhut Agro-Industrial Regions, the Kosi Plains Agricultural Region, the Magadh Agro-Industrial Region, the Lower Sone Valley Agro-Industrial Region, the North Chotanagpur Mining and Industrial Region, the Ranchi Plateau Region and the South-East Chotanagpur Mining and Industrial Region have been delineated. For practical purposes, different districts may be considered for planning at the lowest levels as viable units and, by integrating all the territorial levels, a plan framework may be prepared taking into account the potentialities and needs which may be helpful in correcting the imbalances of different regions/areas of the State.

Balanced regional development has been an important policy objective in India since the very beginning of the planning era and this objective has assumed renewed significance since the Third Plan period when the plan document gave it a special treatment in Chapter IX and mentioned that the balanced development of different parts of the country, extension of the benefits of economic progress to the less developed regions and widespread diffusion of industry are among the major aims of planned development".

The following suggestions emerged out of the discussions at the seminar:

Regional planning was considered as a problem in spatial integration and functional coordination of different regions.

As suggested by the National Committee on the Development of Backward Areas (NCDBA), in its interim report, the following features should form a part of financial arrangements for the development of backward areas:

(i) In the plan of every development, there should be a sub-plan for the development of backward areas both at the State and Central levels;
(ii) project fund for local planning and special additive fund;
(iii) financial discipline so that the tendency to divert funds intended for backward areas to more forward areas is checked,
(iv) project-based implementation; and
(v) incentives to staff posted in backward areas.

So far we have not evolved any plan for the distribution of population between different settlements. We may have town and city plans but they are not regional plans. Both 'push' and 'pull' factors are increasing the flow of migration from rural to urban areas but without any commensurate expansion of civic services. It is only when the urban-rural income differentials are reduced that migration from rural to urban areas can be checked. Regional disparities like other imbalances and distortions in the economy are the manifestations of the contradictions of the mode of production and the consequent pattern of distribution. Such is the institutional setting of the economy of Bihar.

Over the five-year-plans, inter-regional disparities have widened. The relative range of State income, measured as the ratio between the highest State per capita income and the lowest per capita income, increased from 1.96 per cent in 1960-61 to 2.24 per cent in 1970-71 and 2.6 per cent in 1975-76. The coefficient of variation of State per capita income has gone up from 21.4 per cent to 27.1 per cent in 1975-76. The Ginni coefficient from 12.93 per cent in 1960-61 to 14.33 per cent in 1970-71 and coefficient of the per capita expenditure increased from 12.3 per cent in 1963-64 to 14.1 per cent in 1973-74.

The 'removal of poverty' is declared as the main objective of successive five-year plans. Though poverty cannot be removed quickly, yet its incidence in some backward States can be reduced with the help of liberal federal transfers. Therefore, a part of federal transfers should be distributed on the basis of 'population below the poverty line'. The poverty ratio is a better indicator of the deprivation of State than the per capita income because it reflects the distribution of income as well as its level. But this indicator also has some limitations. The estimates of population below the poverty line are not as scientific as these are in case of the per capita DSP.

Further, the poverty line itself has to be drawn at an arbitrary level on the basis of subjective judgment. Lastly, the use of this index will favour those States which maintain a large proportion of the poor people. Due to these limitations of the index, not more than 30 per cent weightage should be given to this criterion.

If inverse of the per capita SDP and the ratio of population below the poverty line are taken as criteria, some populous States like Maharashtra and West Bengal would be in a disadvantageous position. Hence, 30 per cent of the plan assistance and proceeds from income and excise duties should be distributed on the basis of population.

In case of grants-in-aid distributed by the Finance Commission, 'deficit in budgets' should continue as a criterion but more emphasis should be given to specific grants' for upgrading social, economic and administrative services in the States where their standard is below the national average.

Although in certain States, the share of the poor in Government expenditure benefits is higher than their share in tax burdens, the number of those who really benefit from Government expenditures is considerably smaller than the number of those who pay taxes, with the result that, for a large majority of the poor, the fiscal system turns out to be regressive.

Another point which emerged from this seminar is that it is the better-off States who benefit more from at least some of the Central Government expenditures. Take for instance, the case of food, export promotion, interest and investment subsidies, etc., given by the Central Government. The bulk of the benefit of these subsidies goes to the non-poor living in better-off States. The non-poor in Maharashtra alone benefit more from them than all the poor in the country taken together.

In this way, post-independence irrigation development in Bihar can be attributed to public investment. There is no evidence of any significant private investment in irrigation despite the fact that agricultural prices have been rising consistently and agricultural incomes have been growing in the post-independence era. The preference of public authorities for canal and tubewell irrigation and the regional bias of these public investments has led to a highly inequitable pattern of irrigation development. The districts of the plateau region have been very adversely affected by the post-independence public investment policy. The six districts of Santhal Parganas, Hazaribagh, Ranchi, Palamau, Dhanbad and Singhbhum have recorded a sharp decline in the area irrigated by traditional minor irrigation sources. With the exception of Palamau and Ranchi, the decline in traditional minor irrigation in these districts has not been compensated by new sources of irrigation, and, as a result, there has been a decline in gross area irrigated to the net area sown.

Production and consumption balances at appropriate spatial levels (sub-national) should be worked out and striven for to a maximum extent. The theory of export-led growth is of questionable relevance at the regional level in populous and low-income countries.

Inter-regional economic linkages should be fostered by appropriate production system and technology which can pull all the regions together. The absence of economic linkages of mutually reinforcing character would tend to promote economic dualism and exploitative relationship causing a drain effect from backward areas.

Often the growth pole or the development pole strategy is advocated for promoting regional development. National development is viewed as an aggregation of regional development plans. This idea originated with Francis Perrous who observed that growth does not spread uniformly among all sectors and regions. It is concentrated in certain sectors. When the growth of certain industries generates spread-effects to other industries by generating income and employment in that industry, it is known as a propulsive industry. A cluster of such industries is known as the growth pole. The strategy of promoting growth is urban-biased, and policy measures for promoting them is often accepted as a major instrument of regional development. However, the concept of growth pole has its limitations and its operational efficacy is questioned in the situations of the third world with rural predominance. There is a distinction between geographic space and economic space which makes a vital difference to the operational efficacy of the growth pole. The spread-effects of growth pole may not permeate the immediate neighbourhood in the absence of transmission lines, while the spread-effects may travel and favourably affect the distant places, leaving the areas in between backward and stagnant. This happens when there is little economic linkage between the growth pole area and the immediate neighbourhood. This is a case of promoting economic space, but not geographic space. The concept of the growth pole has greater relevance in the industrialised countries of the West than to the rural situations in developing countries.

The roots of the problems of rural-urban poor in most of the developing countries like India are in rural areas. The urban problems are more of a spill-over for rural areas in the immediate neighbourhood than an issue relating to urban renewals of infrastructure occasioned only by greater industrialisation. In countries like India, rural-urban problems cannot be separated from each other—their interaction is of vital consideration in any regional development planning. Urban areas should, therefore, be viewed geographically as an integral part of a larger space, the development of which should get an integrated approach. Metropolitan development plans or master plans for urban development are more of an imitation of the Western approach in completely different situations. A proper understanding of rural-urban interaction in a specific national situation like India is a prerequisite for effective regional development and rural change.

The problem of developing countries, especially that of India, cannot be viewed in isolation from the world system of dependent relationship between the developed North and backward South. The dependency is manifested in terms of trade, financial system, power, technology and transmission of world crises from the North to the South. When such dependency is required to be reduced by promoting import-substitution industrialisation as a strategy of development, it gives rise to rural-urban and formal-informal sector dualism in urban areas. The three types of dualism—such as North-South, rural-urban and formal-informal sectors—are woven in a complex system, aggravating the problem for the poor and the unemployed. The problem may have different variations and manifestations in the context of national situations in regard to resource endowments, manpower, technology and trade pattern. However, whatever be the national variation in the basic problem of economic dualism, the remedy does not seem to lie in urban-biased industrialisation.

The problem of most of the developing countries, especially that of Asia and Africa, is one of poverty, malnutrition, hunger, unemployment, illiteracy and ill-health with all their cultural manifestations. Development in such a situation cannot be brought about by the strategy of GNP maximisation. A rapid growth in terms of GNP at the national level would tend to co-exist with increasing poverty and human degradation for the bulk of people, mostly distributed in the countryside. The development process in such a situation should seek fuller utilisation of resources for the people and by the people through the expansion of employment opportunities and by increasing their economic efficiency. Most of the people are without physical means of production and the necessary skills to utilise resources for maintaining them at a higher level of income and standard of living.

The need for monitoring is increasingly realised in the context of regional disparities. The data base at the regional and local levels has to be properly organised. The materials available with various organisations have to be properly collected and collated and development indicators for gauging socio-economic development scientifically worked out for meaningful comparison. The various regions and sub-regions have both a techno-economic as well as socio-cultural identity of their own.

Besides monitoring by the concerned administrative departments, there has to be scientific and objective evaluation through an appropriate and independent evaluation organisation. There has to be an inter-disciplinary approach to scientifically design and conduct the evaluation studies in a purposeful manner. Quick evaluation studies and concurrent evaluation may serve as periodic correctives to on-going programmes. The Programme Evaluation Organisation of the Planning Commission and State evaluation organisations can have more significant areas of co-ordination and recently some joint evaluation studies were also undertaken. Training in the sophisticated and scientific evaluation techniques is also of crucial importance.

Bihar has quite some constraints in augmenting fiscal resources, which otherwise should have been due to the State. There are constraints of the drain on the State exchequer as a result of vast flood devastation and the resultant requirements of expenditure on rescue and relief operations. The State is currently witnessing a peculiar phenomenon of co-existence of floods in some areas of the State with drought in some others. An inter state comparison of credit-deposit ratio indicates a situation which is not quite favourable to this State's development efforts. Inter-state comparisons in terms of some other significant indicators like the poverty percentage, the per capita plan outlay, the per capita Central assistance, the per capita income, etc. point to the critical compulsions for doing something special, eventually to bring Bihar on a par or near about the position of comparatively advanced States. There is thus a very strong case for a better deal to the State.

Another aspect which needs to be underlined is the necessity of integrating the economic plans with the progress of social reform and transformation. Bihar's social structure is proving a dead-weight which is resisting economic changes. The failures of plans are mainly related to the social resistance, political lapses and administrative indifference. The economic dynamisms as evisaged in the plans and policies fail to find root in the fossilised, stratified social and cultural heritage. It is difficult to visualise any economic change of progress without generating proper social and institutional climate in the different regions.

Economic and social disparity between groups and regions should be thoughtfully reduced by purposeful policy changes. The terms of trade, which are now against the rural producers and weaker sections both in rural as well as urban areas, should be reversed by changes in the fiscal policy, the credit deployment pattern, Government purchasing policy and priority in the infrastructural development.

To conclude, the consensus of the seminar was for the implementation of action-oriented programmes based on the above suggestions. Even if we have erred in reducing the imbalances, there is no room for pessimism, because a fertile error is better than a sterile accuracy. The intellectual exercise of the seminar will be amply rewarded if the policy-makers will echo our views.

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