Economic Inconsistency in Indian States

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Increases in economic inconsistency have been key issues in developing economies like India for many decades. One of the serious problems faced by Indian Economy is the disturbing growth rate of regional imbalances in different states and territories in terms of gross state domestic products, fiscal policy, economic growth rates, unemployment, poverty and foreign direct investment inflows.

Economic inconsistency can be easily seen in the country by assessing the national facts and figures available. There are some states of India which are way behind in the race of economic growth.

The economic dissimilarity in India is a matter of serious distress. In a large economy like ours, diverse regions with diverse resource bases and endowment would have a different growth path over a period of time. In India, the growth rate of gross domestic product (GDP) sped up during the 1980s. In the 1990s the transformation was directed to structural changes in the Indian economy, including deregulation of investment in both domestic and foreign economies, liberalisation of trade, exchange rate, interest rate, capital flows and prices etc. The period also witnesses a sharp deceleration in public investment due to financial restrictions. At the aggregate level, the average share of public investment in total investment has declined from 45 percent in the early 1980s to about one third in early 2000s.

According to RBI data, it is seen that four to five developed states have cornered the major portion of foreign direct investment (FDI) in India. The minor states with insufficient infrastructure are not able to attract foreign investment. These states are also investing less because historically they mobilised resources for public investment mainly through grants and assistance from the Central and State Authorities.

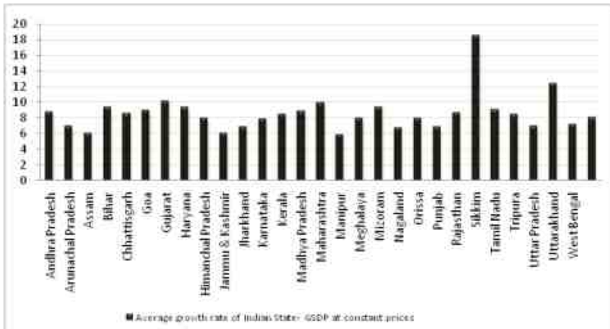
A. Economic Inequalities in Indian states:

There are many reasons behind economic inequality within the states in Indian Economy. With the economic growth in terms of Gross Domestic Products (GDP) and the Net Domestic Products (NDP), the inequalities also increased in Indian states. The inequalities can also be seen by analysing different economic indicators. Some of these factors include employment and unemployment rates, foreign direct investments inflows, poverty, fiscal policies etc. Before going through the analysis of selected economic factors; it is significant to go through the real growth rates of Indian states in terms of Gross State Domestic Products (GSDP) at constant prices.

A. Real Growth Rates of Indian States:

Economic disparity is known as difference between individuals or populations in the distribution of their assets, wealth and income. Economic inequality differs between people, periods, economic formations, systems and between peoples' abilities to create wealth and assets. It refers to cross sectional metaphors of the income and wealth at any particular period and to the lifetime income and wealth over longer periods of time. As seen from the available national facts and figures, Gross State Domestic Products (GSDP) growth rates have shown a fair degree of differences.

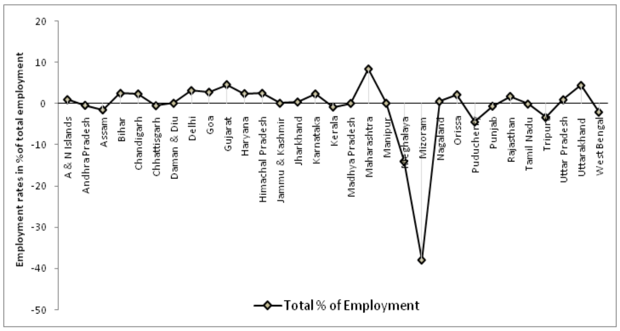
It can be observed from the given graph that some states have witnessed rapid and phenomenal growth, while the rest lagged behind the all-India growth rate. It is seen that a few states like Jammu & Kashmir, Manipur, Uttar Pradesh Arunachal Pradesh, Nagaland, Jharkhand, and Assam had recorded less than 7% average growth during the given time periods below the average growth rate of 8.02% per annum for all India including Union Territories. While Karnataka, Haryana, Meghalaya, Orissa and West Bengal have progressed rapidly during the period with over 7% per annum average growth. In general, there was a comparatively balanced regional growth seen even though the disparity widened across the states. However, ihighly industrialised or developed states such as Haryana, Himachal Pradesh, Uttarakhand Gujarat, Rajasthan and Maharashtra grew at over 8% and nearly 9% per annum average growth rate respectively. Goa, a small state, also grew at over 8 percent. Among other major states, Bihar, Chhattisgarh, Kerala, have performed very well with over 7% average growth rate per annum.



Graph : Average Growth Rate of Indian States-Gross State Domestic Product at constant prices

B. Employment Rate in different States in India

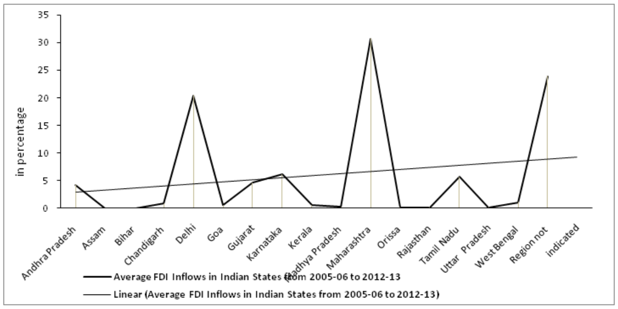
Looking at the employment rates in different regions, the country's unemployment rate is estimated to be at 4.7% and Sikkim is found to be having the maximum unemployment rate while Chhattisgarh had the lowest unemployment rate across the country. In its latest Annual Employment & Unemployment Survey report for 2012-13 released by Labour Bureau under Union Ministry of Labour and Employment, Sikkim had the highest unemployed people in the country. While looking at the employment rates, it can be said that there is wide disparity which exists in different states compared to one another. The report says that Andhra Pradesh, Assam, Chhattisgarh, Kerala, Madhya Pradesh, Meghalaya, Mizoram, Pondicherry, Punjab, west Bengal Tamil Nadu and Tripura have negative employment rates. Contradictory to low employment rates, Bihar, Delhi, Goa, Himachal Pradesh, Karnataka, Gujarat, Haryana, Orissa, Maharashtra, Madhya Pradesh, Chandigarh, and Uttrakhand have high employment rate. Such disparity in employment rates occurs due to industrialisation in advanced states.



Graph : Compound Annual Growth rate of Employment in Indian States

C. Unequal Foreign Direct Investment Inflows in Indian States:

In the LPG era and during financial integration, foreign direct investment (FDI) has emerged as one of the most important forms of capital flows to developing countries. Foreign direct investment is frequently favoured over other forms of capital flows by the investors as it is considered to be of a more steady nature and also it does not form a part of the host country's external debt stock. There is, however, large inequality in the distribution of foreign direct investment (FDI) flows within the emerging markets and developing economies. Foreign direct investment (FDI) flows to India picked up in the 1990s, after the economic reforms and liberalisation of the foreign direct investment (FDI) policies.

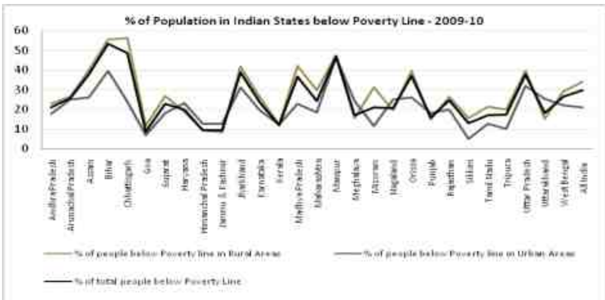


Graph : Regional Inequalities in Foreign Direct Investments Inflows in India

From the graph given above it is observed that the Indian states such as, Gujarat, Maharashtra, Karnataka, Tamil Nadu, Delhi, and Andhra Pradesh together accounted for almost 71.82% of foreign direct investment (FDI) equity flows to India during the period from 2005-06 to 2012-13. The foreign direct investment (FDI) policy in India was liberalised in the early 1990s as a part of economic reforms to attract the foreign capital and therefore, it is essential to derive maximum benefit from the FDI inflows and ensure that the rising FDI flows do not lead to an increase in regional inequality.

D. Poverty

Poverty is the state in which a person lacks a certain amount of property or money. Absolute poverty refers to the deficiency of basic human needs, which usually include food, hygiene, clothing, water, sanctuary, health and schooling. Relative poverty is defined contextually as economic inequality in the location or society in which people survive. For much of people, poverty is considered largely unavoidable as traditional modes of production were insufficient to give an entire population a comfortable standard of living.

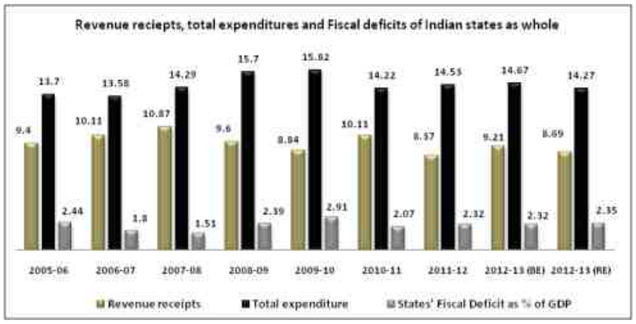


Graph : Percentage of Population below Poverty Line by States in India- 2009-10

On the basis of available facts it is observed that in Indian states, wide inequalities exist as in Bihar, Orissa, Chhattisgarh, Jharkhand, Madhya Pradesh, Manipur, and Uttar Pradesh people live below poverty line. While in Goa, Andhra Pradesh, Himachal Pradesh, Kerala, Punjab, Rajasthan, Sikkim, Tamil Nadu, Uttarakhand low poverty is found that can be seen from graph 4.

E. Fiscal Policies

An important element of the economic reform process adopted in India was the high fiscal deficit level that was responsible for the 1991 economic crisis. It was argued that a high fiscal deficit is bad for an economy because it can be inflationary, can increase external deficits, lead to high interest rates and consequently crowd-out private investment, and it can put an indefensible interest rate burden on a country through accumulation of public debt. There was consistent improvement in almost all fiscal indicators of states from 2005 to 2012-13.



Graph : Revenue Receipts, Total expenditures and fiscal deficits as a % of Gross Domestic Product

From the analysis of figure 5, it can be said that the total expenditures of states also increased from 13.70% of Gross Domestic Product (GDP) in 2005-06 to 14.27% in 2012-13. The fiscal deficit slightly decreased from 2.44% in 2005-06 to 2.35% of GDP in 2012-13 of Indian states as whole.

Concluding Remarks

The issue of inequality in the regional growth rates and development in India has been attracting attention, particularly in the recent past. The states, namely, Tamil Nadu, Kerala, Karnataka, and Andhra Pradesh, together with Maharashtra, have been doing relatively better. An analysis of the growth performance in Gross State Domestic Products (GSDP) of Indian states reveals that the development process has been uneven across Indian states. While the advanced industrial states have tended to jump in the post reform period, other states have fallen behind in the race of development.

The provincial inequality in the growth rates becomes sharper in terms of per capita income and economic growth rates. The growing regional inequality is now a matter of serious concern. There are some economic causes for economic disparity such as poverty, uneven employment, unstable foreign direct investments inflows, fiscal deficits etc. due to inequalities in such economic indicators or factors, economic disparity in Indian regions widens continuously. It can also be said that deregulation of private investment, faster growth in turn would induce more investment, and this in turn would further stress regional inconsistency. ◆