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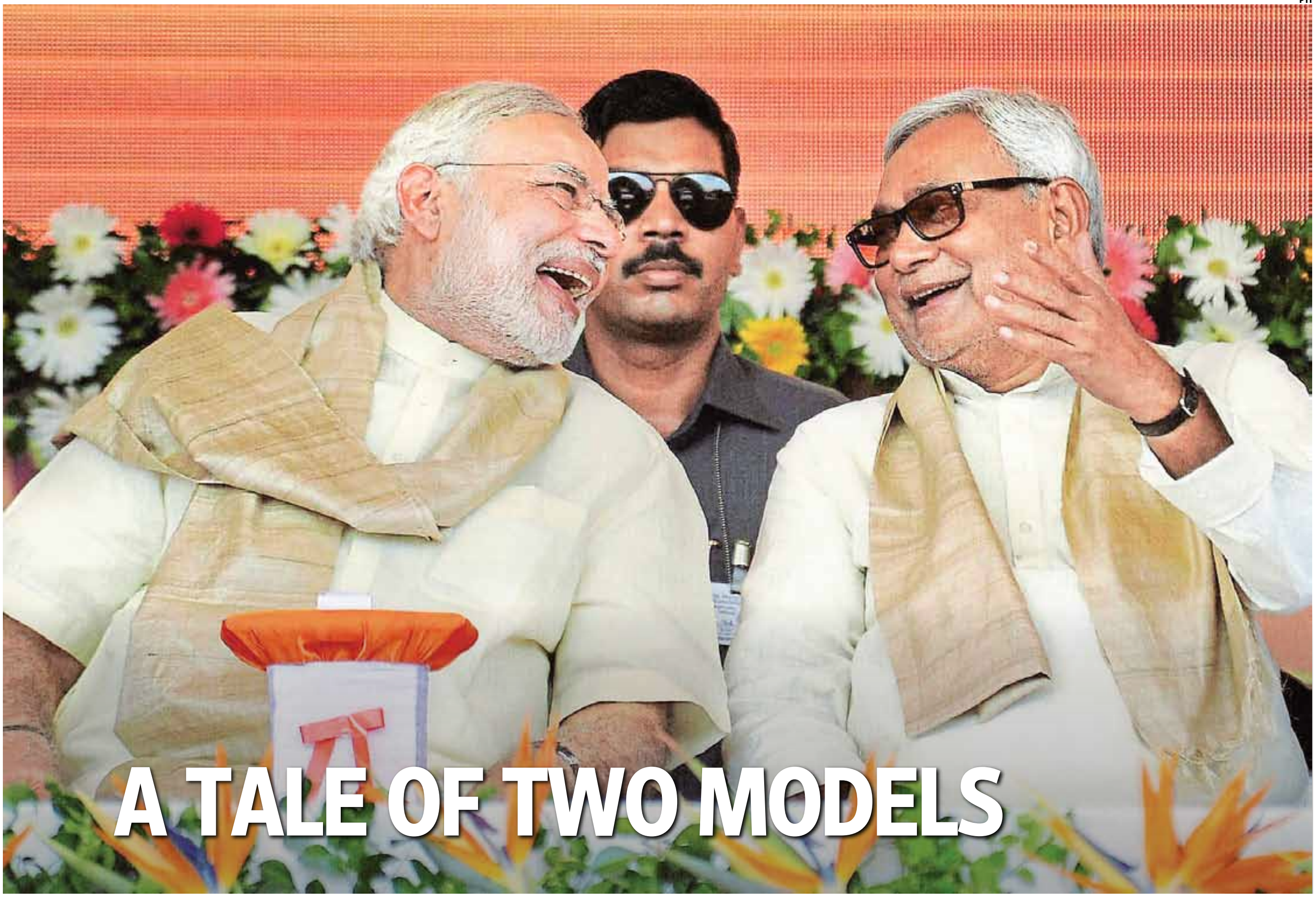

A TALE OF TWO MODELS

EXPERT VIEW
SUDIPTO MUNDLE
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We approach the end of 2015 amid a great deal of churn both globally and in India.

Globally, three related developments are fundamentally altering global geopolitics and the dynamics of the global economy: the slowdown in China, the collapse in commodity prices, especially crude oil prices, and the waning of US interest in Middle-East oil following the discovery of domestic shale oil. Even just a year ago, it would have been difficult to imagine that the US, France, the UK, Russia and Iran will all be fighting on the same side against the Islamic State in Syria.

Among other potentially game-changing events of the year, 195 countries and the European Union have just endorsed a historic Paris agreement on dealing with global warming. Then, there is the rising wave of what are called disruptive technologies, mostly IT-enabled e-market platforms, promoted by young, new, technology-savvy entrepreneurs. This is Schumpeter's 'gale of creative destruction', the battle between old and new products and processes, that continually renews and energizes the capitalist system. These two developments could completely change the way the global capitalist system produces, buys and sells, and the way it does business.

Closer home, Myanmar has finally got a democratically-elected government after over half a century and Nepal has succeeded in giving itself a constitution after decades of political gridlock. The consolidation of democracy nevertheless remains a daunting challenge in both countries.

However, this article is not about churn in the rest of the world, but the churn within India. It is about the outcome of the Bihar elections, that has completely changed the political narrative. A hitherto confrontationist ruling party is now reaching out to the opposition in Parliament. Most opposition parties have responded positively. Hopefully, an isolated Congress will abandon its disruptive role and Parliament will transact important business, including passage of the game-changing goods and services tax (GST) legislation.

An even more interesting consequence of Nitish Kumar's return to power in Bihar is the emergence of two competing models of development. One is the Gujarat model that Prime Minister Narendra Modi has sought to replicate at the national level. It is a corporate sector-led, muscular development path, with the government playing an enabling role in acquiring land, providing sound infrastructure and fast-tracking clearances. Social development and inclusion are not part of this model. In a recent exercise at National Institute of Public Finance and Policy (NIPFP) that rated the public service delivery performance of states, Gujarat was ranked on top overall and in infrastructure services both in 2001 and 2011. However, in social service delivery, Gujarat was ranked number five in 2001 and had slipped further to number nine in 2011.

The other model is the Bihar model promoted by Kumar. The private corporate sector has played only a marginal role in this model. It is a government-led model, with public spending on social development, inclusion and infrastructure at its core. However, given the severe fiscal constraints of one of India's poorest states in per capita terms, even the public spending remains modest compared with national norms. In the ranking exercise cited earlier, Bihar was ranked near the bottom overall, as well as in the delivery of both infrastructure and social services in 2001 and again in 2011. Typically, public service delivery is typically closely correlated with development because of several factors, especially the resource constraint mentioned above. When states were rated after adjusting for this constraint, Bihar's ranking improved dramatically.

> Nitish Kumar's return to power has placed the Bihar model alongside Narendra Modi's Gujarat model as two different paths of development

It has to be emphasized that these two sharply contrasting approaches have little to do with the personal preferences of Modi or Kumar and has everything to do with the differing conditions in the two states, deriving from historical antecedents going back at least to the colonial period. India inherited from this period a lopsided pattern of regional development, with industrial investment concentrated in a few better-off states such as Gujarat, while most others like Bihar continued to depend largely on agriculture.

Economic historians like D.R. Gadgil and Amiya Bagchi have pointed out that before World War I, industrial investment in India was largely confined to Bombay and Calcutta, with Ahmedabad emerging as a third industrial centre based on textiles. Gadgil writes in this context, "The only part of India where industry has been, to any considerable extent, developed by Indian resources is Gujarat: and here, there existed from very ancient times an enterprising class of traders carrying on commerce with foreign countries." (D.R. Gadgil, *The Industrial Evolution of India in Recent Times, 1860-1939*). After the war, there was some diversification but Gujarat, with Ahmedabad as the hub, continued to dominate in textiles. Gadgil notes that Ahmedabad became the most progressive centre of the industry, with large well-equipped mills, good management and high-quality products.

There was a spurt of industrialization after independence, and some further diversification, but regional imbalances between industrialized states like Gujarat and agrarian states like Bihar were further reinforced. By 1979-80, Gujarat was already one of the most industrialized states, with per capita income (state domestic product) in Gujarat (₹1,425) that was already almost double that of Bihar (₹735) (G.P. Mishra, *Regional Structure of Development and Growth in India*, Ashish Publishing House, New Delhi). Gujarat accounted for under 5% of the country's population, less than half Bihar's share of over 10%. But compared with Bihar, it had around double the share of factories in the country (11.3%), industrial employment (9.14%), and industrial value added (9.33%).

Successive chief ministers in Gujarat continued to facilitate this pattern of private industry-led growth. It is the model Modi inherited and strengthened. Kumar inherited a state that was still largely agrarian, with very limited private enterprise and development largely dependent on public spending. At an investors' summit he organized in 2012, the only significant entrepreneur of Bihari origin present was Vedanta Resources Plc. chairman Anil Agarwal, who has not made any significant investments in the state. The few other entrepreneurs present mainly spoke about what Bihar needed to do before getting any significant private investment in the state.

Kumar thus had little option but to choose a public spending-led strategy, focusing on infrastructure and social development. To this, he added inclusion as an important pillar of his strategy, which is also good politics. He has also tried to implement the strategy based on a relatively clean administration. His resounding victory and return to power has now placed the Bihar model alongside Modi's Gujarat model as two very different paths of development. It will be interesting to watch which way the other states proceed.

It is quite likely that the less developed states, given their circumstances, will follow the Bihar model, while the better-off states will follow the Gujarat model. It is also possible that in addressing the limitations of each—the social development deficit of the Gujarat model, and the private enterprise deficit of the Bihar model—most states will gradually converge towards a more balanced path. This would entail a major role for private investment combined with public expenditure on infrastructure, education and health in an inclusive but fiscally sustainable framework. Some would describe this, not unreasonably, as the Tamil Nadu model of development.

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