Three development models that can guide Indian state economies

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A comparative analysis of the Bihar, Gujarat and Tamil Nadu models could help lay a roadmap for policy action by our states.

Our economic policymakers are understandably preoccupied with fending off potential stagflation. But someone in the policy establishment needs to focus urgently on possible long-term strategies for high, employment-intensive growth if we are to tackle the ticking political-economic time bomb of surging youth unemployment (see my Mint column of 15 April 2022: bit.ly/3wuDogo). In this context, the large inter-state variations in development approaches and outcomes provide us robust evidence on what works and what does not.

Three broad groups of states are identifiable, each with a distinct development model. First, there are the least developed states represented here by Bihar and its development model. This group includes Uttar Pradesh, Jharkhand, Odisha, Assam and all the north-eastern states, among others. Many of these states are growing at rates comparable to the national average, but the high growth rates are misleading because of their low base. These states have very low per capita incomes, low levels of human or social development and also of infrastructure development.

A tale of three models

Bihar's economy has grown fast on a low base but is quite dependent on central transfers and Gujarat expanded rapidly on a larger base but lags on social indicators while Tamil Nadu has done well all around.

Performance of select states

State	GDP growth (2010-11 to 2019-20)	Per capita real income in ₹ (2019-20)	Share (%) of agriculture in workforce (2019-20)	Share (%) of industry in GSDP (2019-20)	Life expectancy in years (2014-2018)	Government expenditure as % of GSDP (2019-20)	Transfers from Centre as % of govt expenditure (2019-20)
Bihar	7.8	33,979	49.2	19.0	69.1	26.0	59.3
Gujarat	9.2	1,87,524	46.2	43.6	69.9	10.9	26.1
Tamil Nadu	7.6	1,68,449	30.1	34.1	72.1	13.5	23.1
All States	7.1	1,30,040	45.6	29.4	69.4	17.1	36.4

Note: GDP growth & per capita income are in real terms (2011-12 prices). All data up to 2019-20, preceding pandemic impact

Source: Dinesh K. Nayak has helped compile the table from multiple official sources

In the Bihar model, the workforce is still heavily dependent on agriculture and the share of industry in the state's gross domestic product (GSDP) is well below the national average. There are no significant modern industrial hubs that can drive growth. The few large industrial units that exist, often state-owned, have weak backward or forward linkages with the local economy. The non-agricultural workforce is mainly engaged in low-productivity, low-wage jobs in thousands of micro, small and medium enterprises (MSMEs).

The Bihar model also implies a large size of government relative to GSDP: 26% compared to the 17% national average. Government expenditure is also heavily dependent on central transfers rather than the state's own resources: over 59% as compared to the national average of just over 36%. A positive implication of this state-dominated structure is that government expenditure, if strategically deployed, can significantly impact the development trajectory of the state. The downside is that these states on their own have very little manoeuvrability because of their large dependence on central transfers. It points to the importance of cooperative federalism in accelerating inclusive development in these states.

At the other end of the spectrum, we have the Gujarat model. A fast-growing state, Gujarat also has a high per capita income, nearly 6 times that of Bihar. A large share of its workforce is still dependent on agriculture, yet Gujarat is one of India's most industrialized states, with the industry share of GSDP way above the national average at 44%. Along with traditional agro-processing industries, modern industries like transport equipment, pharmaceuticals, petrochemicals, IT services and modern financial services are driving its growth. Infrastructure is also highly developed. The odd thing is that in social development, such as education and health outcomes, the state has lagged well behind the country's leading states. This deficit is a major handicap in the 21st century, when the quality of human resources determines competitiveness.

Other states following the Gujarat model include Haryana and possibly the new state of Telangana. A key feature of this model, which possibly accounts for the deficit in education and health outcomes, is the relatively small size of government, at only 11% of GSDP. Further, much of this relatively small spend is probably allocated to physical infrastructure, which Gujarat has prioritized over social overheads.

A third and most interesting development model is that of Tamil Nadu. A prosperous state with high per capita income, it is also one of India's most industrialized states like Gujarat, with industry accounting for over 34% of GSDP. But unlike Gujarat, Tamil Nadu has brought down the share of its workforce in agriculture to 30% and the state also scores high on social development. Following Amartya Sen (‘Mortality as an indicator of economic success and failure’, The Economic Journal, 108 (446), 1998], I have used life expectancy as the best summary measure of socio-economic success.

All this has been achieved despite Tamil Nadu’s modest size of government at 13.5% of GSDP, which is well below the national average. The state’s dependence on central transfers is also quite low, in fact lower than Gujarat’s.

The Tamil Nadu model of development is thus the most successful model under Indian conditions. Other states which may be following the same track are Delhi and Maharashtra. Kerala too could get onto this path if it improves its power situation and leverages its many science and technology research institutions to emerge as a knowledge economy hub.

The three development models described above spell out a roadmap for long-term development in different states, though highly simplified here under the space constraints of a newspaper column. States following the Tamil Nadu model should stay the course and do more of the same. States that follow the Gujarat model should course correct, prioritizing education and health services to ensure they remain competitive in the 21st century. States that have followed the Bihar model need to switch their strategy towards the Tamil Nadu model. However, given their heavy dependence on central transfers, they can only make the transition with strong central government support.

Moreover, the transition that these states need to make won’t happen overnight. It can only play out over the next decade or so. Meanwhile, labour migration from Bihar model states to Gujarat model states and especially to Tamil Nadu model states will continue to serve as the market-based adjustment within the country to uneven development processes.

These are the author’s personal views.

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