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Inaugural address

**The economic & political geography of development divergence
among States: challenges and opportunities**

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Let me begin by thanking the Regional Science Association and the organizers of this conference, especially Prof. Ranade and Prof. Hari, for inviting me to deliver the inaugural address. I am particularly happy with this invitation because it marks a great home coming for me to the field of regional science after exactly fifty years. Regional economics was a field I worked in early in my career. My first book, published in 1974, was on the subject of district planning (Mundle 1974). I then moved on to other fields of research. But it was a matter of great pride for me that the book was much acclaimed by Prof. V.M. Dandekar, who ordered several copies of the book as teaching material for training programs he was then organizing at Lonavala for field level government officers. Prof. Dandekar was not only one of India's leading economists at the time but also the thought leader and intellectual anchor of the Gokhale Institute of Politics and Economics. It is particularly gratifying for me that I am re-engaging with the field of regional studies after half a century here at this very august institution.

The subject of my talk today deals with the challenges and opportunities that arise from what I have called the 'economic and political geography of development divergence among Indian States'¹. Most of us are broadly aware of the large differences in levels of economic development across Indian States, not to mention the differences within States. But not all of us are aware of the extent of the differences, which is truly breathtaking. Thus, the per capita income of Goa is seven times as high as that of Bihar. Even if we leave out the small, rich States like Goa and Delhi as special cases, per capita income of Haryana is still five times that of Bihar. Of course, Haryana's high per capita income is primarily a reflection of the high level of concentrated economic activity in the Gurgaon-Manesar belt, a point to which I will return.

Meanwhile, setting aside per capita income as an inadequate measure of development, we also note very large differences across States in other indicators of development such as health, education or infrastructure. Thus, with life expectancy of 75 years in Kerala the average resident of Kerala can expect to live ten years longer than the average resident of Uttar Pradesh, where life expectancy is only 65 years. In education, primary level enrollment is no longer much of a discriminator, since all states are asymptotically approaching 100 per cent gross enrolment at that level. However, the gross enrollment rate in higher education in Tamilnadu, for instance, is 51 per cent as compared to less than 15 per cent in Bihar. Similarly, in infrastructure power availability per capita in Gujarat is seven times higher than in Bihar, while road density (kilometers of state highways plus district roads per square kilometer) is again seven times higher in Kerala than in Jharkhand.

While noting these large differences, it is also important to note that the differences are not the same across all States for all indicators. Thus, Gujarat has the highest per capita availability of power, but life expectancy in the State is below the national average and its Gross Enrollment Rate for higher education, at 22 per cent, is less than half that of Tamilnadu. Given that the development performance of States can vary depending on the metric chosen, it is useful to group them by their economic performance along with social development.

¹ The term 'State' with the first letter in upper case will be used to describe the different States whereas the term 'state' will be used to refer to all the institutions of governance established by the Constitution to govern India, organs of the executive, the judiciary and the legislature, and the Constitution itself.

Per capita income is a standard measure of economic performance. Social development on the other hand is better captured by the Human Development Index, HDI. But HDI is a complex index, sensitive to the weights attached to its constituent indicators, which have themselves been evolving over time. Nobel laureate Amartya Sen, the principal architect of the HDI, has suggested that if any single indicator is to be used to capture social well-being, like GDP in the case of economic performance, then the best candidate is life expectancy (Sen A. 1998). While per capita GDP accounts for about a third of the variation in life expectancy across States,² the latter is dependent on and reflect a host of other social indicators.

I have accordingly classified the major States of India in a bi-variate classification by per capita GDP and life expectancy into four broad groups, depending on whether their per capita income and life expectancy are above or below the national average as displayed in the accompanying chart and table. This four- fold classification of twenty-two major States yields a very simple yet very insightful development typology of the States of India. The six States in the top-left quadrant (Group I in the table) are what I call the balanced growth States, with higher than average per capita income, as well as higher than average social development (represented by life expectancy). This is of course true of the capital Delhi, which is an extreme outlier, but it is also the case for the other five States in the group: Kerala, Himachal Pradesh, Maharashtra, Tamilnadu and Uttarakhand. The lower right quadrant (Group II in the table) consists of States which I call the high growth States: Haryana, Gujarat, Telangana, Karnataka. They have an impressive average growth rate of 8.6% (between 2010-11 and 2019-20) and higher than average per capita income, but lower than average life expectancy. Social development is where they are lagging behind. The upper left quadrant includes what we may call moderate growth States: Punjab, Jammu & Kashmir and West Bengal. Their average life expectancy is higher than the national average but their per capita income is less than the national average and their average growth is only 5.6%. Economic growth is their challenge. The nine States in the lower left quadrant have social development (represented by life expectancy) that is below the national average and their per capita incomes are also below the national average though their present long-term growth is the same as the national average of 7%. We may call these the lagged growth states.

Comparing across the States in these four groups, we find that the richer States with higher-than-average per capita income (Groups I and II in the right quadrants) are on average growing at a faster rate (7.5%) than the poorer States (6.3%). In other words, there is increasing income divergence across the States. This is India's big regional development challenge, which raises a whole host of questions. Why are some States growing faster than others, is it because of intrinsic differences in legacy, endowments and other factors or because of differences in policy interventions? What are the likely consequences of such divergence? Can such divergence be contained or reversed?

In addressing these questions, it is important to note the historical role of manufacturing industry in driving growth. All the high growth States in Group II also contain major hubs of manufacturing industry: the Gurgaon- Manesar corridor in Haryana; the Ahmedabad- Baroda hub in Gujarat, along with the new hubs around its refineries and ports; Bangalore in

² The R-square value is 38.3 % in a simple regression of life expectancy on per capita GDP of states, which is significant at the 1% level.

Karnataka and Hyderabad in Telangana. To the Group II States we should also add Tamilnadu, a Group I State with high growth of 7.6%, Maharashtra where the growth is less, and Uttarakhand. Though it is not widely recognized, Uttarakhand is now one of the most industrialized States in the country after its separation from Uttar Pradesh. While the GSDP share of manufacturing in present-day Uttar Pradesh is down to less than 23%, it amounts to 44% in Uttarakhand, the highest among all States. Apart from traditional mills for sugar, cloth, paper, flour, rice and stone rolling, the state also has modern manufacturing plants for pharmaceuticals, fertilisers and heavy engineering among other products.

As Krugman proposed in his seminal book on economic geography, manufacturing industry tends to be geographically concentrated due to the advantages of agglomeration in being located in a hub. However, beyond a point rising land and labor costs due to competition, excess demand for utilities, traffic congestion, etc. erode the advantages of agglomeration. Eventually, these 'backwash effects' exceed the positive 'spread' effects of agglomeration and 'deglomeration' sets in. This dual dynamic of agglomeration and deglomeration around a central tendency of industrial concentration has been combined with the rise or decline of industrial hubs due to other exogenous effects. This process has throughout characterized the growth of modern industry in India from its origin during the colonial period, which was traced in the pioneering work of D. R. Gadgil, the founder-director of the Gokhale institute (Gadgil 1971). Pathak (1975) points out that at the time of independence just two cities Calcutta (now Kolkata) and Bombay (now Mumbai) accounted for as much as 50% of manufacturing output and 42% of registered factory employment. Much of the rest of manufacturing was in a few additional hubs such as Ahmedabad, Madras (now Chennai) and Kanpur. By 1961 manufacturing was a little more dispersed but still largely concentrated in the six States of Bengal, Maharashtra, Gujarat, Tamilnadu, Uttar Pradesh (undivided) and Andhra Pradesh (undivided) which remained dominant even at the turn of the century.

These States still account for a large share of organized sector factories and organized sector workers (Ramaswami 2019). But there have also been many changes in the location of industrial hubs driven by historical factors and government interventions. Perhaps the most dramatic is the case of Bengal. This pre-eminent industrial center of the colonial period saw a sustained decline of industry due to repeated shocks after independence: the purchase of colonial managing agency companies by new owners who hollowed out their capital; the disastrous freight equalization policy which deprived the entire eastern region of its comparative advantage vis-à-vis the rest of the country; the demise of the engineering industry in the State due to the collapse of public investment, especially in the railways and, finally, the flight of private capital in response to aggressive labor agitations during the 1970s and 1980s. Now more than half of the 22 States discussed here have a higher industry share of GSDP than Bengal. Meanwhile, three additional States emerged as new industrial hubs, Karnataka, Haryana and Punjab. More recently there have been further changes. The division of States has hived off much of the industrial base in Andhra Pradesh, Punjab and Uttar Pradesh to the new States of Telangana, Himachal Pradesh and Uttarakhand, all of which are relatively fast-growing States. Meanwhile, the share of industry in GSDP has declined to 20.4%, 21.3% and 22.7% respectively in Andhra Pradesh, Punjab and Uttar Pradesh.

Thus, there has been considerable churn, continuity has been combined with change, but the central tendency of industrial concentration in a few States has persisted, resulting in their faster than average growth. This process has now been strongly reinforced by IT enabled information and financial services. It is this high growth in about half a dozen States, mostly

in Group II, driven by competitive market forces, which accounts for the increasing per capita income divergence among Indian States.

However, alongside this centrifugal market force towards increasing divergence, another powerful force has also been at work in the opposite direction, namely, the centripetal force of the state. In a paper published a few years ago, my coauthors and I assessed the performance of Indian States in delivery of public services ranging from infrastructure and social services to delivery of justice, law and order and legislative services, corresponding to the three pillars of the state (Mundle S, S. Chowdhury & S. Sikdar 2016) We found that the delivery outcomes of the States were highly correlated with per capita incomes. This was not at all surprising because of the feedback effects between income levels and the levels of infrastructure development and social development. High income States have the resources to enable better infrastructure development and higher levels of education and health outcomes. Equally, States with better infrastructure and higher levels of education and health outcomes can enable higher levels of economic growth.

To isolate the impact of governance *per se* we again ranked the States in terms of outcomes after controlling for differences in levels of income, i.e., we ranked the States by deviations from the expected level of outcomes for their level of per capita income. The change in ranking was quite dramatic. States at the bottom of the ranking moved up several ranks while many at the top moved down several ranks. In other words, while centrifugal market forces are tending to distance rich and poor States, there are centripetal forces of the state that are tending to reduce the development distance between States. These unifying forces are mostly embedded in our Constitution, namely the uniform structure of institutions across States, with their uniform relationship with the central institutions of the executive, the judiciary and the legislature. The top echelons of many of these institutions are also headed by personnel from all-India services that are also uniformly present across all States, namely, the judges of the judiciary, the Indian Administrative Service, the Indian Police Service, the Indian Forest Service, etc.

Successive Finance Commissions have also played a role, though with limited success, in attempting to provide a uniform level of public services to citizens of all States. Also, for services with externalities that spill over across States, or merit services of national importance, the central government has to play a role in levelling the playing field through Central and Centrally Sponsored Schemes. However, the Centre's role has generated much controversy over the years because of the 'one size fits all' approach of these schemes, the claim that the Centre tends to favour States where the party in power is the same as the party in power at the Centre and the further claim that the Central Government has used these schemes to encroach into the Constitutional space of the States. On this last issue there is a conflict of interest between the more and less advanced States. The stronger States have a greater capacity and more resources to take care of their needs. They would prefer less central intervention. The weaker States with less capacity and less resources are more dependent on Central support and would prefer a stronger role for the Central government. As shown in the table, the share of public spending to GSDP is significantly higher in the poorer States in Group II and Group IV. So also is the share of central transfers in financing public spending in these States.

On balance, the centripetal forces of the State notwithstanding, the centrifugal economic forces of the market seem to be dominant because the development distance between the rich and poor States is still increasing. The geography of this divergence has some very serious political implications. Returning to the table, it shows that six of the ten high income States in Groups I and II are southern or western States, including four from the south: Tamilnadu, Kerala, Karnataka and Telangana. Also, while these are high income States their population growth is less than that of most States in the rest of the country, especially the so-called Bimaaru states of Rajasthan, Madhya Pradesh, Chhattisgarh, Uttar Pradesh, Bihar and Jharkhand. The latter's demographic weight in voting power far outstrips their economic clout. This imbalance is likely to be exacerbated with the expected delimitation exercise. It must also be noted that following the recent elections in several States, the BJP is in power at the Centre as well as all the Bimaaru States except Bihar and Jharkhand while all the southern states are ruled by non- BJP governments.

This geography of political power, reinforced by differences of language, culture, etc. is no doubt exacerbating political stress. It is a serious issue that needs to be addressed if and when the delimitation exercise is taken up. At the same time, it is also important to recognize the important opportunity this geography of political power presents for containing development divergence among States. The BJP which is in power in most of the Bimaaru States is also in power in the Centre and in Gujarat, the fastest growing of the high growth states in Group II. Prime Minister Modi ruled the state as Chief Minister for over twelve years, during which period the infrastructure led, business friendly growth model was developed. This model has now been deployed at the national level. Such a massive thrust on public investment in infrastructure in central budgets year after year is unprecedented. It is tempting to ask whether that same model, if systematically applied in the Bimaaru States, could significantly step up their pace of growth and contain inter-State income divergence?

It should be noted in this context that though lagging behind, the States in group IV are growing at a decent pace of 7% per year on average. It is also important to ask why these lagging States are where they are? I have earlier referred to the centripetal force of uniform institutions of governance across all States. Nevertheless, this does not mean that governance capacity is the same across all States. If the lagging States are where they are because of legacy issues combined with weakness in governance capacity, then reforms to strengthen governance capacity will have to be prioritized before their growth rates can be further stepped up. Also, further growth acceleration may require a better educated, better skilled and healthier workforce. That would mean that high public investment in infrastructure in these States would have to be combined with high social spending on education and health services.

Thank you.

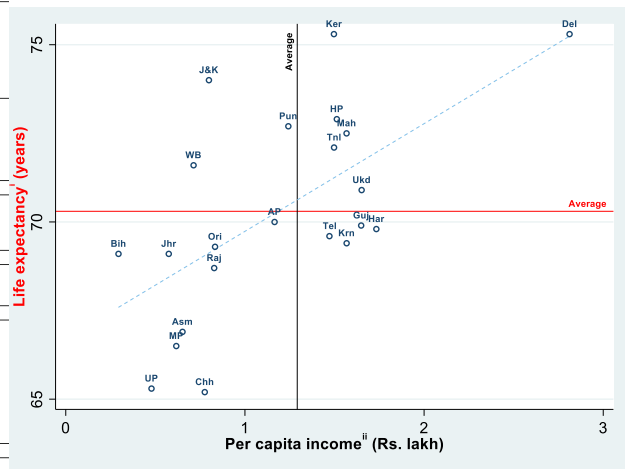
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Life Expectancy and Per Capita Income of Indian States, 2018

Table 1: Performance of States, Group-wise

Sl.no.	State	GDP growth (%) 2010-11 to 2019-20	Per capita real income in Rs. (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)
1	Delhi (UT)	6.8	293145	0.38	12.5	75.3	6.4	27.8
2	Tamil Nadu	7.6	168449	30.1	30.9	72.1	14.4	21.8
3	Kerala	5.8	162610	21.9	20.4	75.3	14.9	24.2
4	Maharashtra	6.4	166422	49.0	25.1	72.5	13.3	22.3
5	Himachal Pradesh	6.9	165372	56.4	39.5	72.9	24.9	52.2
6	Uttarakhand	7.0	167813	47.2	43.6	70.9	17.1	37.7
Group I		6.8	187302	34.2	28.7	73.2	15.2	31.0
7	Haryana	8.3	197872	29.2	27.9	69.8	14.5	16.1
8	Gujarat	9.2	187524	46.2	42.2	69.9	11.3	25.2
9	Karnataka	8.1	173942	46.6	19.5	69.4	13.8	29.5
10	Telangana	8.7	171017	48.4	18.9	69.6	15.1	19.5
Group II		8.6	182589	42.6	27.1	69.7	13.7	22.6
11	Punjab	5.8	132700	25.8	21.3	72.7	19.6	23.6
12	Jammu & Kashmir	5.7	89503	38.5	18.7	74.0	38.2	59.8
13	West Bengal	5.3	80651	36.9	20.8	71.6	16.9	39.7
Group III		5.6	100885	33.7	20.3	72.8	24.9	41.0
14	Andhra Pradesh	7.2	129697	49.0	20.4	70.0	18.0	30.0
15	Odisha	7.2	93716	48.3	33.3	69.3	22.9	44.4
16	Rajasthan	6.9	87288	53.1	22.9	68.7	21.2	32.7
17	Assam	6.9	72996	36.8	28.8	66.9	21.9	51.6
18	Madhya Pradesh	7.8	69429	58.4	21.6	66.5	20.4	45.1
19	Chhattisgarh	6.4	85258	68.8	38.8	65.2	26.3	37.6
20	Jharkhand	6.9	63210	54.1	34.5	69.1	22.0	47.1
21	Uttar Pradesh	6.0	49973	51.5	22.7	65.3	22.4	42.6
22	Bihar	7.8	33979	49.2	16.1	69.1	24.2	63.8
Group IV		7.0	76172	52.1	26.6	67.8	22.1	43.9
Average		7.0	129198	43.0	26.4	70.3	19.1	36.1



Source: i – Sample Registration System (SRS), Office of the Registrar General and Census Commissioner, MoHA; ii – National Statistical Office (NSO), MoSPI, Gol.