CHAPTER X

CONCLUSION

The problem of regional disparities in India is sometimes referred to in the international parlance, as a 'North-South' problem.¹ This expression in a geographical sense, is incorrect as all the poorest States are in the North. The Southern States, though not the richest, are relatively better off. The alternate expression, viz., 'Centre-periphery problem' is also incorrect as unlike in its original connotation,² all the States located in the centre are poor ones and those in the periphery, with the exception of the special category States, are the richer ones. Paradoxically, the States which are in the centre of political power are the ones in the periphery of economic development. It is the States with highest political representation in the Union legislature and Government which are lagging behind economically.

Whatever be the expression, more than half of India's population (55.6 per cent) now live in States with per capita income below the national average.³ To the richer States who too have their problems of poverty and pockets of backwardness, it is largely a problem of redistribution of their high incomes within the States. But unlike the richer States which have more resources of their own to
tackle their problems of poverty, the poorer States require massive resource inflows from outside mainly through the Union budget and the all-India Financial Institutions.

But the conclusion that emerges from this study is that all the agencies entrusted with this task of resource allocation - the Finance Commission, Planning Commission, Union ministries and the financial institutions - have without exception failed to bring succour to the poorer States. All the major instruments of regional policy have failed to arrest the widening trend in regional disparities in India. In fact, some of the agencies wielding these instruments had actually contributed to the accentuation of the divergence trends as they only acted as conduits for the outflow of savings from the poorer to the richer regions. They seem to have been vying with each other to prove the Biblical saying, "To the rich shall be given; from the poor shall be taken away". Instead of guiding the market forces, they were being guided by these forces. Instead of inducing development, they were only responding to pressures emanating from the already developed States. Even the very limited goal of equalising the per capita financial flows could not, therefore, be achieved by them.

It was noted earlier that one of the standard defence arguments of all these agencies particularly the financial institutions is that the absorption capacity of external funds is less in the poorer States than in the
ricer ones. The social and administrative environment is also identified as an inhibiting factor. It is admitted that growth cannot be brought about solely by larger infusion of external funds. But one cannot fail to notice the high positive correlation between the ranks in the growth rate in per capita income of States and their ranks in aggregate financial flows. The coefficient was +0.563 for the seven year period, 1969-76. The correlation is still stronger between growth rates and the total of institutional financial flows and budgetary expenditure of States (+0.761). The correlation between ranks in budgetary expenditure and the ranks in growth rates in State income, itself was quite high (+0.739).

Besides, it has to be noted that due to resource constraints which were not removed by the Central Government agencies, the per capita expenditure of the poorer States on social and administrative services was much lower than in the richer ones as was noted in Chapter IV. Thus they could not, on their own do much to improve their administrative machinery or social environment. To recall, the per capita expenditure of Bihar on social services was only 37.1 per cent that of Punjab, though Bihar was spending 42.5 per cent of its revenue expenditure on these services against 40.6 per cent by Punjab. Bihar's per capita expenditure on administrative services was only half that of Punjab, though Punjab was spending only 13.6 per cent of its revenue expenditure on these services against Bihar's 19.5 per cent.
The multiplicity of agencies had only served to delay a solution to this problem of inequitable financial flows by disjointing the picture of the aggregate financial flows to different States. This possibly may be one of the reasons why the magnitude of the problem of inequitable financial flows has not been brought home sharply till now resulting in delays to its solution. The multiplicity of agencies by itself would not have created much problem if only the national planners had co-ordinated effectively their activities. In reality, there was very little co-ordination and each agency was going about in its own way following its own lights. And the Plan authorities failed to beam the guiding lights from their commanding heights. There was no common set of regional objectives, expressed in precise terms, given to these agencies by the planners. As a result, the position as it emerged was that one agency was not knowing (or was not concerned with) what the other was doing. Nor did the national planners know. What appears to have been in operation was a composite policy that enables the national Plan to be interpreted as the individual policy maker sees fit.

A solution to the regional problem would require delineation of the areas where regional policy instruments are to be used. But as on today, there is not even an agreement among the different agencies on the units for administering regional policy aids. The financial
institutions generally take districts as the units of backwardness following the Manchur Working Group's recommendations. And in their selection of districts, it is the industrial backwardness which is the major criterion used. Official agencies connected with agricultural development or poverty alleviation programmes also take districts as their units of backwardness. The criteria selected is the one suited for their immediate purpose without regard to the overall developmental status either of the area or of the State concerned. This identification of district as the unit for administering regional policy had led to a situation wherein the bulk of the concessional finance and fiscal incentives meant for the backward areas too were cornered by the developed States. Of the concessionary finance extended by the term lending institutions to backward areas, 38.8 per cent went to high income States. The middle income States cornered another 38.1 per cent, against their share in population which was 31.8 per cent. The low income States which accounted for 39.2 per cent of the country's population received only 19 per cent of the concessionary finance. In per capita terms, while the group A States received concessional credit of Rs. 61 and group B Rs. 51, the group C States received only Rs. 21. While Gujarat received Rs. 131 per capita, Bihar received just Rs. 10.

A solution to the problem of regional disparities would first require an identification of the backward areas. This presupposes identification of the criteria of back-
wardness. So far, very limited research has been undertaken in India on regional inequality in general or on the criteria for comparing the economic development of States. The need for using, for inter-State comparison, several indicators instead of one single indicator, viz., per capita income had often been felt. But the question relating to the selection of the variables as also their satisfactory aggregation into a composite index has not even been addressed, leave alone answered. This is partly a reflection of the secondary importance given to the regional problem, by Indian planners. The lack of consensus on the selection of development indicators and their relative weights, is a reflection not only of the absence of consensus on the measurement but also on the concepts and content of development.

For inter-State comparisons, per capita income, despite its known conceptual limitations are being used by official agencies including the Planning Commission and the Finance Commissions. But even this data had been computed by the Central Statistical Organisation only from the end of the Second Five Year Plan, 1960-61 onwards. A time series study of the performance of different States even during subsequent years is not perfect as the data for 1965-66 and 1966-67 are not available. Besides, the regional income data are published after such a long time lag that it is not of relevance to policy makers. The latest available data relate to the year 1975-76. Further, the
quality of per capita State income data leaves much to be desired, (though there has been some improvement in recent years). For instance, the problem of differential prices and its effect on the inter-State comparability of State incomes has not yet received the attention it deserves. Though the Committee on Regional Accounts had recommended that the Central Statistical Organisation "should initiate a study on the purchasing power parity of Rupee in different States for a more meaningful comparison of Domestic Products between States", no such study appears to have been conducted till now. ¹²

Another failure of the Planning Commission in solving the regional problem is its failure to state the regional objectives of Indian Plans in any precise, leave alone quantitative terms. The Plan documents or the technical Notes do not indicate within what Plan period and by how much regional income differentials are to be reduced, unlike in some other countries. The conflicts between the objectives of inter-regional equity and aggregate efficiency and between national priorities and regional priorities have never been resolved by explicitly stating the 'trade off' between them. A keen observer of Indian planning process like Hanson observed", on so delicate a question (balancing between maximum economic returns and balanced regional development) the Planning Commission has expressed itself with less than its usual clarity and has refrained
from enunciating unambiguous principles. It is in this field indeed that the Commission's 'on the one hand but on the other' approach has received most anguished expression'.

Though there has been no explicit trade-offs between regional equity and national efficiency, every national policy has a regional dimension and therefore it has an implicit trade-off. But these had been mostly favouring national efficiency at the expense of regional equity. It is true as Alonso notes, that there is a perennial conflict of interests between those agencies charged with territorial planning and those charged with sectoral planning even in socialist countries. As he notes, "It so happens that a great deal of time, these sectoral agencies believe, as do their capitalist counterparts, that the best location is in the most advanced regions. It may be noted that in the whole, it appears that the sectoral agencies tend to win most of these arguments, possibly because they deal with concrete operational decisions while the territorial agencies tend to deal in general policy with respect to the location of productive activity." This is precisely what happens in India.

The reason why territorial agencies are compelled to confine themselves to generalities is the absence of an explicit space dimension to the national plan. As noted by us earlier, there has never been an attempt to work out a model for allocating public expenditure among different
States with a view to equalise the State incomes within a stipulated time horizon. Such a model incorporating inter alia the variable regional multiplier, the calculation of which in turn requires an understanding of the inter-regional and inter-sectoral relationships has not been attempted in India. No serious attempt has been made till now even to provide a data base for this purpose in the form of a system of regional accounts. Any system of regional accounts has to resolve several conceptual and methodological problems of a kind different from those at the national level. "Thus, the State has an open boundary with the neighbouring areas, regions and transactions of the regions with these areas need to be recorded and treated in the same manner as the transactions of the country with the rest of the world if a complete regional accounts is to be prepared. However, hardly any data exist on inter-State transactions of goods and services as well as other financial flows which will enable such a measurement".16

The absence of spatial dimension to Plans left the field open to political pulls. For instances as Bhagavati and Desai notes: "The failure of the Indian Planners to work out the space dimension of their industrial targets on the basis of economic efficiency constrained by State targets of overall industrial investment designed to assure the States that they would get some minimum industrialisation, in effect left the field almost entirely to
Apart from political pulls, the pulls of the market forces also determine the financial flows. If these pulls are to be countered, both the physical and financial Plans should have a regional dimension. An occasional 'touch here and fiddle' there will change the direction only marginally.

This analysis thus points towards two major deficiencies in the Indian Planning process. First, is the very failure of the Indian Plan models to work out a regional dimension. While the Indian planning models "have become fairly sophisticated in relation to inter-temporal phasing and perspective planning", they have "no comparable extension of analysis questions of spatial planning." How to tie up regional plans with national Plans and how to arrange sectoral Plans in various regions are problems which "require innovative mechanisms for both Plan formulation and plan implementation". It is true that "at the present stage, the technology for such harmonisation is in an infant stage and there is not much international experience". It is also admitted that till recently, even on a theoretical plane, national economic development was viewed as space free. But the absence of space dimension may also be due to the absence of any national consensus on how to share the fruits of development among regions.
The second lacuna in the planning process is the absence of a credit budget integrated with the governments' budgets (of both the Centre and the States) forming part of the overall financial Plan for the economy which in turn should be an adjunct to the economy's physical Plan. The need for such a Plan was felt earlier also. "There is need for better and continuing co-ordination between the credit budget, the Government budget and the Plan. The importance of such co-ordination has now been recognised and appropriate arrangements to bring it about are under way." This was stated by L.K. Jha, way back in 1967 and when he was Governor of the Reserve Bank of India. The present position is no way better than what it was in 1967.

Whatever may be the reasons, it is certain that inter-State disparities in income levels can be corrected only by reversing the present directions of the financial flows from the Union Government and the financial institutions. This would imply that allocation of both credit and budgetary funds to the developed States will have to be considerably reduced. Instead of funds flowing from the backward to the developed States as at present, more funds should flow from the developed to the backward States. The magnitude of the financial flows in the reverse directions, necessary to correct the long accumulated disparities in the reasonable future is likely to be very high and this is likely to cause strains on the structure of the federal polity. Fear of these strains may possibly be one of the
reasons the Indian regional problem and its dimensions are rarely stated explicitly and discussed openly. Speaking of how decisions reconciling regional equity and national efficiency are taken by Indian planners, Hanson observes "At present no one knows and even if the Commission has this all worked out, no one is likely to be told at least just yet. For, if the whole complex process were laid bare, existing complaints of inequity, serious enough already would be redoubled."

As seen earlier in Chapter II, the internal resources of some of the high income States at present exceed even the total budgetary expenditure of some of the low income States. Even if no budgetary funds are received by them from the Union Government, they will still be able to maintain a relatively high level of budgetary expenditure. Therefore, only minimum budgetary funds should logically flow to them for some years. But the big question is whether this would be possible under the present constitutional and political set up. "To direct more than a proportionate share of Central funds to one region requires that expenditure be curtailed in others. Since much government expenditure is directly related to pressing social demands (for schools, roads, hospitals, etc.) the opportunity costs of this sort of reallocation are likely to become a strong political issue. This is especially true because the pressure on existing social capital is likely to be stronger in those areas which according to policies of this sort,
should have their share of government expenditure reduced."22 Similarly, even if credit deposit ratios are equalised, some of the developed States will still have the use of larger volume of bank funds in per capita terms, as their deposit base is already very high. In their case, they should get for some years to come, only minimal share in the incremental bank credit. Will the present and potential users of bank funds with their financial and political leverage allow such a decision to be taken? For, such a decision will compel them to move out of their comfortable 'satisficing' locations. It is clear that these economic interests will gain full political and administrative support from the governments of the developed States.

If attempts are seriously made to reverse the directions of the financial flows, it is likely to become a major political issue in the developed States who even now plead as a group before the finance commissions for much smaller causes like the adoption of the archaic principle of "contribution" in sharing the drying pool of income tax proceeds. Surveying the regional policy measures of the European Economic Community, the Economist wrote in 1975: "Germany's poorest areas are as wealthy as the richest of Ireland and Italy, but a German Politician who cuts out regional aids to Lower Saxony or Bavaria on these grounds would commit political suicide."23 Substitute Germany with Punjab and Ireland with Bihar and we may get the situation
that is likely to emerge in India (notwithstanding the fact that Punjab and Bihar are States in the same Union, unlike Germany and Ireland) if the logical policy of reversing the funds flow were implemented. Gadgil was one of the earliest in India to note this dilemma. He observed as early as 1970, "In a federal polity, you will find it difficult to say you will not give any Central assistance. You have therefore a large question here of adjustment of relations and attitudes between members of a federal polity." Thus the problem of Centre-State financial flows becomes part of a larger political problem.

In fact, the "adjustment of relations and attitudes between members of a federal polity" mentioned by Gadgil is going to emerge as a touchstone of Indian federal polity. Federal set up cannot survive if the developed constituents take the attitude of "Am I my brother's keeper?" Nor can it survive for long, if some of the poorer States feel that they are 'strangers at the feast' and they nurture the feeling that they are 'internal colonies'. A federal set up cannot be sustained for long by sweeping the regional problem under the carpet as is being done today. In that process, the poorer States are made to finance the richer ones. The past policy of camouflaging the problem has failed as may be seen in the signs of conflicts between the have and the have-not States. The conflicts of economic interests are increasingly getting crystalised and articulated on group basis before the Finance Commissions and
the Planning Commission. The meetings of the National Development Council are increasingly turning to North-South summits. What is more, expressions of these conflicts are no longer confined to these bodies. They are getting spilled over to the streets. The turmoil in North East, Assam, Jammu and Kashmir and of late in Punjab has its economic undertones.

The addition of Punjab to the above list goes only to confirm May's observation that the threat to federal polity comes not only from its poorer units but also from its richest. Quebec is not the poorest region in Canada. Nor was Biafra the poorest region in Nigeria.

Here, then we have a still larger question with not only economic and political dimensions but also a social and cultural dimension, leading to the very nationality question itself. For, ultimately, it is the strength of their cultural ties which determines "the relations and attitudes between members of a federal polity" and makes the richer States to accept financial sacrifices for the sake of their poor relations, who in the past had contributed to their present affluence. After all, as Wills noted long ago, "The taking of tax money raised in this way for the purpose of State aid in other States is not unfair as it first seems. For one thing, the people in these cities who object to highways being built by the federal government in other States are just as likely to use the highways in those States as the people of these States;
and for another thing, the people in all the States of the Union have helped to contribute to the making of the fortunes of the people in our large city centres."
Notes and References


3. The per capita income data relates to 1975-76 and population data to 1970-71.

   One major instrument, viz., Industrial Licensing Policy has not been discussed in this study as it is not directly used to effect financial flows. No doubt, the licensing policy affects the financial flows from the demand side. That even this policy has failed is brought out in George K.K., "Industrial Licensing: Regional Pattern", Eastern Economist, New Delhi, 20 Feb, 1976.


5. Data relating to financial flows have been taken from author's earlier paper jointly with Gulati, I.S., "Inter-State Redistribution through Institutional Finance", Economic and Political Weekly, Bombay, Aug, 1978. The data has some drawbacks mentioned in the paper itself. But it is of a minor nature and the findings are unlikely to be vitiated.


12. CSO, *op.cit* p.3.


"The Indian planning exercises are essentially aggregative and spatial in character. These rely on a macro econometric model which provides information on the macro econometric projections for Gross Domestic Product which consistent with a desired average compound rate over the Plan period as a whole. Regional considerations and perspectives do not enter into the macro econometric growth models; neither are the regional impositions of the planning decisions worked out in the form of breaking up sectoral targets on a State basis. Mathur, O.P., "The Problem of Regional Disparities: Analysis of Indian Policies and Programmes", *Growth Pole Strategy and Regional Development*, ed. Fu-Chen Lo and Kamal Salib, Pergamon Press, Oxford, p. 131.


