

CHAPTER-I

INTRODUCTION

Regional disparities exist in almost all the developed and developing countries/economies of the world. To put it differently we may say that the problem of regional disparities is not only confined to developing economies alone, it is, infact, a universal phenomenon. The phenomenon of regional disparities in developing countries is more complex and different from that in developed countries because of widespread poverty and below subsistence level of existence of the vast majority of the people living in backward regions. Myrdal rightly observed, "There is a tendency inherent in the free play of market forces to create regional inequalities and that this tendency becomes more dominant, the poorer country is."¹

During the initial stage of development planning in developing countries, the plans are generally centred around the specific goals and objectives relating to the economy as a whole. A natural consequence of this is that the problems relating to regional planning remain neglected and there is tendency towards a top-sided development wherein some of already developed regions register rapid rate of growth and backward

1. Gunnar Myrdal, "Economic Theory and under-developed Regions," Vora Publication, Bombay, 1958.

regions tend to remain backward regions or even tend to go backward which leads to the problem of regional disparities and makes it even more acute.²

At the time of independence the Indian economy was not only economically backward but was also characterised by much regional imbalances, it projects a picture of extreme regional variations in terms of almost all indicators of economic growth, such as variation in area, production and productivity of various crops; gross cropped area; net area sown; gross irrigated area; net irrigated area; fertilizers consumption; area under HYVs seeds; number of manufacturing units and employment therein; road length; medical and educational facilities; energy generation, etc., this is because development does not appear everywhere at the same pace. When the process of development starts, some regions are favoured while others are neglected. Of course, different regions are not bestowed with uniform resource endowment. Generally, favourable geographical conditions in proximity to mines-fields and sources of power; soil fertility, rainfall and temperature; agro-climatic environment suited to crops; and proximity to market have mattered a good deal in

2. G.P. Mishra and A. Joshi, "Regional structure of development and growth in India." Ashish Publishing House, 8/81, Punjabi Bagh, New Delhi-110026, p.VII.

giving some areas initial advantages over others.³ Broadly speaking, some states are economically backward and some are relatively advanced. Further, within the states, some regions are backward while others are comparatively advanced. For instance, initially the northern part of Haryana was distinctly more progressive in comparison to the southern part.

Factors Leading to Regional Disparities :

The commercial and trade centres are usually located where natural conditions are favourable for the construction of a port and/or means of transportation and communication; and other factors conducive to productive ventures, e.g., steel industry is attracted to areas bestowed with the iron-ore and coal deposits and agricultural scenario is constrained by natural factor endowment, agricultural infrastructure and outlook of the farmers. To quote Myrdal, "For naturally, economic geography sets the stages."⁴ For example, before the advent of steam power, industrial activities were carried on in centres along the major rivers. Areas with unique resource advantage, therefore, attract capital and enterprise and the process of development would be initiated there.

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3. O.P. Mahajan, "Economic Planning and Regional Development in India," Ess Publication, New Delhi, 1982.
 4. Gunnar Myrdal, op.cit., p.38.

It may, however, be noted that resource endowment is a changing concept closely associated with the dynamics of economic growth.⁵ It depends upon the structure of demand; the current state of technology; the cost of transportation, communication and flow of information; and economic organisation. The concept of resource endowment changes with the change in any of these variables, and, in turn, it will change the relative advantage. To illustrate it from the experience of U.S.A., good accessible land set the stage of regional growth in the period prior to 1840, but minerals dominated the scene afterwards.

It is conceivable that the initially neglected regions may have very good prospects for development, but their rich resource endowment might remain undiscovered or unexploited for a long time owing to ignorance and/or technological and transport bottlenecks. But it is inevitable in any growth process, as growth catches momentum, it becomes possible for the technological as well as economic points of view to bring more and more area within its ambit.⁶

It may be noted that once economic progress in the developing regions has appeared, powerful forces make for a spatial concentration of

5. John Friedman and William Alonso, "Regional Development and Planning." p.216.

6. O.P. Mahajan, op. cit.

economic growth around the initial starting points⁷, even if the reasons for the initial start there are accidental as, e.g., the growth of motor manufacturing near Oxford is explained by the birth there of some entrepreneurial genius.⁸ Such forces have been amply highlighted by location theory. Regions with initial advantages tend to grow at a higher rate than others and new industries tend to concentrate at the growing points due to external economies like network of transport and market facilities, numerous auxiliary business services like banking, insurance, brokerage and utilities, and of subsidiary trades, and training and research institutions, etc. Marshall also noted that once an industry develops in an area, it is prone to stay there a long time. So great are the advantages which people following the same trade get from neighbourhood to one another.⁹

As a result of these advantages, industrial projects located in the growth poles tend to yield a higher return on investment. On the other hand, industry located in a backward region tend to give lower yield. Thus, if investments are made on the basis of economic efficiency as they

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7. A.O. Hirschman, "The strategy of Economic Development, New Haven, Yale University Press, p.183.
 8. W.A. Lewis, "Development Planning: The essential of Economic Policy, George Allen & Unwin Ltd. London, 1964, p.69.
 9. A. Marshall, "Principles of Economics, Macmillan Co. Ltd., London, 1961, pp.325-32.

should be if the objective is economic growth,¹⁰ They would tend to be concentrated in regions which have already attained a reasonable level of development due to various economic, historical and political factors. Huge capital requirement and profit motivation explain the reluctance of private investment in overhead capital even in rapidly growing centres where emerging shortage of power, water resources, roads and housing will hamper rapid growth of these centres and urgent demands for several types of capital intensive public investment become irresistible. These investments, in turn, lead to further expansion of industries and trade and hence more public investment in the rapidly growing area.

Economic Growth and Regional Disparities :

Regional disparities and economic growth are two inter-related phenomena. Mutual relationship between economic growth and regional disparities could be explained in terms of:

- (i) the concentration-cycle hypothesis (Hypothesis of inverted U-shaped regional disparities curve); and
- (ii) the self-perpetuation hypothesis (Hypothesis of U-shaped regional disparity curve).

10. Louis Lefebvre, "Regional Allocation of Resources in India," Regional development and planning. Edited by J. Friedman and W. Alonso, p.646.

(i) The Concentration-cycle Hypothesis

According to concentration-cycle hypothesis due to spread/trickling down effects regional disparities would ultimately start diminishing as growth process continues over a long period. So, according to this hypothesis, the relationship between economic growth and regional disparities could be depicted in terms of inverted U-shaped regional disparities curve as conceived^{by} Kuznet and Lewis.

As oppose to this, according to the self-perpetuation hypothesis, the regional divergence as a tendency to get worse as growth takes place due to backwash^h effects. So according to this hypothesis, the relationship between economic growth and regional disparities could be depicted in terms of U-shaped regional disparity curve as conceived by Myrdal and Kaldor.

According to the concentration-cycle hypothesis, rapid growth in the relatively advanced regions will benefit the less developed regions in more than one way.

Expansion in the growth poles will provide more employment opportunities to the people of the less privileged areas, which consequently leads to decline in disguised unemployment. Such a shift would raise the marginal productivity and hence the living standard of the people. Moreover, the developed regions depend on the backward

regions for the supply of food and raw materials and, thus, stimulate the development of agricultural activities which, in turn, would lead to the growth of the processing and manufacturing industries. The regions around the growth poles benefit from the opportunities to increase agricultural exports also.

Besides, higher productivity of investment in the developed regions will provide large surpluses of investable funds which, after some time, would lead to the search for, and exploitation of new investment opportunities in the retarded regions. This, in turn, will generate more resources for development. As a result, new growth points will be created in retarded areas and ultimately the number of growth centres would increase sufficiently to provide much sought after regional balance. Such developments are bound to occur if the economies of these regions are complementary.

In the light of above discussion, we can explain the concentration-cycle hypothesis, i.e., inverted U-shaped regional disparity curve formulated by Kuznets and Lewis.

Kuznets¹¹ suggested on the experience of the developed countries that historically there was a tendency for regional disparities to increase first, and then began to narrow down as a country developed beyond a certain low level. Accordingly, it was believed that a high degree of disparities has a favourable effects on economic growth in the early stages of development and as the development gained momentum, its benefits would automatically "Trickle-down" to the backward regions over the long-run. Such developments would set in motion the process of a continuous fall in regional disparities.

W.A. Lewis¹², principal supporter of this view, outlined the process through which disparities lead to economic growth in the England in 18th century, western Europe in 19th century and of Japan in 20th century. He advocates the same for developing countries. According to Lewis, disparities among regions lead to economic growth in early stages of development. During the process of growth, the modern sector grows faster than the traditional sector and it automatically leads to reduction in regional disparities.

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11. S. Kuznets, "Quantitative Aspects of Economic Growth of Nations-I: Level and variability of Rates of Growth." *Economic Development and Cultural Change*, Vol.5, Oct., 1956.
 12. W.A. Lewis, "Theory of Economic Growth," George Allen and Unwin Ltd., Ruskin House, Museum Street, London, 1955.

(ii) The Self-perpetuation Hypothesis

According to this hypothesis, in the early stages of growth, spatial concentration is bound to have adverse effects on the less developed regions, which are called backwash or polarization effects.

Backwash effects have adverse effects on the less developed/backward regions through the following variables and investment policies:

(a) Labour Migration :

In the early stages of development inter-regional migration is likely to be extended to the skilled, vigorous and enterprising young men owing to prohibitive cost, traditional inertia among the poor regions, etc. "instead of absorbing the disguised unemployment, Northern progress may denude the south of its key technicians and managers as well as of the more enterprising youngmen... thus actual pay differentials between North and South are likely to overstate considerably the real productivity differentials in the most productive and skilled grades. In addition, of course, mobility is highest on these same lines so that it becomes almost a certainty that the South will lose to the North first and foremost its highly qualified people. And, along with skill and enterprise, what little

capital the south generates is also likely to migrate northward.¹³ Skilled labour-migration is likely to extend from the less developed regions to relatively more developed regions due to higher productivity and better standard of living. Labour migration, therefore, will further aggravate inter-regional disparities. Studies by Eckaus¹⁴ and Dziewonski¹⁵ relating to the Italian and Polish economies, respectively, confirm the perverse effects of inter-regional migration in the earlier stages of development.

(b) Capital Migration :

Inter-regional movements of capital are also likely to accentuate inequality. Because of the underdeveloped capital markets and lack of enterprise in the less developed regions and growing investment opportunities in the developed areas, capital is transferred from the former to the latter through the banking and other financial institutions. The emerging entrepreneurs of the backward regions are also attracted by the prospects of higher profits in the advanced regions on account of better infrastructural facilities, larger market, etc. Evidence of perverse inter regional flow of capital has been found not only in the

13. A.O. Hirschman, Op. cit., pp. 188-89.

14. J.G. Williamson, "Regional inequality and process of national development," *Economic Development and Cultural Changes*, July 1965, p.6.

15. Ibid, p.6.

under-developed countries of Europe but also of Asia as, for example, in Pakistan (Before the Separation of Bangladesh), Indonesia, etc.¹⁶ The founders of the some of the industrial houses in India came from the backward regions and made the relatively advanced regions the centres of their activities.

(c) Government Policy:

If the objective of the government is to maximise the growth of national product, the government may follow certain policies in regard to regional allocation of public investment in social overheads, which may accentuate regional disparities. Public investment in overheads is likely to be concentrated in the growth centres where acute shortage of electricity, transport, housing, etc. begins to hamper growth, giving rise to strong pressures for several types of capital intensive investment. Moreover, protective ^{tariff} imposed by the government in the initial stages of industrialization adversely affects the backward regions which have now to buy more expensive industrial products from the growing areas in place of earlier cheaper imports.

Besides, free inter-regional flow of goods, favoured in the interests of the integration of the national economy, also tend to work

16. Ibid, p.7.

against the backward regions. Owing to the competition from the established industries in the centres of the growth, the inefficient but income creating cottage and small scale industries begin to decay and the growth of the modern industries is hampered. For example, the political unification of Italy and removal of tariff restrictions hampered the industrial development of the poorer southern provinces of Italy. Even the industries which could be widely dispersed tend to be concentrated in the growth centres. For example, the pattern of railway construction and the railway freight trade oriented industries led to industrial deterioration of the anterior industries like wheat flour milling, vegetable oil, etc., were also concentrated there.¹⁷

(d) Inter-regional linkages :

In the early stages of growth inter regional linkages are relatively weak so that the spread effects of technological and social changes and income multipliers in the growth centres will fail to have much impact on the less developed areas. Dependence of the growing areas on the backward regions for essential raw-material for their industries and food-grains for their people may have a beneficial effect on

17. S.R. Hashim, "Location flows and problems of Regional Development," Conference number, Indian Economic Association, 1969, pp.41 & 49.

the latter. If, however, increase in the prices of the products of backward regions does not bring about increase in their production, and low elasticity of supply in the backward regions threatens to act as a drag on the advancement of the growing areas through adverse terms of trade, they may begin to develop their primary resources or shift to imports, and thus the spread effects may not trickle down to the backward areas which would be further left behind.

The above noted discussion support the self-perpetuation hypothesis propounded by Myrdal and Kaldor. They feel that the basic forces at work are disequilibrium in nature. In other words, once the divergence from the equity occurs, the forces at work would be such that there is further divergence. Although Myrdal (1958)¹⁸ recognised that the spread effects usually become stronger as a nation develops, he believes that the backwash effects are on an average more powerful than the spread effects. Hirschman (1959)¹⁹ also feels that the polarization effects are strong than the trickling down effects in the earlier stages of development of a nation which lead to further increase in regional disparities.

18. G. Myrdal, op.cit.

19. H.O. Hirschman, op.cit.

According to self-perpetuation hypothesis, an unchecked and uncontrolled process of growth causes further increase in regional disparities and has a potential to cause numerous economic, social and cultural problems. These problems could assume serious proportions and subsequently it becomes hard to tame them. These regional disparities lead to under-utilization or even to non-utilization of economic resources, both natural and human, and in that process backward regions remain backward. Hence, there is a case for supporting the backward part of an economy through state intervention. If things are left to themselves, it may take too long before the divergent trends get reversed. It is doubtful if the currently underdeveloped countries have sufficient reserves of patience to wait that long.

Myrdal does not accept the view that spatial concentration is inevitable, and is a condition of further growth. The free play of the market forces as a result of circular and cumulative causation normally tend to increase rather than to decrease disparities among various regions, and the spread effects of the growth of the advanced regions will be too weak to flow to the backward regions which will remain steeped in poverty unless state intervenes with an effective redistributive policy.²⁰ Ordinarily, even in a rapidly developing country many regions will be

20. G. Myrdal, *op.cit.*, p.31.

lagging behind or even becoming poorer if market forces alone were left to take care of regional disparities.²¹ Here it may be noted that even Myrdal accepts the possibility of regional disparities to decline in very rich countries under laissez-faire because the spread effects are stronger there than the backwash effects. But this can not be said of the poorer countries where the spread effects are weaker.²² Since they depend on the level of economic development actually achieved. So, in a developing economy state intervention is to be required to reduce regional disparities.

It is, therefore, natural to find reduction of regional disparities at macro and sub-macro levels as being recognised explicitly or implicitly as a national objective along with other objectives behind national economic policy.

Some economists feel that there exists a clear conflict between the national objectives of efficiency and equity. Balogh (1962) points out that the programmes designed to relieve inter-regional disparities of income levels in India may well curtail the efficiency of the national economy to the extent that no region will really become better off as a

21. Ibid., p.44.

22. Ibid, p.51.

result of the equalization policy.²³ Renaud (1973) supports this contention by arguing that, if, under free market forces, we can maximise national output, policies for greater inter-regional equality will tend to reduce total output.²⁴ S. Gupta (1973) also feels that the objectives of reducing regional disparities add an effective constraint on maximising national output.²⁵

On the other hand, B. Singh (1967) argues that the case for the development of a backward region is essentially similar to that for the development of infant industries. P.N. Rosenstein-Rodan (1961) observed that induced industrialization in a non-industrial country or area does not take place automatically. It requires direct as well as indirect incentives.²⁶ G.Myrdal (1970) goes to the extent of asserting that, "greater equality in under-developed countries is almost a condition for more

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23. T. Balough, "Equity and Efficiency: The problem of optimal investment in a framework of underdevelop." Oxford Economic papers, New Series, Vol.14, No.1, 1962, pp.25-35.
 24. B.M. Renaud, "Conflicts Between National Growth and Regional Income Equality in a Rapidly Growing Economy: The case of Korea", Economic Development and Cultural Change, Vol.21, No.3, April, 1973.
 25. S. Gupta, "The role of public sector in reducing regional income disparities in Indian plans," Journal of Development Studies, Vol.9, No.2, January, 1973.
 26. P.N. Rosenstein-Rodan, "How to industrialise an underdeveloped areas." Georg Allen Publication, London, 1961.

rapid growth.²⁷ Isard and Reiner (1961) also argue that, "a policy of 'pure-equalization' is necessarily a poor policy, although a policy toward greater equalization can be and is likely to be valid."²⁸

On the basis of above discussion we may conclude that it is likely that the objective of economic efficiency and equality may be competitive in the short-run, but may turn out to be complementary in the long-run. Mera's (1975) findings for Japan support this view. As Robock (1970) rightly points out, "The possibilities for influencing regional disparities will vary over time and with the stages of development."²⁹

The need for reducing regional disparities has been argued from various angles.

The first argument is in terms of social justice. It is believed that income inequality can be reduced by way of narrowing down regional disparities. The social justice demands that all citizens are treated alike and given an equal opportunity in life. For this purpose, it is important

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27. G. Myrdal, "The challenge of world poverty," Allen Lane, The Penguin Press, 1970.
 28. W. Isard and T. Reiner, "Regional and National Economic Planning and Analytical techniques for implementation," Isard, W. and Cumberland, J.H. 1961.
 29. S.H. Robock, "Strategies for Regional Economic Development," in McKee et al., 1970.

to bear in mind that an individual should not be made worse off in one area and better off in another. This is possible only when inter-regional disparities in the levels of economic development are ironed out.

Reduction in regional disparities is crucial even from the point of view of accelerating the growth of the economy. It is empirically tested that the poor countries are characterised by large and growing regional disparities and the rich countries are generally characterised by small and diminishing gaps. It is being increasingly realised that the national income can be increased manifold only by helping in proper exploration, mobilisation, organisation and utilization of resources available in the relative backward regions. It is also understood that the resources at the local level are highly elastic and that it can be made use of by proper method of regional planning.

Reduction of regional disparities is essential from the point of maintaining national integration, political stability. If neglected and unchecked, these disparities are capable of assuming serious dimensions and threatening the existence of a nation.

The existing regional disparities in the underdeveloped countries can largely be due to historical factors and may be attributed to either the initial advantages enjoyed by some regions or to ill-conceived public

investment programmes effected under colonial rule.³⁰ The regions which attracted the attention of various rulers and administrators grow at a faster rate, and thus earned the status of developed regions. Some regions are bestowed with rich resources like water, fertile soil, minerals etc. Because of natural advantages, with a little efforts the area could be put on growth track.

The realisation of the significance of socio-economic and political implications of prolonged regional disparities makes us feel that the progress of a country or part thereof in the real sense of term depends on the development of relatively backward regions. Such a feeling prompted the researcher to study the behaviour of regional disparities in the state of Haryana during the period from 1966-67 to 1989-90, so that we may appreciate the economic development of the state in terms of increasing or decreasing regional disparities in agricultural, industrial and infrastructural sectors.

30. Krishna Bhardwaj, op.cit.