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Study of Regional Inequality in India after Reform

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Abstract: *The roots of inequality in India are as deeper as existence of Indian civilization. The causes of inequality are so many but natural and physical imbalance is more important phenomena to existence the regional imbalance. The Indian society was also become more and more mature but there are many social evils exist in the society. Our policy makers also planned many policies to strengthen the marginalized group of our society but the grass root reality was having a very controversial history. This is because insignificant improvement in the social and economical aspects and because political issues. There are two types of regional inequality occurs in the country. The first is state- state inequality and another is rural- urban inequality. Till 1980s, we were achieving sluggish growth about 3.5% per annum which called Hindu rate of growth (Raj Krishna). The policy till 1980s concentrated in the hand of public sector as engine of growth, while the government regulated the private sector and its activities with industrial licensing requirement was under public sector. The efficiency of public sector units was not well and they were trapped in sickness, as government gave relief in the rule of industry policy their efficiency increased resulted there by in 1990s the GDP growth rate of India is approximately 6% per annum. Finally government adopted liberalization policy. This action became very fruitful and called the period of Economic Reform. We saw the inequality in NHDI, Finance commission report and another inequality parameter.*

Introduction:

The roots of inequality in India are as deeper as existence of Indian civilization. As the time goes, the geographical shape of the country was continuously changing. The Indian society was also become more and more mature but there are many social evils exist in the society. The survival of a common man with honour is very tough and it exists, owing to economical and social inequality. On the day of independence, everyone had a hope of satisfactory survival but independent India inherited a backward and regionally imbalance economy reflecting the distorted pattern of development imposed by colonial ruling. Most of the industrial and commercial activities were concentrated in the three metropolitan centres; Bombay, Calcutta and Madras in few cities like Ahmadabad, Kanpur and New Delhi.

Most of the other region of the country remained backward and under-devolvement. In this concern, our constitutional committee tried to make it possible and having the feature of a strong social and economical bond within the states to maximise welfare. Our policy makers also planned many policies to strengthen the marginalised group of our society but the grass root reality was having a very controversial history. This is because insignificant improvement in the social and economical aspects and because political issues.

India's economic reforms explicitly started in 1991 having the vision of liberalization, privatisation and globalisation, when a newly elected government, facing an exceptionally severe balance-of-payments crisis, embarked on a programme of short-term stabilization combined with a longer-term programme of comprehensive structural reforms. Rethinking on economic policy had begun earlier in the mid-1980s by which time the limitations of a development strategy based on import substitution, public sector dominance, and pervasive government control over the private sector had become evident. But the policy response at the time was limited to liberalizing particular aspects of the control system without changing the system itself in any fundamental way. The reforms initiated in 1991 were different precisely because they recognized the need for a system change, involving liberalization of government controls, a larger role for the private sector, and greater integration with the world economy.

There are two types of regional inequality occurs in the country. The first is state- state inequality and another is rural- urban inequality. As India is the rural dominating nation, there are wide gap between rural and urban regions for social and economical facility.Where urban region enjoying the benefit of development, but rural region hardly receive the benefits of economic reform activities. Another is state -state inequality, because some states are rich in investment and natural resources and some are poor in it. As Maharashtra, Gujarat, New Delhi and Kerala are developed; Bihar, Madhya-Pradesh, Rajasthan and Odessa are called BIMARU states (Ashish Bose).

Till 1980s, we were achieving sluggish growth about 3.5% per annum which called Hindu rate of growth (Raj Krishna). The policy till 1980s concentrated in the hand of public sector as engine of growth, while the government regulated the private sector and its activities with industrial licensing requirement was under public sector. The efficiency of public sector units was not well and they were trapped in sickness, as government gave relief in the rule of industry policy their efficiency increased resulted thereby in 1990s the GDP growth rate of India is approximately 6% per annum. Finally government adopted liberalization policy. This action became very fruitful and called the period of Economic Reform.

Regional disparity in terms of NHDI:

Indian Human development Index,which reflects how the states are being relatively, in terms of standards of living. In particular, the Planning Commission now publishes a National Human Development Report (NHDR, Planning Commission of India, 2002), which looks at eight different dimensions of development performance: per capita expenditure, headcount poverty rate, literacy rate, a formal education enrolment index, infant mortality rate, life expectancy, access to safe water and access to housing constructed with relatively permanent materials. Calculations by Singh and Srinivasan (2002) suggest that the Human Development Index (HDI) constructed in the NHDR does not show any increase in across-state variation. These numbers are therefore quite consistent with the conclusion that inter-state disparities in well-being have not worsened in the 1990s.

TableNo.1: State Level Human Development Indices

States	1991	1991	2001	2001	2015	2015
	Value	*Rank*	*Value*	*Rank*	*Rank*	*Value*
Andhra Pradesh	0.377	9	0.416	10	0.6165	15
Bihar	0.308	14	0.367	14	0.536	21
Gujarat	0.431	6	0.479	6	0.616	11
Haryana	0.443	5	0.509	5	0.6163	9
Karnataka	0.412	7	0.478	7	0.6176	12
Kerala	0.591	1	0.638	1	0.712	1
Madhya Pradesh	0.328	12	0.394	12	0.557	20
Maharashtra	0.452	4	0.523	4	0.6659	6
Orissa	0.345	11	0.404	11	0.557	22
Punjab	0.475	2	0.537	2	0.6664	8
Rajasthan	0.347	10	0.424	9	0.577	17
Tamil Nadu	0.466	3	0.531	3	0.6663	8
Uttar Pradesh	0.314	13	0.388	13	0.542	18
West Bengal	0.404	8	0.472	8	0.604	13
All India	0.308		0.472		0.609	

Source: by Author

A state wise breakdown of Gini coefficients, including a division between rural and urban households, gives a similar picture of no strong increase in household inequality. The 14 major states in Table 2 are listed in order of per capita SDP in 1981-82, from poorest to richest – we adopt this convention throughout the paper. Note that half the states show some (mostly small) increase in urban inequality (figures in italics) over the period 1993-94 to 1999-2000, but none of the states display any increase in consumption inequality in rural households over the same period.

TableNo.2: Gini Ratios for Per Capita Consumption Expenditure

	1993-94	1993-94	1999-2000	1999-2000
	Rural	Urban	Rural	Urban
Bihar	0.221	0.309	0.208	0.318
Rajasthan	0.260	0.290	0.209	0.281
Uttar Pradesh	0.278	0.324	0.245	0.327
Orissa	0.243	0.304	0.242	0.292
Madhya Pradesh	0.278	0.326	0.241	0.312
Andhra Pradesh	0.257	0.321	0.238	0.310
Tamil Nadu	0.308	0.344	0.279	0.398
Kerala	0.290	0.340	0.270	0.320
Karnataka	0.269	0.315	0.241	0.321
West Bengal	0.250	0.335	0.224	0.328
Gujarat	0.236	0.285	0.233	0.288
Haryana	0.300	0.280	0.240	0.285
Maharashtra	0.301	0.350	0.258	0.345
Punjab	0.264	0.276	0.238	0.290

Source: Planning Commission, National Human Development Report, 2001, Table 2.3.

Table no.2 , tells us only about inequality within rural and urban households for each state. It contains no information about inequality across states. This is where most studies have focused. In doing so, they essentially treat all households within a state as equal, since state-wise averages are used. All the recent studies in this vein have raised concerns of growing inequality across India's states. Ahluwalia (2002) similarly found private investment flows to be a significant factor in explaining cross-sectional variation in states' growth rates. While he did not examine divergence through regression analysis, his calculations of population-weighted Gini coefficients for the 14 major states showed a substantial increase, from 0.175 in 1991-92 to 0.233 in 1998-99.

Review of relevant research studies:

A number of studies have been done on trends of regional inequality among the sub-national regions of the Indian economy. There are, however a number of studies on economic reform and regional inequality covering different aspects of the country are as:

Nayar, Gaurav (2008), studied in his research paper entitled “economic growth and regional inequality in India” about disparate level of income and development among states in India. He focuses on sixteen Indian states economic profile and concluded; the states are not covering to identical levels of per capita income in the steady-state. He further stated that once factors that affected steady-state levels of income are controlled for, the poor states grow faster on average than rich states.

Singh,A.K.(2012) worked in his research paper entitled “Regional disparities in the post reform period” about interstate economic disparities in India after the post reform period. In the paper, he finds while moving the economy in higher growth path, the pattern of growth has been regionally concentrated and many regions have been bypassed in the race towards economic growth. Singh pointed that it is high time for a second state reorganisation commission splitting the large states in to smaller units.

Acharya,Rajat and Marjit,Sugata (2000) studies in their article entitled “Globalisation and Inequality: An analytical Perspective” about impact of globalisation on inequality. Their article is in the context of global scenario. They concluded that alternative variants of the specific factor model accounting for the diverse trade patterns informal factor markets and existence of non-traded goods, which can help our understanding of the wage gap phenomenon.

Ahluwalia (2000) used population-weighted Gini coefficient, and show that inequality in real per capita gross state domestic product (GSDP) has tended to rise particularly in the 1990s. Confirming the rising trend of disparity, Shetty (2003) also observes that regional disparity did increase, whether measured at 1980-81 prices or 1993-94 prices for the period from 1980-81 to 2000-01.

Conventionally, scholars working on state domestic product (SDP) data have restricted their analysis to only major Indian states in view of data limitations associated with smaller states and union territories in India. Breaking from this trend, Shetty calculates the regional inequality based on all states and union territories of India and finds that the disparity is much higher compared to that which is based on major states only. The estimated Gini coefficients from both Ahluwalia and Shetty show that during the 1980s, regional inequality remained stable till about 1986-87, and started increasing slowly thereafter, but not as fast as in the 1990s.

Bhattacharya and Sakthivel (2004) reveal that disparities in per capita GSDP has accentuated in the 1990s compared to the 1980s. The coefficient of variation of per capita GSDP which was 0.22 per cent per annum in the 1980s, doubled to 0.43 per cent per annum during the 1990s. Similarly, Rao et al (1999) find enough evidence of widening interstate income disparities for the period from 1960-61 to 1994-95. Computing standard deviation of log of per capita SDP for 14 major Indian states, the dispersion appears to have increased steadily from 0.22 in 1965-66 to 0.40 in 1994-95. However, a closer look at these values indicates that aggregate inequality did not raise much during the 1980s, whereas there is a definite rise during the initial years of the 1990s.

On the other hand, a few studies have found that there is no evidence of regional divergence in the 1990s.Singh, Bhandari, Chen and khare (2002), India's record with respect to inequality in the post-reform period is not bad, with respect to potential problems of growing regional disparities. Economic reform has actually done better than many commentators have expected. Clearly there are policy improvements that can help further in managing inequalities, but they are much more in the spirit of further reform than of any backpedalling.

Singh et al (2003), although there are indications of rise in regional disparities, "but they are neither uniform nor overly dramatic". Similarly, Dholakia (2003) reports no significant trend for rise or fall of disparity in the 1990s.The theoretical literature on regional inequality is based on the assumptions that may not be equally relevant for all sectors of the economy. In particular, the literature on agglomeration economies is mainly about the industrial sector. Hence, different sectors may contribute very differently to changes in regional inequality.

There are a few studies that have looked at the contribution of different sectors in the context of changing regional inequality in India. Examining the roles of each sector in aggregate divergence, Das and Barua (1996) find that for the period from the 1970s to early 1990s, agriculture and services are the crucial sectors that contributed significantly to higher regional inequality.

Rao et al (1999), suggest that primary sector was largely responsible for the rise in regional disparity from mid-1960s until 1990. However, the standard deviation in secondary sector was stable during the same period, suggesting the stabilising role of secondary sector in aggregate inequality. Further, they point out that from the early 1990s to mid-1990s, the primary sector had a limited role in the growing inequality in the economy, but the secondary sector played a significant role. As far as the tertiary sector is concerned, there is no consistent trend in accentuating or offsetting regional divergence.

Negi Vineeta (2011) revealed that the new socio-economic situation made it also possible to find new resolution of the eternal controversy over basic education and vocational training. The emphasis laid on training students in particular specialty reflects the level of understanding of social security in the previous decades. The situation was different today. Knowledge and professionalism as products of quality education leading to success in life tend to give way to the development of an individual's creative potential. As development based on the predominant use of an individual's abilities to do physical work is being supplanted by that relying on the use of the individual's cultural and intellectual potential, education is gaining pre-eminence

Vakulabharaman and Motiram (2012), studied the past two decade of urban India by qualitative and quantitative approach and find that Indian cities highly inequalities not in economically but also in socially and culturally. The author suggests their own perspective on how these approaches (qualitative and quantitative) can learn for each other and move forward.

During the study on ‘Transforming physical to digital marketplace-E-retail: An Indian Perspective’ it was derived that due to emerging media convergence and spread of IT enabled services and facilities through internet in rural areas and the range of online payment alternatives have worked as catalyst to the e-retail industry and as a result different range of product categories has seen an influential shift in 2013-14 (Pandey,A.C.,Jamwal, Mohit & SoodanVishal, July 2014).The over review raise many aspects of regional inequality through many ways. It may be noted that the literature on regional inequality in India is motivated completely by the neoclassical growth framework and accordingly, tests for absolute or conditional convergence of regions over time.

Reforms and Regional Inequality:

Since the economic policies were still significantly protectionist during the 1980s and major reforms were initiated only in the early 1990s, we treat these two decades as the pre-reform and post-reform period for the Indian economy. Going by Krugman and Livas Elizondo (1996), we should find an increasing regional disparity throughout the 1980s and a decreasing disparity during the 1990s.

Since the regional inequality is measured by the coefficient of variation of the per capita income of these states. The centripetal and the centrifugal forces balanced each other out during the period. It may be noted that while the agglomeration economies provided the centripetal force, the centrifugal forces were probably generated by the government's efforts to achieve a spatially balanced growth by channelling development towards backward areas. In 1990s, however, the rise in regional inequality clearly supports the hypothesis from Paluzie (2001), which predicts increasing regional disparity following reforms. This implies that the centripetal forces became stronger than the centrifugal forces during this period. This may have happened because the reforms weakened the centrifugal forces and strengthened the centripetal forces in a number of ways.

Rural India has seen numerous ups and downs since independence. Rural development has been a crucial issue for states with large number of rural population as various programmes were launched for the development of poor and marginal people living in rural areas. Role of rural areas in development of the country like India needs no proof as it is evident from the orientation of government policies that rural areas are acting as drive engines for growth of the country. The government in the recent past has framed numerous schemes and programmes for the development of rural areas of the country in order to tap the resources for betterment of rural masses. The employment scheme like MGNREGA holds special importance for hilly states like Uttarakhand which has faced great challenges in development process because of its tough hilly topography and geographical constraints. (Pandey et al.)

A study on socio-economic impact of MGNREGA on beneficiaries in Uttarakhand State in India (Pandey,Akhilesh Chandra , Bahuguna,Rahul & Soodan,Vishal ,October 2016), it was found from the study that MGNREGA had clear-cut objectives to provide job opportunities for rural masses.The objectives of the act is to maintain equality among the various groups of the society and to promote standard of living thereby contributing to economic improvement of the people of the rural areas. It was revealed that the programme has done a great job in improving the economies of rural areas by raising their socio-economic status. The study also revealed that there is a need to amend the structure of the programme by introducing more transparent and responsible system and to make it objective specific and goal oriented.

Activities towards Eliminating Regional Inequality: To provide the economic support to the states, there are constitutional provisions in India. Under the Article 280, president of India constituted the finance commission every five years, to review the state of finances of union and states, and suggest measures for maintaining a stable and sustainable fiscal environment. The finance commission proposed a horizontal formula for the distribution of states' share in the divisible pool among states. The formula is based on many variables supporting inequality of states in terms of fiscal capacity/ income distance, population and area etc. It's also a tool to supporting inclusive growth. The fourteenth finance commission is more effective in this regard because it incorporated two new variables: 2011 population and forest cover and excluded fiscal deplane variable. The horizontal devolution formula in the 13th and 14th finance commissions are given in the table:

Variable	Weights accorded	
	13th FC	14th FC
Population(1971)	25	17.5
Population(2011)	0	10
Fiscal capacity/ Income distance	47.5	50
Area	10	15
Forest Cover	0	7.5
Fiscal discipline	17.5	0
Total	100	100

Finance Commission Report

There are another provision of Special Category States (SCS) and General Category States (GCS); strengthen the concept of a special category state was first introduced in 1969 when the Fifth Finance Commission sought to provide certain disadvantaged states with preferential treatment in the form of central assistance and tax breaks. Initially these three states Assam, Nagaland and Jammu & Kashmir were granted special status but since then eight more have been included (Arunachal Pradesh, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Sikkim, Tripura and Uttarakhand). All other states barring these are treated as General Category States. The rationale for special status is that these states, because of inherent features, have a low resource base and cannot mobilize resources for development (Finance commission). Some of the features required for special status are: (i) hilly and difficult terrain; (ii) low population density or sizeable share of tribal population; (iii) strategic location along borders with neighbouring countries; (IV) Economic and infrastructural backwardness; and (v) non-viable nature of state finances

Conclusion

As India is a federal system of constituent units, it involves explicit and implicit balancing of the interests of its units. Perceptions of fairness among the constituents units can matter as well as the objective material gains from being part of the larger nation. India has faced these issues since independence and central policies have always incorporated inter-regional and inter-state considerations, in matters such as directing investment, controlling prices, restricting the movements of certain goods and other welfare activates. The loosening of central controls that has been an important part of the reform package has heightened two related fears: first that the poor would be left behind; second, that some constituent political units of the nation would be left behind.

At the sub state level, some states may be seeing greater disparities emerging within their boundaries. One might guess that intra-state labour mobility is greater than across states, so that this problem may be more self-correcting than inter-state disparities. On the other hand, the problem may be mobility across rural and urban areas, and across social boundaries. The evidence is consistent with the view that the reforms have had a greater positive impact in urban areas, leaving rural areas to await meaningful agricultural reforms. Intra-state disparities also put the focus on effective state government policies, including building the fiscal and institutional capacity to the local governments to deliver local public goods and services.

Looking the disputes among states, it can be understood that intergovernmental transfers cannot remove such regional inequalities. Streamlining the centre-state transfer system can only help isolate any inter-state disparities that are likely to cause political tensions, and make clear the redistributive effort that is politically necessary. In this respect, it is important to recognize that implicit financial transfers by the central government, through its control of the financial system have been important and have often favoured higher income states. Reducing the pervasive government presence in the financial sector can be an important complement to making the intergovernmental transfer system at all levels centre-state, state-local and centre-local level more efficiently, if inter-regional inequalities are to be clearly addressed by government policy.

Ultimately, for elimination of inequality in India, we have to follow our famous ideology *'Sarve Bhavantu Sukhinah,Sarve Santu Niramaya'* and adopt it in real practice too. The policies and practices should be made in such way to achieve the goals of inclusive development. We have to look towards villages and backward regions with the vision that everyone may come in the boundary of inclusion.

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