Crisil Report on GSDP growth

Why in news?

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Crisil recently released a report, comparing economic growth of the states in India.

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What does the report reveal?

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- Bihar has been ranked the top stateamong the 17 non-special category Statesin terms of GSDP (Gross State Domestic Product) growth in financial year 2017-18.
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- The state has topped the list by clocking 11.3% GSDP growth in fiscal 2018, which was followed by Andhra Pradesh and Gujarat.
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- States like Jharkhand, Kerala and Punjab were at the bottom in terms of GSDP growth.
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- It further highlighted that 12 out of 17 states saw faster growth in fiscal 2018 compared with the previous 5 years.
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- However, the growth did not translate into job creation, as GSDP expansion has come in from sectors which are less job-intensive.
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- It noted that growth was not equitable, as theper capital income between low-income states and high income states widened over the last five years.
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- Since there is pressure on fiscal deficit for the Centre, the states have become the engines of government spending, accounting for a bulk 65% of the total money spent.
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- However, most states were found to have breached their targets under the fiscal responsibility and budget management act.
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What is the status of inter-state disparities as revealed by the report?

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- The inter-State disparities have widened in recent years even as the larger economy grows in size and influence on the global stage.
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- Many low-income States have experienced isolated years of strong economic growth above the national average.
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- But economic convergence within the country remains a distant dream as poorer States continue to lag behind the richer ones in economic growth.
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- Though Bihar was the fastest-growing State this year, they have still failed to bridge their widening gap with the richer States.
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- This is because they have simply not been able to maintain a healthy growth rate over a sustained period of time.
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- Richer States like Gujarat, for instance, have been able to achieve sustained economic growth and increase their gap over other States.
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- The report found that there was a slight convergence in the per capita income levels of the poorer and richer States between fiscal years 2008 and 2013.
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- But the trend was reversed in the subsequent years.
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- Between fiscal years 2013 and 2018, there has been a significant divergence rather than convergence in the economic fortunes of the poorer and richer States.
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- This was the result of richer States continuing to show strong growth while the poorer States fell behind.
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- In fact, only two of the eight low-income States in 2013 had growth rates above the national average over the next five years.
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- On the other hand, six out of the nine high-income States recorded rates

higher than the national average during 2013-18.
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What explains the divergence in the economic fortunes of States?

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- The report suggests that government spending boosted GSDP growth in the top-performing States, particularly in Bihar and Andhra Pradesh.
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- But their double-digit growth rates have come along with a burgeoning fiscal deficit.
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- The impact of greater spending was that 10 of the 17 States breached the 3% fiscal deficit limit set by the Fiscal Responsibility and Budget Management Act.
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- Many other big-spending States, however, have not managed to achieve growth above the national average.
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- Punjab and Kerala, which are at the bottom of the growth table, are ranked as profligates by the report.
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- This suggests that the size of public spending is probably not what differentiates the richer States from the poorer ones.
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- Thus, apart from public spending, states should strengthen their state-level institutions in terms of –
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1. Their ability to uphold the rule of law
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2. Creating a free, competitive marketplace for businesses to thrive
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3. The quality of public spending
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- These factors could be crucial determinants of the long-run growth prospects of States.
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Source: The Hindu

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