Inequality among states

What is the issue?

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- The recent **OECD Economic Survey of India,** Article IV Consultations of the International Monetary Fund and the Economic Survey, all conclude that spatial income inequality in India is not only large but increasing.
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- Economic development has enhanced divergence rather than fostering convergence. Inter- and intra-regional disparity has accentuated.
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- Further, intra-regional disparity to overall income inequality has also increased substantially.
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What does the OECD survey says?

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- It concludes that the “difference across households living in the same state” is the most important source of income inequality.
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- Utilizing district-level data, it infers that intra-regional disparity in India is as important a component of spatial inequality as inter-state disparity.
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- Their analysis suggests that inter-alia; factors like distance to the closest urban agglomeration, differences in urbanization, electricity provisions and state-specific characteristics play a crucial role in explaining divergence across districts.
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What are the measures taken by the government thus far?

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- The mechanism of appointing a **Finance Commission** every five years was designed to address this issue.
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- The **Gadgil Formula** implemented in the 4th Five Year Plan took due cognizance of the need for balanced regional development.
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- The concept of **Special Category States** was introduced in 1969 (Fifth Finance Commission) for providing special assistance to disadvantaged states with a low resource base, difficult terrain, low population density, inadequate infrastructure and non-viable state finances.
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- The Planning Commission also adopted **an area-specific approach** in its planning strategy and introduced multiple centrally sponsored programmes.
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- The Tribal Development Programme, the Hill Area Development Programme, the Western Ghats Development Programme were initiated, catering to geographically homogeneous and backward regions.
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- Regrettably, such area-specific approaches for growing divergences in development patterns have not been successful.
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- Reducing regional inequalities remains a daunting politico-administrative challenge.
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What are the suggestions?

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Smaller states improve governance quality.

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- In the context of the reorganization of states, the data reveals that the increase in growth rates for the newly formed states was in the range of 4-6% post-reorganization, much higher than the national increase of around 2%.
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- It can be concluded that increased autonomy and political representation lead to an accountable government and help promote development.
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- While carving smaller states is no panacea, the improved governance quality and anecdotal evidence supports what Ambedkar had professed in his

Thoughts on Linguistic States.
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Re-inventing the role of Inter-State Council and Zonal Councils.

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- Although the meetings of these councils were held recently under the current political leadership, yet there has been a considerable hiatus between their meetings.
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- In this light, restructuring the Zonal Councils to **meet contemporary challenges,** and re-energising Inter-State Councils could have positive multipliers.
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- **Re-conceptualising the mandate of the Inter-State Council** in facilitating a comprehensive partnership for collective and balanced regional growth deserves priority.
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- Placing the Inter-State Council under the aegis of the NITI Aayog would augur well as the prime minister is the chairman of both these institutions.
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- With similar composition and mandates, the synergistic advantages from the cooperation of these two organisations would seek greater regional convergence.
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Exports as an engine of growth for the more laggard states.

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- Backward states have comparative factor advantage for labour-intensive industries like textiles and leather.
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- Harnessing their comparative advantage for low-skill labour-intensive activity can create a viable export sector.
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- Surmounting logistical challenges and competitive labour regulations would be central in creating new export hubs.
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- Export sectors attract capital, technology and improved managerial practices

which could greatly improve their competitive efficiency.
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Inter-state competition in improving governance and the ease of doing business.

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- While ranking the governance performance of 19 states, it is observed that five of the six best-performing states in 2001 were also the best performers in 2011. This persistent stagnation needs rigorous action.
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- Fostering competition amongst states through the **Business Reform Action Plan,** where progress in 2016 in achieving a national implementation rate of 48.93% (compared to 32% in 2015) is significant.
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- But enticing private investment will need further action on simplifying regulatory architecture, reducing the onerousness of litigation and alternative dispute settlement mechanisms, and easing factors of production, where action rests with the state.
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- This could also catalyse private investment and innovative public-private partnerships.
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What is the way forward?

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- The mandate and role of the Niti Aayog should be redefined and enhanced to evolve models aimed at balanced regional development.
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- Given the constraints of fiscal space, seeking greater engagement of multilateral agencies, both traditional and non-traditional, like the World Bank, the Asian Development Bank, the New Development Bank as well as the Asian Infrastructure Investment Bank would be helpful.
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- Special infrastructure programmes designed for the more backward states will have multiplier benefits.
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- The growing divergence of states, with the exception of health parameters,

needs policy-induced reversal.
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Source: The Indian Express

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