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THE GEOGRAPHY OF GROWTH IN INDIA

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

A more broad-based growth process will boost overall GDP in India, reduce regional disparities, and generate jobs where they are needed most

One of the striking features of India's growth boom since the 1980s has been the concentration of economic activity in a handful of states. Roughly half of India's gross domestic product (GDP) came from just five states then, as it does now. Maharashtra, Uttar Pradesh, Tamil Nadu, Karnataka, and Gujarat accounted for 47% of the country's output in 2018-19. The same set of states accounted for roughly the same share of the country's output nearly four decades ago, in 1980-81.

While India's 'big five' state economies may be similar in size, they are not all at the same stage of development once we consider their per-capita incomes. Maharashtra is as affluent as Vietnam while Uttar Pradesh is comparable to Nepal. The gap in per-capita incomes between the richest and the poorest states has grown over the past few decades. As these pages have pointed out earlier, at the beginning of the millennium, the per capita income of the five richest states was 145% higher than that of the bottom five states. That difference rose to 289% in 2010-11, and further to 322% in 2018-19. India looks like a continent of diverse countries once we map the per-capita incomes of each state to the closest comparable country.

Conventional economic theory suggests that poorer states should have grown faster during India's growth boom since the 1980s. Returns to investments tend to be higher in poorer regions. Economists call this process "convergence" or the "catch-up effect". Even as India managed to catch-up to some extent with the rest of the world, poorer states within India have failed to play catch-up.

The changes in the way gross state domestic product (GSDP) figures are being calculated since the change in methodology in 2014-15 may be responsible for accentuating the divergence across states in recent years. But even if one considers the period upto 2013-14 and uses the old GDP series, the story remains one of divergence rather than convergence.

The regional skew poses a big challenge for the country. But it also presents an opportunity. If this divergence can be reversed, and the natural 'catch-up' process is allowed to play out, that alone will provide a big thrust for India's next growth surge. That growth surge will also be more evenly balanced than the previous one.

Consider India's growth journey over the 1980-2014 period. States such as Delhi, Gujarat, Maharashtra, Haryana, and Tamil Nadu were the main engines of growth during this period while states such as Bihar, Odisha, and Uttar Pradesh lagged behind.

If all Indian states had grown at the same rate since 1980 as the five fastest growing states (7.2 percent), India's GDP per capita would have been close to $1,900 by 2014, 1.4 times higher than the actual $1,347. India would have surpassed Vietnam which had a per capita income of $1887 at the time.

A more broad-based growth process would also have generated jobs where they are needed the most. According to Annual Survey of Industries (ASI) data for 2017-18, a majority of India's factory jobs are clustered in Tamil Nadu, Maharashtra, Gujarat, Uttar Pradesh, and Karnataka.The five states also account for a little less than half of all salaried jobs in India, the latest Periodic Labour force Survey (PLFS) data for 2018-19 shows.

The concentration of economic activity and jobs in a few states has meant that the most populous states of the country are job-deficit states. Bihar, for instance, accounts for 7% of the working-age population in the country (those aged 15-59 years, as per the last census). But it accounts for less than 3% of salaried jobs and barely 1% of factory jobs. Even Uttar Pradesh does not generate the number of jobs that it's vast population requires even though it counts among the top five largest state economies because of its sheer size. India's most populous state accounts for 15% of the country's working age population but accounts for just 9% of salaried jobs and barely 7% of factory jobs.

By driving hordes of migrant workers to their states of origin, the pandemic-induced lockdown may have put the spotlight on India's regional inequalities. But the regional skew has been a long-running feature of India's development journey.

Economists have argued that in the absence of state interventions to facilitate investments, capital tends to move towards already developed regions. This partly explains why states such as Maharashtra, Gujarat, and Tamil Nadu have outperformed other states since the 1980s.

"Private corporate investment is potentially highly mobile across states and is therefore likely to flow to states which have a skilled labour force with a good 'work culture', good infrastructure... and good governance generally," wrote the former Planning Commission chief, Montek S. Ahluwalia in a 2000 Economic and Political Weekly article on the wide variation in growth performance of states. What Alhuwalia wrote then remains true even today.

If laggard states are to catch up with richer ones, they will need heavier investments in both physical and social infrastructure. Faster growth for the poorer states would give a fillip to the country's overall growth rates even while bringing down inequality. Such an inclusive growth process would also help prevent the country's economic fault lines from turning into deep political chasms.

This is the concluding part of a four-part series on India's growth challenge.The first part examined how three decades of rapid growth have transformed the country , the second part looked at India's growth measurement challenge, and the third part examined what India can learn from Asia's growth miracles.

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