Investment and Economic Growth in Bihar during Liberalization

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Abstract

Investment has significant impact on the economic growth of a country and it is very important for the solution of socio-economic problems of any nation. During the economic reform, investment has been applied as tool for economic development. But the growth patterns unfolded in Bihar and other poorer regions in India appears to negate the existence of any relation between the state and development. But this negative conclusion will also be apparently contradictory for it would not be able to explain why some regions within the country developed in spite of sharing a common Constitution and the central state. The share of the market of the respective states are, however, not restricted to its geographical territory, exports of other states count as much. Comparing the pre-reform period when the state was the prime mover of growth and the post-reform period when the market had assumed that role, it is not difficult to realise that the inequality in growth opportunities is wider in the latter period. This paper has focused on investment and economic growth in India particularly in Bihar during Liberalization.

Key Words: Investment, Liberalization, Socio-economic development, Economic Reform etc.

I. Introduction:

Investment is one of the significant tools of economic growth of any country. It determines the income, employment and output in any economy and therefore it has become important for economic growth. The impact of India's economic reforms on economic performance has been the subject of much academic study and public debate in

India, but the focus has been largely on the performance of the economy as a whole or of individual sectors. The performance of individual states in the post-reforms period has not received comparable attention and yet there are very good reasons why such an analysis should be of special interest. First, balanced regional development has always been one of the declared objectives of national policy in India and it is relevant to ask whether economic reforms have promoted this objective. Second, India's federal democracy is increasingly characterized by regionalisation of politics, with politics at the state level being driven by state rather than national issues, and this makes the economic performance of individual states an issue of potential electoral importance. This is particularly so because liberalisation has eliminated many of the controls earlier exercised by the central government and thereby increased the role of state governments in many areas that are critical for economic development. Finally, since state level performance shows considerable variation across states, with many states recording strong growth in the post-reforms period, it is important to identify the reasons for their success in order to replicate it in other states. The post-independence state in India has generally been characterised as a 'developmental' state, many of its developmental responsibilities forming part of the text of the Constitution. But the growth patterns unfolded in Bihar and other poorer regions in India appears to negate the existence of any relation between the state and development. But this negative conclusion will also be apparently contradictory for it would not be able to explain why some regions within the country developed in spite of sharing a common Constitution and the central state. Through a closer look at the trajectory of the development process in India, one can also easily note that, in spite of having a federal constitution, its unitary bias has ensured that the major constituents of the development policy in India have largely emanated from the central state. But in a large country like India where the economic and social conditions vary widely across the regions, uniformity of a development 'policy' may not necessarily entail uniformity of its 'impact'. It is, therefore, necessary to analyse the working of the different policies of the central government taking into account the variations in the regional endowments in terms of natural resources and their initial social and economic status. The process of liberalization that the nineties ushered in, by its very nature, meant a much weaker state-development relationship, but even here the impact was of varying degree. A smaller role of the state affected those regions more where the alternative institution of market was weaker as in Bihar. The economy of Bihar had suffered most because of liberalization and, during this phase, its non-agricultural economy had grown at a rate which was about half of the national growth rate. Thus, in spite of a very appreciable growth rate of its agricultural economy at above 3 percent, the overall economy had practically stagnated. This paper has focused on investment and economic growth in India particularly in Bihar during Liberalization.

II. Review of Literature:

During the first phase, the economy of Bihar has been the direct beneficiary of central policies, by virtue of being a mineral rich state but, as discussed later, this initial advantage did not much benefit the state due to other dimensions of the national industrial policy. Secondly, all these benefits were in the Jharkhand region of erstwhile Bihar which now forms a separate state. The second phase of strengthening agriculture through Green Revolution was only marginally relevant for Bihar. The phenomenon was restricted to barely one-fifth of the total cropped area in the country, mostly in the northern region. In Bihar, it was restricted to only one district (Shahabad), thanks to its canal-based irrigation system. The main policy thrust in both these phases of development was certain 'sector selectivity' (heavy industries in the first phase and agriculture in areas with assured irrigation in the second phase), but they certainly had clear implication for regional development patterns. Because of varying natural endowments and their growth pattern in earlier (colonial) period, the sector selectivity was certain to be translated into 'region selectivity' and thereby cause varying regional growth pattern.

It is in this sense that the central state is of more relevance in an analysis of state-development relationship, even at the regional level. If the region selectivity had operated in opposite direction (that is, backward regions fitting more into the sector selectivity), India would have had a different development trajectory. For the present exercise, however, we are more concerned with the decade of eighties and the period since the nineties, the former characterized by pump-priming of aggregate demand and the latter by economic liberalization. Among the different development strategies at four phases, enhancing aggregate demand through government expenditure was the least discriminatory (regionally) and it had thus benefited even the poorer regions, though not equally. Under this policy, the economy of Bihar had grown at a moderate rate during the eighties, although lagging behind the national growth rate. In the above policy framework of Indian planning, each of its four phases was seen to have a distinct policy thrust and one would not, therefore, certainly hypothesize a disassociation between state policies and regional development patterns. For regions like Bihar, this association might have entailed either absence of or very limited development, but there must have been other regions in India where the same policy, because of its discriminating nature, had shown opposite results. The broad framework of planned development in India was thus pivoted on the national macro-economic perspective which had informed the development pattern both at the aggregate and at regional levels. This conclusion, however, should not be stretched far to imply that region-level states were left with no space to display their own development perspectives.

Such varying perspectives are very likely in the face of dissimilar social base (not invariably though) of political powers controlling the different states, along with historical specificities of various regions. Apart from Kerala which, because of its high levels of social development, enjoys the reputation of an exemplary out-lier' in the Indian development model, there are a few development phenomena in other regions of the country as well which can best be explained as the result of initiatives by the region-level states. Some of these developments, as located by Dreze and Sen (2002) are – rapid demographic transition (for example, in Tamil Nadu and Andhra Pradesh), land reforms (in West Bengal, Himachal Pradesh and Kashmir), the empowerment of disadvantaged castes (for example, in Maharashtra) and innovative education programmes (in Madhya Pradesh, Tamil Nadu and Rajasthan). It would be useful to note here that none of these interventions are indeed 'economic'. Everywhere the focus of the state- level governments was social'— transforming the social base of agriculture (through land reform), strengthening social infrastructure (through education and demographic transition) or social empowerment (through political mobilisation). All these achievements had long term economic gains and some of these social programmes had also entailed some immediate economic gains (particularly, land reform in West Bengal and demographic transtion in Tamil Nadu and Andhra Pradesh), but they were not economic programmes in the sense of a state-led resource allocation exercise through investment, subsidy or the like. This tendency of the region-level states to restrict their interventions to social sectors, one can easily argue, is conditioned by their limited financial strength. Thus, the nature of the state-development relation in the Indian context, as unraveled above, would suggest that while the states at the region-level have been mainly preoccupied with social policies, it was the central state that had mostly outlined the economic policies. This has generally been the practice in India, specially in recent decades, but the federal arrangements had not really ordained it to be so. There was at least one area, viz., physical infrastructure, which clearly fall within the realm of economic policies of both the central and region-level states and where the latter had a large specified responsibility. However, the poorer states, because of their resource constraint, have failed to shoulder this responsibility to continuously upgrade their physical infrastructure. This is a serious lapse which is turning the state-development relation in poorer regions even more feeble. To maintain that the policy choices of the state were faulty or inadequate for any desired development and also demonstrate how indeed the working of those policies have steered the economy toward a less or un-desired path may be useful, but it obviously raises the query — what had indeed led the state to adopt those policies? The question is even more natural' in the Indian context since —a development ideology... was a constituent part of the self–definition of the immediate post-colonial state in India, and even now, after more than a decade of gradual liberalization, the state still (probably helplessly) carries that image of prime mover' of development.

To begin with, we may first note that, along with some obvious failures in certain areas, the Indian state has also to its credit a number of achievements. Referring to the four major phases of Indian state planning in India mentioned before, one may note that, in each phase, the state had achieved certain important economic goals — establishment of a fairly strong industrial base in the first phase; removing wage goods (foodgrains) bottleneck in the urban areas during the second phase; managing of effective demand using Keynesian principles during the third phase to help the industrial sector sustain its growth; and finally, help the economy attain increased growthrate for aggregate output during the fourth phase involving economic reforms.

III. Analysis and Discussion:

For the contrasting performance of the Indian state to meet two different challenges, it is not sufficient to differentiate between the two challenges in terms of their (political) difficulty-levels, as done above; it is equally possible that structural changes in the agrarian economy had never appeared as one of the agenda of the ruling polity and hence of the state. Of the two main constituents of the ruling polity in India — the corporate lords and the landlords — neither had suffered because of archaic agrarian relations ruling the subsistence agricultural economy. The former had to face suffering only once, when food supply in the urban market fell short of demand during the mid–sixties; but Green Revolution in limited parts of India‗s agrarian economy during late sixties had considerably removed that bottleneck.

On the issue of why Bihar‗s economy has been continually experiencing low growth, specially during the nineties, it is relevant to discuss the expected roles of the state and market for the investment initiatives. To consider the role of the state first, one may note that its developmental role was a part of the self-definition of the immediate post-colonial state in India and it had functioned under that framework upto the seventies and somewhat weakly even during the eighties

In India, the plan documents lay down GDP growth targets for the country as a whole, but this aggregate growth is not disaggregated into targets for the growth of the state domestic product of individual states‗ (Ahluwalia, 2000). But these apparently sector-specific development strategies are almost certain to entail region-specificities as well, depending on the sectoral composition of different regional economies and they usually work much to the disadvantage of the poorer states, including Bihar. The asymmetric geographical distribution of resources in favour of the states that were already better off because of historical reasons is clearly visible in the national strategy for both industrial and agricultural growth. To consider the strategy of industrialisation first, one may note that it had initially implied favourable investment patterns in Bihar because of its rich mineral resources located in Jharkhand region, now a separate state. But the establishment of 'basic' industries in Bihar, a result of public investment, could not lead to its further industrialisation because of the absence of adequate forward linkages. This initial advantage for Bihar was more than offset by the policy of freight equalisation‘ which ensured availability of basic industrial inputs like coal and steel at same prices throughout India. This promoted the growth of industries in those regions where the industrial economy was already large (to take advantage of the external economies) and deprived those areas which had natural comparative advantage‘ for industrialisation. As regards the national strategy of agricultural development, its main plan was the agenda for Green Revolution, the economic motive‘ behind which was not a pervasive‘ agricultural growth as such, but only ensuring that the supply of foodgrains to the urban market meets the demands of the industrial workers. For this limited objective to be met, it was not at all necessary to promote agricultural growth throughout India; a coverage of barely one-fifth of the cultivated area in the country under Green Revolution was sufficient to attain the goal. A small part of the south-western Bihar, because of high fertility of its soil and a strong canal-based irrigation infrastructure, has indeed benefited from this strategy and now form the most developed region of the state. But once the basic objective of meeting the urban food demand was met, it was not felt necessary to extend it to other areas and, nearly three decades after the Green Revolution had started, its present spread is almost as limited as it was initially. The withdrawal of the state‘s initiative for a pervasive agricultural growth is indicated by the declining trend in public sector capital formation in agriculture. The contribution of the public sector towards capital formation in agriculture had declined continually during the eighties and nineties, falling to the lowest ever share of 23.4 percent in 2000-01 (Hanumantha Rao, 2005). This negative trend was indeed stronger in Bihar as the health of state finances, the major source of public investment, has continuously deteriorated during these two decades.

During the nineties when the market was expected to replace the state as the main initiator of growth impulses, Bihar‗s disadvantage was indeed deepened. In this strategy, only the states with stronger industrial base and hence a large command over the market were able to utilise the opportunities of a market-led growth. A recent survey of market size across the country indicates that Bihar and Jharkhand together, although inhabited by 10.7 percent of the country‗s population, commands only 6.5 percent of its market. The share of the market of the respective states are, however, not restricted to its geographical territory, exports of other states count as much. But, the disadvantage here is even more - the share of revenue from central sales tax (an indicator of export from a state) is only 2.5 percent for Bihar and Jharkhand put together. Comparing the pre-reform period when the state was the prime mover of growth and the post-reform period when the market had assumed that role, it is not difficult to realise that the inequality in growth opportunities is wider in the latter period. The extremely poor growth performance of the Bihar economy during the post-reform period is not really surprising in this background. One should also note here that the smaller size of the markets in poorer regions like Bihar not only limits its growth opportunities, but also implies smaller revenues for the state governments which further weaken them to play those development roles which are expected of them even in the era of reforms.

IV. Conclusoion:

The impact of India's economic reforms on economic performance has been the subject of much academic study and public debate in India, but the focus has been largely on the performance of the economy as a whole or of individual sectors. The performance of individual states in the post-reforms period has not received comparable attention and yet there are very good reasons why such an analysis should be of special interest. First, balanced regional development has always been one of the declared objectives of national policy in India and it is relevant to ask whether economic reforms have promoted this objective. But the growth patterns unfolded in Bihar and other poorer regions in India appears to negate the existence of any relation between the state and development. But this negative conclusion will also be apparently contradictory for it would not be able to explain why some regions within the country developed in spite of sharing a common Constitution and the central state. Traditionally Bihar has been a favourable destination of Investment but it has not been able to attract investment in reform period due to backward poor physical and social infrastructural facilities.

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