Eastern Quagmire

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Is Eastern India a quicksand that relentlessly draws you down? Or would the term "quagmire" be no more than popular imagery, suggesting awkward regional complexities with no easy answers? Perhaps the latter, given the region's inherent socio-economic dynamics that offer neither quick solutions nor easy implementation. Normally, reference to Eastern India should be expected to connote a geographical expanse comprising of Orissa, West Bengal, Bihar and (now) Jharkhand. However, in popular perception it conjures an image of poverty, backwardness and failure of governance. In short, it represents a national milestone. A geographical entity has somehow acquired a pejorative connotation. Is this a valid hypothesis if one more closely examines the dynamics of development in the eastern region since the 1980s.

For most of the duration of the Raj, the Presidency of Bengal encompassed Bengal, Bihar and Orissa. The first lasting separation – after the abortive partition of Bengal in 1905 - came in 1912 when Bihar and Orissa were severed from the Presidency and grouped together as a single administrative entity. The Government of India Act, 1935, thereafter separated Orissa from Bihar, making them independent provinces in 1937. Following the Partition of India a decade later, Bengal was divided into East Pakistan (now Bangladesh) and the Indian State of West Bengal. Subsequently, there were two changes. Consequent on the linguistic Reorganisation of States in 1956, the district of Purulia was carved out of Bihar and incorporated in West Bengal. More recently, the Biihar Reorganisation Act, 2000, partitioned Bihar to create a new State of Jharkhand.

Based on differential growth patterns, the analysis in this paper would suggest that while West Bengal is out of this vicious loop but tardy developments in Uttar Pradesh, particularly eastern Uttar Pradesh, would make it a candidate to be added to these States where development has faltered. The present scrutiny of the status of Eastern Indian however looks at Bihar (inclusive of Jharkhand), West Bengal and Orissa.

A. Overall Economic Status

A broad picture emerges from the overall growth parameters as well as the social and infrastructure indices for the region.

Regional disparity in India is a matter of serious concern. It is well accepted that in a large economy, different regions with varied endowments will have a dissimilar growth path over time. The East-West divide in India was prominent even at the time of Independence. The eastern region was slower to grow. The successive Bengal famines highlighted by Dr. Amartya Sen, the violent partition riots and the subsequent large influx of refugees dented the economies of eastern India particularly West Bengal. This was marked by a relatively lower per capita income and a persistently high concentration of poverty. Among the expected outcomes of planned economic development was a narrowing of regional imbalances. This did not happen. The divergence became more acute particularly after significant market deregulation in 1991.

A.1 Growth Parameters

During the 1980s, the GDP growth of all the three eastern States were close to the national average of 5.6%; Orissa a little better, Bihar and West Bengal a little worse. The 1990s changed the picture in which both Orissa and Bihar slowed down significantly growing at just 3.6% and 3.4% respectively while West Bengal ducked this trend registering a growth of over 7%, well above the national average. This did not automatically translate to per capita growth due to demographic differentials. The per capita income of Orissa in the earlier period grew at nearly 4% per annum, above the national average but slowed down to 2.1% in the 1990s, while Bihar slowed down more significantly from 2.97% to just 1.86%. West Bengal in the 1990s grew rapidly at a per capita growth of 5.41% per annum notwithstanding its higher population density.

Population growth in India during the 1980s was 2.44% which slowed down significantly to just below 2% at 1.9% during the 1990s. This trend was followed by West Bengal coming down from 2.2% to 1.6% during the same period and equally Orissa from 1.8% to 1.4% but curiously Bihar's population growth rate shot up from 2.1% to 2.4%.

Rural inequality in Orissa increased somewhat during this period while urban inequality trends remained more or less stable for all the Eastern States.

A.2 INFRASTRUCTURE

One of the basic reason behind the underdevelopment of the Eastern states is their poor infrastructure.

Not surprisingly, on a comparative index of the eastern States of Socio-Economic indicators calculated for the 15 major States in India, Bihar and Orissa remain towards the bottom with a ranking of 11 and 12 whereas West Bengal is somewhere in the middle.

Within infrastructure, road networks play a major role. The Eastern States however have a road density (calculated as road length per lakh of population) that is higher than the national average. This is because exploitation of the region's rich mineral resources and its transportation to processing or marketing centres necessitated connectivity. However, perhaps freight equalisation and without a supporting policy framework prevented accrual of its beneficial multiplier effect on the Eastern States' economy.

Railways contitute another important element of infrastructure. While the Railways density of Orissa remained well below the national average of 19 per every 1000 kms, both West Bengal and Bihar are way above the national average at 30 and 42 for the period 1996-97. This is somewhat surprising considering Orissa's rich mineral resources and a large coastal belt.

Power consumption is a critical indicator of economic development. The per capita consumption of power in Bihar crawled up from 74 (kwh) to 140 from 1980-2000 and Orissa from 114 to 354 while for West Bengal it increased from 117 to 204. All India average during the same period increased from 120 to 354. This would clearly indicate that per capita availability of power in Orissa has been close to the national average whereas in Bihar it is less than $1/3^{rd}$ of the national average and even West Bengal is below average trends. Some of the features explaining this anomaly are dealt with in the later part of the paper.

A.3 Poverty & Social Development

The incidence of high poverty in Eastern India has been a matter for a persistent concern. Orissa had the highest poverty ratio of 66.18 per cent during 1973-74 followed by West Bengal and Bihar with poverty ratios of 63.43 and 61.91 per cent respectively. As against this, the overall national average was 54.88 per cent during 1973-74. In 1977-78, when the all-India poverty ratio fell to 51.32 per cent, that in Orissa increased to 70.07 per cent; Bihar and West Bengal showed a marginal decline in poverty ratio during this period. During 1977-78 to 1983 the all-India poverty ratio fell to 44.48 per cent. During this period Orissa had the highest poverty ratio of 65.29 per cent followed by Bihar and West Bengal with 62.22 and 54.85 per cent respectively. However, between 1983 and 1987-88 there was a significant fall in poverty in the Eastern States and as well as in India as a whole.

Poverty trends during the 'nineties are debatable. According to Planning Commission estimates, the poverty ratio fell from 35.97 per cent to 26.91 per cent of the national population. Bihar and West Bengal also reduced poverty levels from 54.96 per cent to 42.6 per cent for Bihar and 35.66 per cent to 27.02 per cent for West Bengal. Orissa's performance was disappointing during this period as poverty decreased only marginally from 48.56 per cent to 47.15 per cent.

Thus Orissa, with a poverty ratio of 47 per cent and Bihar with 42.6 per cent are significantly higher than the national average of 26.1 per cent. Given Bihar's high incidence of unemployment, enhanced social tension arising from a failure to meet development aspirations with inadequate avenues for gainful employment compounded by its demographic growth necessitates urgent corrective action.

The infant mortality rate is a primary health indicator of social development. Orissa's poor performance in this regard is worrisome. During 1961 its IMR was 115 and by 1981 it had increased to 163 per thousand births. The same period witnesses no change in the national IMR of 115. Bihar and West Bengal fell below the national average during this period.

India witnessed rapid economic growth during the nineties with a marginal decrease in infant mortality rate from 77 to 71 during 1991-2001. Bihar and

Orissa showed a fall in IMR from 75 to 67 and 125 to 98 respectively during the same decade whereas West Bengal witnessed a decline of IMR from 62 to 53 per thousand births.

There is no significant difference in literacy rates among the Eastern States in relation to the all-India average. The only exception is Bihar, which is performing poorly. During 2001, the literacy rate in Bihar was only 48 per cent which was far below the national average of 65 per cent. Bihar also performed poorly in the earlier period with just 32.3 in 1981 and moving up to 38.54 in 1991. Orissa had a literacy rate of 64 per cent, which is just below the national average, while literacy in West Bengal was 69 per cent during 2001

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Life Expectancy at Birth is an important health index in making any inter-regional comparison. The Eastern States, except Orissa, are close to the national average of life expectancy. Life Expectancy at birth during 2001 for both Bihar and West Bengal was 65.23 and 67.71 respectively, which is higher than the national average of 64.77, while life expectancy at birth in Orissa was 59.88 during the same period.

A.4 The Human Development Index is a composite index of literacy, life expectancy and per capita income. In calculating the Index, these three indicators are given equal weightage.

West Bengal enjoyed an HDI value of 0.472 which is higher than the national average of 0.470 during 2001. Bihar and Orissa both had lower HDI values than the national average during the same period.

B. Some Broad Conclusions

Some obvious conclusions emerge from the above analysis. All the three Eastern States continue to suffer from endemic poverty and unemployment given their demographic profile. A substantial part of their GDP emanates from agriculture, with manufacturing and the tertiary sector making modest contribution to GDP. West Bengal was an exception on account of significant improvement in the agricultural sector.

The implementation of land reforms, vesting tenancy rights on tillers and imparting ownership rights to share croppers and the implementation of land ceilings was inadequate in Orissa but particularly disappointing in Bihar. However, agrarian reforms were rigourously implemented in West Bengal.

In Bihar, land reforms remain tardy. It was the first State in independent India to legislate on land reform but never proceeded to any meaningful implementation due to lack of political will and the enormous clout of the rich landed class. The Bihar Abolition of Zamindari Act of 1948 was challenged in Court and later replaced by the Bihar Land Reforms Act of 1950 but faced complex legal obstacles with faltering implementation. Orissa faced a similar situation but its problems were compounded by serious fluctuations in agricultural output and incomes as a result of successive natural disasters such as flood, drought and typhoons, with several districts remaining in the rain shadow regions of the south-western monsoon. West Bengal, on the other hand, consciously pursued a policy of vigorous land reforms coupled with the subsidized provision of non-land inputs such as irrigation, improved seeds and fertilizers. In the process it also pursued democratic decentralisation through Panchayati Raj, which brought about a significant changed in the agricultural and allied sectors. Nonetheless, the benefits of the green revolution remained concentrated in the North and North West regions of India. The green revolution had inadequate reach in Bihar and Orissa, with farm outlays and agricultural productivity stagnating.

BIHAR

Agricultural growth in Bihar has fluctuated widely with annual output swings between –20% and +30% which has significant implications for poverty alleviation and income security. According to a recent World Banks study published this month entitled Bihar : Towards a Development Strategy, the factors which explains its inability to reap the benefits of Green Revolution can be attributed to a multiplicity of factors which include water managrement and flooding; Bihar's gross-sown irrigated area is 50% compared to a national average of 62% and annual flooding creates land degradation with host of related economic and social problems. Illustratively, in 2000, annual floods in Bihar affected 8.2.million people and 780,000 hectares of land over half of which were grown crops causing significant losses.

Annual flooding, absence of drainage, declogging of canals, increasing salinity, compound its problems.

Fragmentation of land holding in Bihar is endemic where the average size of holdings is around 0.6% and over $4/5^{th}$ of the farmers have just 1 hectare each. Faltering land reforms left little incentive for making fresh investment in land and absentee landlordism, poor maintenance of land tenancy records stifle operation of market economics in land transactions. Poor connectivity and market access in the absence of all weather road restricts crop movement, creates marketing difficulties and leaving a short shelf-life. The lack of rural power supply inhibits options for value added activity. Power utilization is among the lowest in India with only 10% of households with electric lighting as compared with the national average of 66%. This compromises life quality, impairs agriculturists from using ground irrigation through electric pump sets and prevents emergence of cold storage and cold chains for enhancing market reach.

The power sector of Bihar suffered from the endemic weaknesses of a low plant load factor, high transmission and distribution costs and an insolvent State Electricity Board burdened with an excess of manpower. The cumulative losses of the Electricity Board left the State's finances in a precarious position, rendering it difficult to undertake large capital outlays particularly on infrastructure and irrigation. On the other hand, excessive reliance on borrowings created contingent liabilities with an adverse debt servicing profile. The absence of significant economic reforms coupled with poor governance and investor confidence in the State's ability to guarantee security of life and property led to flight of capital and managerial personnel from Bihar. In this climate, private entrepreneurs understandably shied away from making fresh investments.

WEST BENGAL

The poor infrastructure availability, notwithstanding greater road connectivity, remained an endemic weakness, particularly the poor availability of power. Infrastructure reliability, its quality and costs need to be substantially upgraded for sustaining value-added farm activity. The freight equalization policy which was introduced in 1952 and remained in vogue until 1993 neutralized the advantages of proximate availability of raw materials. Royalties of minerals failed to reflect market values and while their growth augmented the finances of the States, the multiplier effects of enhanced industrialization, down-stream development and employment generation did not make this additional devolution an adequate compensation for freight equalization. Entrepreneurs preferred industrial locations closer to markets in the West and South. The growth of industrial complexes including the automobile sector in Pune (TELCO and Bajaj) where Steel is a major component is a kind of lost opportunity for the eastern States. The industrial activity in southern States are pointers in the same direction arising out of freight equalization policy Nonetheless, the endemic weakness of Steel complexes which came up in Bengal and the sicknesses of small scale industry in both Bengal and Bihar would suggest that freight equalization alone cannot explain growth divergences. Illustratively the Bengal Iron & Steel Company established the KULTI Plant in 1894 and subsequently taken over by the Indian Iron & Steel Company in 1936 over the years could not remain viable. Some estimates suggest that out of over 6000 factories in West Bengal in 2001, 252 were sick suggesting a sickness rate of over 4% which is well above the all India average. The picture gets worse when one looks at the SSI sector. Out of 250,000 sick SSI units in India, as high as 113,846are located in West Bengal alone suggesting a 45% sickness ratio. This is clearly depressing.

The divergence in the growth trajectory widened following significant economic liberalization from 1991 onwards. Private investment sought out States where the overall policy framework was more conducive. In West Bengal, the violence associated with the Naxalite movement and the insecurity associated with militant trade union activism with hartal or gherao eroded confidence; capital and management migrated to other States. Even old established industrial houses set up offices in Delhi or Mumbai and diversified their investments elsewhere. However, substantial repair efforts beginning in the mid 1980s and accelerated in the 1990s has attempted to reposition West Bengal as an attractive investment destination. Its efforts to re-adapt to policies conducive to private investment has now begun to make a substantial difference. We all know that trust and confidence once shaken takes long to be rekindled but West Bengal is on the upward swing. Furthermore, increased agricultural productivity has enabled West

Bengal to achieve growth rates significantly higher than the other two Eastern States, enabling it to join the national mainstream.

ORISSA

Orissa's backwardness cannot be easily explained. A substantial reason would be its slow agricultural growth at 0.72% compounded by vulnerabilities through natural disasters particularly cyclones and floods. A high proportion of tribal population constituting 25% of its total population creates special developmental challenges. Notwithstanding its mineral resources – 90% of the country's Chrome, 70% Bauxite, 24% Coal, its possible growth multipliers and down-stream development remained stymied. In the inadequate development of Port infrastructure and its connectivity to the hinterland illustrated by the gross under utilisation of the Gopalpur Port has not enabled Orissa to secure the advantages of its large coastline. Development of smaller Ports based on the Gujarat, Maharashtra example has also remained inadequate. Similarly, absence of mechanised shipping and inadequate development of the fisheries industry has denied Orissa the advantages reaped by many other States of using marine products as an important growth multiplier. Even though it was a fore-runner to undertake Power reforms the absence of a well calibrated tariff and regulatory policy as well as credible framework to reduce endemic high transmission and distribution losses has not resulted in significantly enhanced availability of dependable low cost energy. In general, public delivery system and administrative weaknesses has resulted in the State lagging behind the national growth trends.

C. Some General Issues

i) A constant complaint of the Eastern States relates to discrimination in Central sector investments. For instance, in 1981 the share of West Bengal in total Central investment in the country was 8.2 per cent compared to 8.6 per cent in Maharashtra. There was however a dramatic shift from the early 1990s; while Maharashtra's share increased to 16 per cent, that of West Bengal came down to 7 per cent. This was equally true of Orissa and more so of Bihar. Both Orissa and Bihar have also repeatedly pleaded for increasing the credit-deposit ratio, namely the percentage of deposits locally gathered by the banking system that is ploughed back in its economy. While the developmental impact of these factors is significant, it must be realized that public sector investments following the increased autonomy granted to PSUs are increasingly driven by commercial considerations and the ploughing back of deposits is dependent on the availability of viable and profitable projects.

ii) A related factor is the substantially lower Plan outlays provided under successive Plans for both Orissa and Bihar. For instance, as opposed to an all-India per capita developmental expenditure in 2000-2002 of Rs.6748, the figure for Bihar was less than half at Rs.3206 while Orissa ranked just below the all-India average of Rs.5431 and West Bengal at little higher, at Rs.6095. The Tenth Plan per capita outlay for Bihar is, similarly, the lowest at Rs.2533, compared to an all-India average of Rs.5817. Orissa's demographic advantages places this at Rs.5176 while the figure for West Bengal, with its high density of population, is at Rs.3570. The absence of resources, both public and private, is an important reason for under-development. However, additional resources alone cannot redress developmental failures. The inability of these States even to utilize the meagre resources available, the absence of counterpart funds to fully secure the benefit of Central outlays, time and cost overruns, and the inefficiency of public delivery and implementation systems all call for improved governance. This needs to be underpinned by strengthening institutions that can firewall periodic political failures in those State economies that have failed to make an orderly transition to market systems.

iii) One of the factors that determine convergence of States is the pace of urbanization. However, among the eastern States, while Bengal has 8% of India's urban population, Bihar and Orissa have a miniscule 3% and 1.9% of the all India urban population. The share of the primary sector in the Gross Stae Domestic Product of Bihar and Orissa is 42.1% and 34.3% respectively while for West Bengal it is just over 25% for the year 2002-03. Slow pace of urbanization in both Orissa and Bengal and the inadequate development of the manufacturing and tertiary sector re-emphasises the pre-dominance of the agricultural sector in their overall growth rates. This also explains high levels of migration, particularly from Bihar both for permanent migration and more so seasonal migration in the absence of gainful employment opportunities in their own State. While migrant remittances are not insignificant, a systemic loss of both skilled and unskilled labour is both a cause and consequence; of faltering development both in agriculture and industry.

D. THE FUTURE

So what does the future have in store for the laggard States of Bihar and Orissa? Can they leapfrog? Can they skip the typology of development from primary production to manufacturing and then to the service sector by adopting policies which can yield quick multiplier effects? This is possible.

The demographic profile, particularly of Bihar, shows that a very high percentage of population are in the creative age group of 15–34. This is also true of Orissa. Given substantive improvements in HRD and tele-density, Bihar and Orissa can achieve significant growth rates even in the medium term. The fact that both will be starting from low productivity levels, suggests that even incremental investments could confer significant multiplier benefits. Orissa has the added advantage of a large coastline. Historically, such states have generated growth through exports, which foster higher productivity in order to sustain competitiveness. Orissa has yet to take advantage of its coastal location either for trade or domestic or foreign tourism. Bihar, on the other hand, has plentiful ground water, particularly North of the Ganga. Diversification of agriculture in consonance with changing consumer preferences, coupled with an improved rural and state road network, can bring about a significant improvement in farm income. However, in Bihar, reforms of outmoded regulations, improved market outlets and assured energy supplies will be needed for cold chains to enhance the reach and quality of agricultural produce. Energy efficiency will., however, be dependent on power sector reforms and a credible regulatory environment.

The critical component for both Bihar and Orissa is to significantly improved governance. Orissa has experienced relative political stability; but its public delivery system and policy frame to attract private investment has been endemically weak. A credible beginning to attract foreign investment has recently been made, but follow up action, its replication and the removal of obstacles to implementation remain daunting challenges. In the case of Bihar, the transition from a feudal order due to failed land reforms stymied the emergence of a competitive market economy. This calls for a combination of remedial measures. These include political stability, better governance, honest implementation of agricultural reforms, enhanced outlays on infrastructure, particularly in the power sector alongside power reforms, and integration of the State's large rural economy with burgeoning urban conglomerates.

The absence of coastline infrastructure and connectivity to the hinterland economy has not enabled Orissa to use its significant coastline as a growth accelerator. This is an area where incremental investments can yield significant multiplier effects even in the short.

The recent World Bank study on Bihar suggests a credible development strategy based on two pillars of growth, namely, improving economic growth through strengthening investment climate and improved public delivery system. They include a more efficient use of Bihar's current agricultural and human resource base and generating productive incomes, increasing rates of agricultural growth to reduce chronic poverty since rural economy would dominate economic opportunity in the medium-term. Significant improvement in infrastructure, Roads, Power, Water, Telecom, improving financial system, access to loan at affordable costs, improved maintenance of large and medium scale water management systems to enhance irrigation and addressing the ills of its electricity sector would be complimentary to this strategy. Improving the basic Law and Order by instilling confidence on security of life and property can restore confidence. The second pillar would be to strengthen the social development system, improve project implementation, its public education and health systems coupled with fiscal reforms particularly expenditure outcomes and not the least the daunting agenda for administrative reforms which could de-politicise the bureaucracy.

Development or the lack has a cascading effect in creating either vicious or virtuous circles. The classic question of whether lagging regional economies converge or diverge prompted by factors like enhanced pace of urbanisation, external trade multiplier for coastline States or using technological advancements for securing significant productivity gains remains substantially unanswered for the eastern States. West Bengal is headed towards convergence. Both Orissa and Bihar would need to redouble their efforts. Driven by rising aspirations and multiplier compulsions to generate adequate employment, not to mention the retention of the cohesiveness of the social fabric, leave little option.

The eastern quagmire and the jinx that it implies has been broken. West Bengal has joined the mainstream. Bihar and Orissa have the potential to do so and their demographic profile enables them to make a quantum change in a much shorter period. Orissa has initiated some important measures and in the India Today Conclave of Chief Ministers held last week, suggests that whereas Orissa remained at 18 in the overall index, it has made significant gains on indices relating to primary health, primary education, law and order and the investment scenario. These initiatives if pursued could make a notable difference over the next few years. Competitive federalism in a rapidly growing economy can spur States which are lagging behind. Increased awareness and the prospect of improved life quality kindles hope. The administrative and political challenges for abiding progress are complex. The future of Bihar continues to be worrisome. Even more than Orissa it would need to make a more fundamental break from the past. Only time can tell whether they can grasp the new opportunities which modern technology offers.