BALANCED REGIONAL DEVELOPMENT: GOVERNMENT POLICIES

The present study focuses on regional disparities in the post reform period and compares this with the decade just prior to the reforms. To have a better understanding of the issues involved, the present chapter has traced government policies on balanced regional development from the beginning of the five year plans and has also touched on the issue of devolution of resources by the finance commissions. This hopefully will enable a better insight into the problem. The present chapter is neither an extensive discussion of government policies, nor a detailed discussion of Finance Commission recommendations. Rather, it is an attempt to focus on the issue of balanced regional development which has been an underlying theme of planning in India. Resource transfers from the centre to states as recommended by the Finance Commissions have adopted backwardness of a state as an important criterion from the Fourth Finance commission onwards.

The first part of the chapter deals with government policies with respect to balanced regional development from the first five year plan up to the eleventh plan. Mention has also been made of the recommendations of Finance Commissions on transfer of resources from the centre to the states with the intention of effecting a more favorable allocation for the backward states. Keeping in mind persistence of regional disparities there has been an effort to take care of this problem through an allocation of resources that would take into consideration the special needs of backward regions. Implications for balanced regional development in the light of new economic policy have also been taken up in the last part of this chapter.

Regional disparities have increased over time in terms of economic, social and infrastructure development. Thus there is greater need for public action to address this problem. Planning process in this regard supported the importance of balanced regional development and adopted many policies for the reduction of regional disparities. The main objective of the economic policy since the beginning of the planning era has been self-sustained growth with equality. Government reiterated in its various plan documents the need for balanced regional development. This is reflected in the objectives specific to various plans. Thus, the importance of balanced development was realized early in India's plan history. The question remains as to whether adequate provisions were made by the government to achieve the objectives laid down for this purpose.

In the First Five-Year plan there was no clear reference to the need to solve the problem of regional disparities. The emphasis was rather laid on the strengthening of inner forces of growth and on the creation of new institution to facilitate rapid advancement through a process of interaction. The pattern of balanced regional development was clearly recognized in the Industrial Policy Resolution of 1956. In terms of regional balance the First Five Year Plan was on a rush order basis. Its main objective was to stabilize the economy from the shocking effect of the Second World War. The plan recognized that the ‘‘excessive concentration of industries brings in its wake certain economic and social disadvantages and a wider diffusion of industry is desirable from this larger point of view. Further, if industrial development in the country is to proceed rapidly and in a balanced manner, increasingly greater attention will have to be paid to the development of those states and regions which have so far remained backward'' (First Five Year Plan, 1952, 442.) But the share of industry in the total outlay was low and this perceptive however, could not be turned into action.

The Second Five Year Plan emphasized balanced regional development in unequivocal terms. "In any comprehensive plan of development it is axiomatic that the special needs of the less developed areas should receive due attention. The pattern of investment must be so devised so as to lead to balanced regional development. The problem is particularly difficult in the early stages when the total resources available are very inadequate in relation to needs. But, more and more, as developmental proceeds and large resources become available for investment, the stress of development programmes should be on extending the benefits of investments to under-developed regions. Only thus can a diversified economy be built up" (Second Five Year Plan, 1956-61, 36.) The Second Five Year Plan only talked of progressive reduction of regional disparities and remained a plan for the promotion of basic industries and labour intensive consumer industries. It stressed on rapid industrialization of industries as a core of development. But "if industrialization is to be rapid enough the country must aim at developing basic industries and industries which make the machines needed for further development" (Second Five Year Plan, 1956, 25.) It continues: "Investment in basic industries creates demands for consumer goods, but it does not enlarge the supply of consumer goods in the short run; nor does it directly absorb any large quantities of labour. A balanced pattern of industrialization, therefore, requires a well organized effort to utilize labour for increasing the much needed consumer goods in a manner which economizes the use of capital” (Second Five Year Plan, 1956, 25.)

The regional aspect of development in the second plan was dealt with in three different ways:

First, through the plans of states stress was given to programmes which directly affect the welfare of the masses in different regions of the country. Secondly, special programmes were introduced in backward areas where development had received a serious setback, such as giving special assistance to backward areas (like Nagaland, Mizoram, Orissa and eastern U.P.). In the third place, programmes were adopted for the development of industries.

For the first time the Third Five Year Plan considered the problem of industrialization from the wider perception of balanced regional development and devoted a separate chapter to ‘balanced regional development’. This Plan proposed the setting up of ‘‘industrial development areas’ in backward regions where ‘basic facilities like power, water and communications are to be provided, and factory sites developed and offered for sale or on long lease to prospective entrepreneurs’’ (Third Five Year Plan, 1961, 149.).

In the Third Plan, balanced development of different parts of the country, extension of the benefits of economic progress to the less developed regions, widespread diffusion of industry, providing more dispersed advances in sectors like agriculture, power, communications, small industries and social services were suggested as the important objectives of planned development. Along with this the aim was to invest in the industrial sector (economic and social overheads) (Third Five Year Plan, 1961, 142.). This plan once again stated that:

"Disparities in levels of development in different regions have to be steadily reduced and the benefits of industrialization spread evenly among different parts of the country. These aims have to be achieved as the industrial resolution specified, through balanced and co-ordinate development of the industrial and agricultural economy of each region and through planned urbanization and the development of economic and social services" (Third Five Year Plan, 1961, 8.) Apart from the role given to the plans of states there were several important features in the Third Plan to extend development to backward areas.

Various approaches were incorporated in the Third Plan. The approach of the plan was:

1) To help the states in reducing regional disparities

2) To start new programmes and to continue the programmes which were adopted in the previous plans. As far as first approach is concerned the programmes which were proposed included those related to:

a) Increasing agriculture production

b) Taking actions to ensure large increase in income and employment

c) Developing social services (especially basic education, water supply and sanitation and health services in rural areas)

d) Developing communications and power

e) Increasing the standard of living of the people of the backward areas. All these were "proposed to be oriented towards greater production and employment and welfare of the weaker section of the population'' (Third Five Year Plan, 1961, 147-48.)

As far as second issue is concerned the programmes which were planned included those related to:

(a) Intensive Development of Agriculture

(b) Extension of irrigation

(c) Promotion of small and village industries

(d) Large scale expansion of power

(e) Development of roads and road transport

(f) Provision of universal education for the age group 6-11 years

(g) Large opportunity for secondary, technical and vocational education

(h) Improvements in conditions of living and water supply

(i) Programmes for the welfare of scheduled castes, scheduled tribes and other backward classes

(j) Programmes of rural workers to solve the problem of poverty and under employment

(k) Establishment of large industrial and river valley projects in the less developed regions of the country to provide the base for increased economic growth

Factors responsible for backwardness were given special attention in estimating the problems of backward states and in recommending outlays for backward states. Specific policy instruments also planned to encourage industrial development in backward areas such as:

In 1961 the committee for dispersal of industries was set up by the Small Scale Industries Board for the promotion of industries in rural and backward areas in the country through the expansion of small scale industries.

In 1968, the National Development Council (NDC) considered the problem of industrial backwardness in various parts of the country and suggested the criteria for the purpose of identification of industrially backward areas. National Development Council appointed two working groups for reducing industrial backwardness - one for suggesting the criteria for identification of backward areas (Pande working group) and another for recommending the fiscal and financial incentives for establishing industries in backward areas (Wanchoo working group). The terms of reference of the Pande Committee were "To recommend the objective criteria to be followed in identification of backward regions which would qualify for treatment by way of incentives for industries to be set up in such regions. Among other things, the broad techno economic factors which are relevant to establishment of industries and regional basis should be taken into account so that the grant of special concessions does not lead to irrational growth in industrial development". (Third Five Plan, 1961.) Pande working group suggested indicators for the identification of backward districts and following criteria was adopted for the identification of backward states and union territories:

(i) Per capita income

(ii) Factory employment in secondary and tertiary activities

(iii) Distance from larger cities and larger industrial projects

(iv) Population engaged in secondary and tertiary activities

Recommendations of the Pande working group were not accepted by the states because the committee due to lack of data restricted itself to the identification of backward districts in industrially backward states only. Later on Planning Commission in discussion with the National Development Council recommended other criteria for the identification of backward areas.

i. Per capita income from industries and mining
ii. Number of workers in registered factories
iii. Per capita consumption of electricity
iv. Length of surfaced road in relation to (a) the population, and (b) the area of the state
v. Railway mileage in relation to (a) the population, (b) the area of the state
vi. Per capita food grains and commercial crops production
vii. Per capita industrial output (gross)
viii. Proportion of agricultural workers

The recommendations of the committee for the expansion of industries and recommendations of the Planning Commission for preparation of plans for economic and social development of backward areas were prepared to reduce regional imbalances by strengthening the establishment of industries in selected backward areas or regions through financial and fiscal incentives including investment from financial and banking institutions (GOI, Feb. 1969). Both Pande Committee and Planning Commission recommended that for receiving incentives states should have a certain minimum infrastructural facilities.

The Second and Third Plans both made an effort for balanced regional development through industrial development of different parts of the country. Balanced regional development and dispersal of economic activity are interrelated and there must be interlinkages between growth and diversification of economic activity and infrastructural facilities and adoption of programmes for conservation and for development of natural resources. But most of the various statements made by the plan “remained a mere charter of intentions’’. (Sundaram, 1978). The programmes which were introduced in the Third Plan continued in the Fourth Plan. Apart from that Fourth Plan also initiated a number of other schemes such as Marginal Farmers and Agricultural Laborers’ Development Agency, policies for drought-prone areas, Crash Schemes for Rural Employment, Pilot Intensive Rural Employment Project etc. for the advantage of the rural poor or less developed regions. For industrial development of the backward areas state governments and financial institutions also announced special grants and concessions. These pogrammes and policies were continued in the Fifth Plan.

The Fourth Plan took a comprehensive view of the factors responsible for backwardness of a region and proposed a multi-dimensional area development approach in order to accelerate the development of backward areas. Since each backward area represented a unique combination of factors it was realized that no uniform programme could be successfully devised and implemented at the central level. Therefore, in the Fifth Five Year Plan it was felt that an essential prerequisite for accelerated development was the evolution of appropriate location specific strategies based on the findings of the causes of backwardness as well as the potential available for development.

This exercise was essential for the changes in the policies during seventies when area development programmes were launched not only for providing employment opportunities in backward areas but also for reducing inter-regional disparities. Important among these progarmmes were Drought

Prone Area Project (DPAD), Tribal Area Development Programme, Hill Area Development Project (HADP), Command Area Development Project (CADP) etc. Along with this small farmers development agencies programmes and project for marginal farmers and agricultural labour (MFAL) were launched for improving the conditions of target groups. These programmes emphasized on mobilization of credit and provision of agricultural inputs and on development of essential economic infrastructure for the advantage of small and marginal farmers and agricultural laborers. Along with this government adopted a number of policies which can be classified into either of the following categories:

1. Policies aimed at industrialization of lagging regions
2. Policies for the development of irrigation, agriculture and allied activities
3. Policies for providing infrastructural facilities such as transport, banking, communications, etc in backward areas
4. Transfer of resources from centre to states for the reduction of regional disparities
5. For the development of backward areas special programmes were undertaken

In the Fifth Five Year Plan Gadgil formula for allocation of central assistance to states was introduced. The formula was constructed to provide:

1) 60% of assistance on the basis of the state's population
2) 10% on the basis of the state’s per capita tax effort
3) 10% for states having per capita income less than the national average
4) 10% for continuing irrigation and power projects
5) 10% on the basis of special problems of states

Gadgil formula replaced the adhoc formula on the basis of which in the earlier plans central assistance was distributed. But for reducing interstate disparities it was felt that ten percent weight provided in the formula for the allocation of central assistance to states would not be sufficient for the removal of regional disparities. Moreover allocation of central assistance to some backward states such as Jammu and Kashmir and north eastern states was not included in the formula and such interstates comparisons of such assistance based on the formula were invalidated.

Programmes which were introduced in the Fifth Plan continued in the Sixth Plan. Important among these were Special Tribal Component Plan, Hill Area Schemes and Integrated Scheme for Hill Area which were given special emphasis. Bringing about a reduction in regional inequalities in the rate of development and in the diffusion of technological benefits was accepted as an important objective of the Sixth Plan. Differential approach was also given recognition in backward areas during the plan. The main objective of the approach was upgrading the development process in backward areas without curtailing the growth of regions which have acquired certain momentum.

In this term mechanism of area planning was adopted and the sub plan approach was encouraged for providing an integrated approach to the problems of regional disparities. The congress government which came to the power in 1980 also adopted the strategy of IRDP (Integrated Rural Development Programme) during 1980-85 which was recommended for the initial sixth Five Year Plan period 1978-83 by their central government. A high level national committee for the development of backward areas was established to: (a) examine and identify the backward areas. (b) Review the working of existing schemes for strengthening industrial development in backward areas. Government of India considered the recommendations of the National Committee for Development of Backward Area (NCBDA) and introduced them during the Sixth Plan. The Gadgil formula was also used with some changes from time to time with a view to making it progressive. The definition of population criterion was changed to income adjusted total population (IATP) to give a high weightage to economic backwardness (IATP is the product of population and inverse of per capita income). But the share of IATP and per capita tax effort remained same that is sixty percent and ten percent respectively.

Most of the programmes which were introduced in earlier plans continued in the Seventh Plan and those worthy of mention were: National Rural Employment Programme, Integrated Rural Development Programme and Rural Landless Employment Guarantee Programme. In terms of the problem of regional imbalances, this Plan makes the point that the "pattern of growth encouraged for the Seventh Plan is expected to contribute towards the reduction of inter-regional disparities in levels of development" [Seventh Five year Plan (1985-90), 1, Chapter 3].The Seventh Plan launched various programmes in human resource development such as in health, education sector, and in other basic needs such as safe drinking water facility, rural electrification and rural roads which help in reducing disparities in human resource potential.

As far as increasing agricultural productivity was concerned the Plan laid emphasis on increase in agricultural productivity particularly of rice, pulses and oilseeds. This Plan pointed out that increase in agricultural productivity in rice, coarse cereals, pulses and oil seeds in backward areas and dry land rain fed areas along with area development programmes for drought prone and desert, hill and tribal areas will help to increase agricultural productivity in backward regions which in turn will help in reducing regional disparities. Thus, in the Seventh Plan agricultural productivity and human resource potential were recognized as the determinants of a region's economic status and development in these areas would help in reducing regional disparities. It also laid emphasis on the provision of incentives, both fiscal and otherwise (such as exemption of tax and arrangement of development plots with power and water facility) which is important in solving the problem of industrial backwardness and for the promotion of private investment in backward areas.

The role of economic planning was redefined by the government under the Eighth Five Year Plan. Regulatory planning was replaced by market friendly indicative planning and hence, the Eighth Plan lacked regional perspective. Despite this, the Plan provided for some special area development programmes such as Hill Areas Development Programmes, North Eastern Council, Border Area Development Programme, Desert Area Development Programme etc. These programmes were part of regional planning. However they were no substitute for country level regional planning. As a matter of fact, these development programmes did not propose to remove the inter-state disparities in per capita state domestic product, levels of human development, levels of industrial and agricultural development and infrastructural facilities. The Eighth Plan also considered the flow of resources across regions as an essential requirement for the removal of large disparities in development but the market forces have not achieved this in sufficient measure.

Ninth Plan's approach to regional planning was no different from the previous plan. It stated that special area development programmes which were provided in the Eighth Plan would be continued in the Ninth Plan. The Plan noted the necessity of planned intervention for ensuring lesser occurrence of regional imbalances. The Ninth Plan document admitted the insignificant role of private investments in eliminating regional disparities because with greater freedom and choice of location in industry some states would be able to draw more private investments than others and hence would result in greater regional imbalances. Therefore, it stated, "it will be necessary to deliberately bias public investment in infrastructure in favour of the less well-off states" (Ninth Five Year Plan, 1999, 16). The above quoted considerations are merely an indication of the decision of the Planning Commission. The Ninth Plan did not go beyond this and avoided concretizing the projects and programmes which would reduce inter-state disparities. The Plan also suggested that by focusing on agriculture and other rural activities reduction in regional disparities especially in average standards of living could be achieved. For this it also emphasized on increasing the extent of integration between the rural areas and rest of the country through improved transport and communications and provision of market support. The government in its various plan documents reiterated the importance of reducing regional disparities, but even at the turn of the century the problem remained in an exacerbated form. The Tenth Five Year Plan also expressed its concern over rising regional disparities. The main objective of the Tenth Five Year Plan was balanced regional development. To tackle the problem of the backward areas it included targets for growth rate of each state and social development which were coherent with the national targets. The Tenth Plan further admitted that focus on interstate disparities showed the incidence of intra-state disparities. As has been mentioned earlier, states with better infrastructure draw more private investment than other states. The Tenth Plan thus advocated a multipronged strategy to provide additional funds to backward regions in each state and a higher level of capital investments were considered as the important element of this strategy along with governance and institutional reforms. It further noted that decentralization of powers and functions to local bodies would have an important role to play in reducing regional disparities in backward areas. Thus in the Tenth Plan, a new initiative in the form of 'Rashtriya Sam Vikas Yojana' was formulated. It stressed on development programmes to complete the gaps in backward areas which in turn would help to reduce regional imbalances. As stated earlier the growing regional disparities are an issue of increasing concern and to address the problem of regional imbalance in development, the finance minister announced the establishment of a backward regions grant fund. The Planning Commission also advocated the area approach and stressed on strengthening decentralized planning.

The Eleventh Five Year Plan continued the initiative of working out GSDP (Gross State Domestic Product) growth targets for states. It also tried to break down the monitorable targets at the national level into state level targets. Knowing that it would be difficult for backward states to catch up with forward states within a short span of five years, the Plan targeted the backward or slow growing states for making public investment. The Plan felt that this should enable the backlog in physical and social infrastructure to be addressed. For this purpose it suggested strengthening the backward regions grant fund by:

(1) Providing infrastructure

(2) Providing good governance and agrarian reforms.

(3) Converging through supplementary infrastructure and capacity building.

Along with this the Plan also recommended continuing the Hill Area Development Programme, the Western Ghats Development Programme and strengthening the Border Area Development Programme. The Plan also introduced a number of initiatives for the development of the North Eastern region and accepted the importance of regional disparities in agriculture and the industrial sector. In the Eleventh Plan new initiatives were proposed. Among them the most important initiatives are the National Rural Employment Guarantee Programme (NREGP), Sarva Shiksha Abiyan and National Rural Health Mission (NRHM) thus giving a special thrust to employment generation, education or health. These programmes are mainly for the backward areas and are expected to bring about a greater trickle-down effect.

Fiscal Needs and Regional Imbalance

The constitution under article 280 provides for the establishment of a Finance Commission by the President with the purpose of allocation of certain sources of non-plan revenue between the central and state governments. The issue of fiscal needs and regional imbalance has been addressed by all the Finance Commissions in their recommendations. In the distribution of the divisible pool between the states it was recognized that the distribution should be progressive, so as to reduce the inequalities between the resources of different states. For example the very First Finance Commission recommended that "the principles of distribution of revenues between the states… should attempt to lessen the inequalities between states" [Finance Commission, 1952, 88]. Further, for reducing regional imbalances in the backward states special attention has also been paid to the fiscal needs of backward states in terms of transfer of financial resources from the centre to states. The First Finance Commission gave 100 percent weightage to population criteria in fixing the share of different states in union excise duties. This criterion assigned helped only a few backward states. In the Second Finance Commission the weightage of population reduced to 90 percent as shown in the table 6.1. In determining the allocation of excise duties also among different states population criterion was given a large weightage. In the Third Finance Commission relative financial weakness was embodied as a factor for determining transfer of resources but in the Fourth and Fifth Finance Commissions this financial weakness factor was replaced by economic and social backwardness. The Fourth Finance Commission took the view that for determining the allocation population should be an important factor but relative economic and social backwardness should also be taken into account as indicated by:

1) Per capita gross value of agricultural production
2) Per capita value added by manufacture
3) Percentage of workers (as defined in the census) to total population
4) Percentage of enrolment in classes I to V to the population in age group 6-11
5) Population per hospital bed
6) Percentage of rural population to total population

7) Percentage of scheduled castes and tribes to the total population

Table 6.1

Criteria and weights used for Tax Devolution through Successive Finance Commissions

	Finance Commissions	Population	Backwardness	Income Distance	Increase per capita income
I	First (1952-57) Union Excise	100			
II	Second (1957-62) Union Excise	90			
III	Third (1962-66) Union Excise				
IV	Fourth (1966-69) Union Excise	80	20		
V	Fifth (1969-74) Union Excise	80		6.66	13.34
VI	Sixth (1974-79) Union Excise	75		25	
VII	Seventh (1979-84) Union Excise	25		50	
VIII	Eighth (1984-89) Union Excise	25		50	25
IX	Ninth (1989-95) Union Excise	25		50	12.5
X	Tenth (1995-2000) Union Excise	20		60	
XI	Eleventh (2000-05) Union Excise	10		62.5	
XII	Twelfth (2005-10) Union Excise	25		50	
XIII	Thirteen (2010-15) Union Excise	25		47.5	

Source: Reports of the Twelfth and Thirteen Finance Commission.

It did not explain how it combined the several indicators of economic and social backwardness. Thus, the Fourth Finance Commission gave more weightage to economic backwardness in laying down the criteria for transfer of financial resources. The Fourth and Fifth Finance Commissions recommended that 20 percent weightage should be given to economic backwardness as far as transfer of share of union excise duties was concerned while the remaining 80 percent was to be distributed on the basis of population. The Fifth Finance Commission gave the details of the above (20 percent) distribution, namely:

a) Two-thirds to the states with per-capita income below the average per capita income of all the states in proportion to the shortfall multiplied by the population of the states.

b) One third on the basis of integrated index of backwardness based on the following criteria:

   i) Population of Scheduled Tribes

   ii) Inverse of factory workers per lakh population

   iii) Inverse of net irrigated area per cultivator

   iv) Inverse of length of railways and surfaced roads per 100 sq.kms.

   v) Shortfall in number of school- going children as compared to the those of school going age and

   vi) Inverse of number of hospital beds per 1000 population.(Fifth Finance Commission,1969, 36.)

As revealed from the table 6.1 that the Sixth Finance Commission increased the weightage of backwardness to 25 percent instead of 20 percent as recommended by the previous Commission by reducing the weightage of the population factor [Finance Commission, 1973, Paras16-17, p.17]. To find out the backwardness of a state only per capita income was taken into account. The distribution of weightage of the backwardness factor of 25 percent was done in relation to the criteria, namely, the distance or the difference between a state's per capita income from that of the state with highest per capita income, multiplied by the population of the state concerned according to the 1971 census. The remaining 75 percent would be allocated on the basis of population. This concept of backwardness was a new concept and was different from the practice adopted by the Fifth Finance Commission.

The Sixth Finance Commission granted a share in union taxes to all states excepting Punjab (which had the highest per capita income). This, in turn benefited the advanced states (excepting Punjab) for example, share of Maharashtra, Gujarat, Tamil-Nadu, West-Bengal and Haryana increased. On the other hand, the share of low per capita income states like Uttar-Pradesh, Bihar, Rajasthan, Orissa and Madhya-Pradesh declined. The Seventh Finance Commission reduced drastically weightage given to population to 25 percent and increased the weightage assigned to equity. The Seventh Finance Commission increased the weightage of backwardness to 50 percent as compared to 25 percent recommended by most Finance Commissions. For providing higher per capita devolution to lower per-capita income states two core indicators have been used by previous Finance Commissions are distance and inverse–income formulae. Combined weight given to these two criteria was 75 percent in the Eight Finance Commission. In case of Ninth Finance Commission the combined weight was 62.5 percent. The Eighth Finance Commission made a change in its formal presentation which makes it non-comparable with the distribution recommended by the previous Commissions, as also by the Ninth Finance Commission which succeeded it. In justification of this arrangement, it observed: “The special arrangement that we are making to help the deficit states is to set aside a certain portion of the state’s share of excise duties, which will be distributed among those states which have deficits on revenue account” (Eight Finance Commission, 1984, 53). This was 5 out of the 45 per cent of the divisible pool of the states and the remaining 40 percent should be distributed on the basis of the following percentages:

i. 25% on the basis of 1971 population

ii. 25% on the basis of Income Adjusted Total Population (IATP) defined as 1971 population divided by the per capita income

iii. The remaining 50.0% on the basis of distance of average per capita from that of the highest per capita income state

iv. The remaining 5.0% (out of 45.0% of the divisible excise pool) to be distributed among deficit states in proportion to their post devolution deficits

Eighth, Ninth and Tenth Finance Commissions in their recommendations laid more emphasis on social and economic backwardness and also increased the weightage of backwardness for the distribution of union excise duties. Thus, in the devolution of financial resources the share of backward states increased. As a result Bihar gained the most followed by Uttar Pradesh. The share of Bihar was 6.8 percent of the total share transfers during the Fourth Finance Commission which rose to 10.70 percent and in the case of Uttar Pradesh the share increased from 12.9 percent to 15.2 percent during the same period. As per the Eighth Finance Commission's recommendations the states of Assam, Himachal Pradesh, Jammu Kashmir and Orissa gained higher share of the total transferred financial resources than their shares in the total population of India, while relatively advanced states such as Punjab and Haryana had a decline in their share in the total financial resources. Like Punjab and Haryana the states of Gujarat and Maharashtra also had a declining share in the transferred financial resources than their respective share in population. The Eight Finance Commission introduced measures of equity including per capita state income and the gap between states and highest per capita state income, as factors. Two changes occurred in the Eight Finance Commissions such as identifying the formulae for the inter-se distribution of both income tax and union excise duties and a part of the union excise duties was kept aside for distribution according to 'assessed deficits of states'. The Eight Finance Commission set a portion of the union excise duties for distribution to the states on the basis of assessed deficits of states. This was continued by Ninth and Tenth Finance Commissions. The Ninth Finance Commission continued the criteria of the Eighth Finance Commission of weightage for backwardness and recommended the use of index of backwardness criterion for distribution of shares thereby giving more weightage to backwardness in its recommendations. But some changes were made. The main change was to increase the share kept reserved for deficit state from 10 percent in the Eighth Finance Commission to 16.5 percent. As a result, the share of excise duties was distributed on the basis of the following criteria:

i. 25.0% on the basis of the 1971 population

ii. 12.5% on the basis of income adjusted total of the population (IATP)

iii. 12.5% on the basis of composite index of backwardness

iv. 33.5% on the basis of distance of per capita income from that of the state with the highest per capita income

V. 16.5% to the deficit states in proportion to their post devolution deficits. The Tenth Finance Commission used the same criteria as used by previous Finance Commissions but it modified the criteria of distance of per capita income and increased the weightage of the criteria of distance of per capita income from 50 percent to 60 percent. Eleventh Finance Commission and Twelfth Finance Commission have used this formula for inter-state distribution giving it a weight of 62.5 percent and 50 percent. Twelfth Finance Commission increased the weightage of population and reduced the weightage assigned to distance formula from 62.5 percent to 50 percent.

Eleventh Finance Commissions carried forward the shift in favour of equity considerations for the interse distribution of states' share in all union taxes and reduced the weightage given to population to 10 percent and to assign a weightage of 62.5 percent to per capita income distance which in turn resulted in the reduction of shares of tax devolution of high-income and middle-income states. Thus, under its dispensation poorer states got much share of central taxes. In the Eleventh Finance Commission richer states with better infrastructure, administrative and fiscal apparatus got less as compared to Tenth Finance Commission. As a result Gujarat, Maharashtra, Haryana, Andhra-Pradesh, Punjab and Tamil-Nadu were biggest losers and got fewer shares of central taxes. Successive Finance Commissions have directed more and more central transfers to weaker states so that they come out of their slow growth rate. But, the weaker states have continued to be weak. The Eleventh and the Twelfth Finance Commissions have also used a unified formula for Horizontal devolution. Eleventh and Twelfth Finance Commissions for determining the criteria and the weightage assigned to these criteria followed two basic principles of ‘equity’ and ‘fiscal discipline’. The principle of equity implies that resources deficiencies among the states are even out as a result of share of resources. As already mentioned above that in the previous Finance Commission maximum importance had given to the state’s per capita income and its gap with the highest per capita income. Tenth Finance Commission assigned 60 percent weightage to this factor, Eleventh Finance Commission accorded 62.5 percent weightage to this factor and Twelfth assigned 50 percent weightage to this factor. Now, the Thirteen Finance Commission assigned only 47.5 percent weightage to this factor. Thus, the Thirteen Finance Commission underplayed poverty on the one hand and giving increased weightage to fiscal discipline on the other hand have placed the poorer states at a disadvantage. In this way the task of reducing regional inequalities will become difficult as noticed in the past. In terms of allocation of grants-in-aid in the First Finance Commission importance was given to budgetary needs. This principle was poorer not based on equity as a large amount of budget deficits occurred in the advanced states also which qualified them for larger Grants-in-aid. Thus, advanced states qualified for more Grants-in-aid than backward states. Successive governments also followed the same criteria and gave importance to budgetary needs in the allocation of Grant-in-aid. The Second Finance Commission stated that the Planning Commission is not responsible for equalization of standards of basic social services among the states in removing their budget deficit gaps. Third Finance Commission also accepted the approach of the Second Finance Commission. The Fourth Finance Commission sanctioned grants-in-aid on the basis of budgetary needs of the states.

Though the Fifth Finance Commission stated that it is the need of the time to help the backward states, as already noted it did not take steps to help them. For meeting the deficiencies in revenue expenditure of certain states Finance Commission recommended upgradation grants in areas like general administration, primary education, medical and public health and for the welfare of scheduled castes, scheduled tribes and other backward classes. The Seventh Finance Commission recommended grants to administration of taxes, treasury and accounts administration, judicial administration, general administration, police and jails. Eight and Tenth Finance Commissions recommended grants for developmental sectors like education and health. The Ninth Finance Commission recommended grants to meet the fiscal needs of the states. The Eleventh and Twelfth Finance Commission recommended grants to states for the upgradation of services in education and health sectors and additional grants for particular needs of the states. The Thirteen Finance Commission also recommended grants to states. Thus, different Finance Commissions used different criteria for giving weightage to backwardness and for transfer of resources from the centre to the states. Hence, weightage to backwardness has continuously increased. But the methods of transfer of resources adopted by Finance Commissions only benefited the richer states as compared to poorer states. States such as Maharashtra, Punjab, and Haryana enjoyed more in their non-plan revenue account as compared to poorer states such as Bihar and Uttar Pradesh. Richer states have higher plan outlay while poorer states with surpluses have considerably lower plan outlay. Richer states growth momentum increases because these states tend to attract more investment from abroad. While poorer states remain deprived of this advantage and now, these poorer states will receive less finance from the centre according to the recommendations of the Thirteen Finance Commission. The overall approach was only a patch work and did not consider comprehensively the needs of the states. Hence, the process of transfer of resources from the center to the states failed to tackle the problem of regional disparities. Regional disparities showed no sign of decline in spite of the transfer of resources from the centre to the states by the Finance Commissions. The Finance Commissions paid due importance to backward states. However, there was no clear cut bias in favour of backward states. Advanced states as a result received major share in the transfer of resources from centre to the states. For example Maharashtra, Gujarat, Tamil Nadu and West Bengal received more. By and large Finance Commission recommendations were not intended to promote development in backward states but intended only to meet the loss. Thus, since 1950-51 government initiated various policies and launched various programmes for reduction of regional imbalances. But in spite of these policies and programmes this problem could not be solved. This has important implications for the post 1991 period with shift in emphasis from policies for reduction of regional disparities to policies of liberalization and privatization which have become the focus of attention.

II

Balanced regional development was accepted as an important objective of the planning process in India since the Second Five Year Plan but not much has been done in achieving this objective. Government adopted a number of policies for the development of backward regions and hence for reducing regional disparities. The fact is that valid regional planning is completely missing. Whatever regional planning has been done was completely adhoc in character. Government policy proved a failure, even the policies of locating large central projects and grants-in aid to backward states. In spite of efforts of the government the states of Bihar, Orissa, Madhya Pradesh and Uttar Pradesh remained at the bottom. Moreover committees set up by the government also recommended mainly financial incentives for the development of backward states but these incentives proved ineffective because of the confined infrastructural facilities such as transport and power. Financial incentives alone cannot bring development in the backward states. Development attitudes of the people, incentives provided by the central and state governments and essential infrastructural facilities are important factors for the attainment of balanced regional development. New economic policy involving widespread reforms could not help in the short run. New economic policy and industrial policy have helped in areas of telecommunication in the recent years but backward areas have not benefited from these advancements. New economic policy is more favorable for the industrial sector, especially for large and medium scale industries while the future of small scale and cottage industries is not certain as these industries have been facing competition with large and medium scale industries in the area of marketing and product quality. In the agricultural sector the new economic policy could help in the development of agro based industries. The forward linkages of the agricultural sector have to be strengthened which would lead to strong multiplier effort for agricultural development. So far as regional development is concerned new economic policy involves more divergent forces than convergent forces as shown by the form of regional disparities during the period after its adoption.

Therefore government has to play an important role to solve the problem of regional disparities through market friendly policies: centre and state governments need to launch major programmes in human resource development through education and technical training in rural and backward areas which in turn would help in the reduction of regional disparities in India. Moreover, extension of service sector would encourage the development of small scale and agro-based industries in backward areas. This would not only help in reducing unemployment and poverty but also reduce the regional disparities.

Indian plans completely neglected spatial factors such as the role of development poles and growth centers' in the development process. During the plan no efforts were made to expand a linked pattern of hierarchy of different settlements (having service towns, growth centers, growth poles etc.) and therefore dimensionally integrated socio economic organization could not emerge. What evolved was an immensely distorted and lopsided pattern of urbanization such as emergence of large metropolitan cities which continued to attract industries, and labour and capital continued to migrate to these cities. This means that labour power of rural poor was sucked by these metropolitan cities. Balanced regional development can only be achieved through the development of hierarchical pattern of linked investments.

In the last sixty years there has been decline in birth rate, death rate and infant mortality rates due to improvements in health facilities but the improvements are not sufficient. India still has a large number of illiterates and medically unhealthy people. The government measures are too inadequate both in terms of infrastructure as well as health expenditure. Thus, it is high time for the planners and government authorities to make education and health within the reach of the common man through an increased investment in education at each level and in health infrastructure in rural areas of backward regions. Universaliazation of education especially female education must be emphasized. Greater priority should be given to the widespread and equitable provision of basic education. There is a need of appropriate regional planning to reduce inter and intra-district variations in educational development. There must be greater availability of finance, functions and powers to panchayats to improve development and governance in backward regions. For reducing poverty, law and order need to be improved in all parts of these states, corruption rooted out, delivery failures removed. Simultaneously, efforts should be made to reduce population growth especially in backward states and strengthen the capacity of the poorer states to spend more on social and economic services. Thus, the solution lies not only in increasing resource flows to the backward regions but also creating an enabling environment which attract more resources and using these resources more appropriately. Finally, it can be said that the overall investment climate and governance need to be upgraded.

Therefore, there is urgent need for re-examination of pattern of development. Central and state governments with greater coordination should implement suitable programmes in human resource development through education, technical training, family welfare etc., especially in backward and rural areas. Policies should be implemented that improve quality and quantity of employment growth and that increase public investment in physical (irrigation, roads, transport etc.) and human infrastructure (health and education, etc.). Attention should be given to provide clean water, good health care and high quality of education in backward states and at national level actions should be made to see that states such as Bihar, Madhya Pradesh, Uttar-Pradesh and Orissa develop their opportunities for improvement in the level of education, health and incomes. Large improvement on human resources would help in reducing regional disparities in India. Moreover, investment must be made in such a way to which would help in reducing disparities among states in terms of per capita income and social indicators and also reduce poverty.