



# Real per capita GSDP between 1983 and 2014, shows across-the-board improvement: Economic Survey 2016-17

## Improved health indicators in life expectancy

## Striking over performance of Indian States in fertility decline

## Shri Arun Jaitley presents the Economic Survey 2016-17

Posted On: 31 JAN 2017 12:59PM by PIB Delhi

The Union Finance Minister Shri Arun Jaitley presented the Economic Survey 2016-17 in the Parliament today. The Economic Survey states that while economic performance has been remarkable in the aggregate, India's success as a federation depends on the progress of each of its individual states. What is a reasonable standard for assessing how well the states are doing? One intuitive metric is to see how well individual states have done over time on two sets of indicators: economic indicators, such as income and consumption, and health/demographic indicators such as infant mortality rate, life expectancy, and total fertility rate. Our analysis of these indicators begins in the 1980s, when the structural break from the previous era of the "Hindu Growth Rate" occurred.

The Economic Survey states that seeing only the shift in the levels of these indicators does not give us the full picture because there is no benchmark for relative assessment. Here, economic theory provides us a useful metric: convergence (or unconditional convergence). Convergence means that a state that starts off at low performance levels on an outcome of importance, say the level of income or consumption, should grow relatively faster over time, improving its performance so that it catches up with states which had better starting points.

The Economic Survey mentions that when studying real per capita GSDP over time between 1983 and 2014, there has been a clear increase in levels indicating an across-the-board improvement. For example, between 1984 and 2014, the poorest state (Tripura, with a per capita income of INR 11,537 in 1984 to INR 64,712 in 2014) increased its per capita GDP 5.6 fold; the median state (Himachal Pradesh) increased its income level 4.3 fold.

The Economic Survey mentions that, when convergence in real per capita GDP is studied for the latest decade (2004-2014), it is found that while incomes converge for provinces in China and for countries in the world, in India, they diverge. When convergence in real per capita consumption for states in India is studied, the same trend of divergence is observed. Despite growing rapidly on average, there is sign of growing regional inequality among the Indian states. This is puzzling because the underlying forces in favor of equalization within India—namely strong and rising movements of goods and people—are strongly evident. This is not found to be the case in the previous decade (1994-2004), when we see that incomes in China, India and the world were all diverging/weakly converging.

The Economic Survey elaborates that to observe convergence, we should see a downward sloping line - this means that the countries/provinces/states that start off poorer subsequently grew faster, closing the gap with more developed countries/states. The opposite is happening in India.

The Economic Survey states that a similar trend of consumption divergence is observed within India for the three time periods of 1983-1993, 1993-2004 and 2004-2011. All this suggests that over time, regional income/consumption inequality in India is not narrowing despite such gaps narrowing across countries in the world and within China. The Indian paradox is doubly confounding: thicker international borders that are more impervious to the equalizing flows of factors if production lead to convergence but the supposedly porous borders within India perpetuate spatial inequality.

The Economic Survey further states that one possible hypothesis for seeing a regional dispersion in income and consumption is that there might be governance traps that impede the catch-up process. And if there are such traps, labor and capital mobility might even aggravate underlying inequalities. But why such traps persist if competitive federalism is forcing change upon the lagging states remains an open question.

The Economic Survey remarks that in contrast, on health, there is strong evidence of convergence amongst the states in the 2000s. But here it is the international contrast that is striking. With regards to life expectancy, the Indian states are close to where they should be given their level of income. But that is not true of IMR (Infant Mortality Rate), suggesting that the "mother and child" (discussed also in last year's Survey) bear the brunt of weaker delivery of health services.

The Economic Survey states that but what really stands out in the international comparison is fertility (measured using Total Fertility Rate), where we find that for their levels of development, the Indian states have much lower levels of fertility than countries internationally. These unusually large declines in fertility have strong—and potentially positive—implications for India's demographic dividend going forward.

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(Release ID: 1481453) Visitor Counter : 35

