

Increasing disparities among the states

What is convergence?

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- The Economic Survey says while standards of living per capita increased in all the States, the disparities among them also increased.

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- For India to do well, the differences in economic development between the states must narrow over time.

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- This reduction in relative disparities between the states is called convergence.

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How convergence happens?

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- It happens essentially through **trade and through mobility of factors of production.**

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- If a state/country is poor, the returns to capital must be high and should be able to attract capital and labour, thereby raising its productivity and enabling catch-up with richer states/countries.

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- A less developed country that has abundant labour and scarce capital, will export labour-intensive goods and import capital-intensive goods.

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- But, India stands out as an exception. Within India, **borders are porous, the convergence has failed;** whereas across countries where borders are thicker (because of restrictions on trade and labour etc.), the convergence is dynamic.

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- Economic Survey shows that trade within India is quite high and mobility of people has surged, yet over time, divergence has been increasing

rather than narrowing. This is called **the inter-temporal puzzle of India.**

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Why, in India, the catching up is still elusive?

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- Since 1980, the long-term divergence trend was reversed and poorer countries started catching up with richer ones.
- In the 1990s, convergence patterns were not dissimilar across the world. They had either weak convergence or mostly divergence.
- But things really changed for both the world and China in the 2000s. Poorer countries are catching up with richer countries, the poorer Chinese provinces are catching up with the richer ones.
- But in India the less developed states are not catching up; instead they are falling behind the richer states.
- Thus, despite the less developed states started improving their performances, it was **neither strong nor durable enough** to change the underlying picture of divergence.
- Therefore catching-up in India remains elusive.

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Why convergence is not happening?

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- If **governance deficit** is the reason, then the capital will not flow to regions of high productivity because this high productivity is more imaginary than real.
- Greater labour mobility or exodus from these areas, could worsen governance.
- Second reason is, **India's pattern of development.** India has relied on

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growth of skill-intensive sectors rather than low-skill ones e.g The dominance of services over manufacturing.

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- Thus, if the constraint on growth is the availability of skills, then unless the less developed regions are able to generate skills, convergence may not occur.

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- Thus, the economic divergence across India in the face of the equalising forces of trade and migration is a deep puzzle that is yet to be unravelled.

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Source: The Hindu

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