

# Inclusive Economies and Rural Development in India: A Focus on Bihar and Rajasthan

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## Table of Contents

1. Introduction .....	1
2. Inclusiveness and Development Planning in India: A Brief Overview .....	2
3. Inclusive Economies and Regional Development: a tale of two states in India.....	5
4. What explains the different trajectories in Bihar and Rajasthan.....	17
5. Discussion on the RFIE Framework .....	18
6. Conclusion .....	19
7. References .....	20

## 1. Introduction

In India, despite sustained growth rates over 5% for most of the last two decades, there has been a significant lack of inclusiveness in the distribution of that growth, which has become a major concern for over 10 years now. Inclusive growth was introduced as a central goal in the eleventh Five Year Plan (2007). Inclusive growth in this important policy document is described as “rapid growth that reduces poverty and creates employment opportunities, access to essential services in health and education especially for the poor, equality of opportunity, empowerment through education and skill development, employment opportunities underpinned by the National Rural Employment Guarantee, environmental sustainability, recognition of women’s agency and good governance” (2007:2). This emphasis on factors beyond income to understand effects of growth has caught the fancy of the India policy makers ever since.

This evolution of thinking and development approaches in India is not much different from the global scenario as we see in the burgeoning use of terms such as inclusive growth, pro-poor growth, and sustainable growth. However, most of these terms take an economic point of view that uses growth as a starting point which ultimately trickles down to reflect through other outcome indicators.

In this paper we decentre the analytical focus from economic inclusiveness to inclusive economies wherein growth is simply one of the dimensions of evaluating inclusiveness. What we set out to assess is not how growth can lead to overall economic and social development by mixing and stirring other indicators into economic growth trajectory. Instead we make an attempt to understand how different dimensions should be thought of together while thinking about inclusiveness at large. In so doing, we draw on the Rockefeller Foundation's Inclusive Economies Framework that talks about five broad dimensions of inclusiveness: equity, growth, participation, stability and sustainability. We take these five broad dimensions and a set of outcome indicators under these dimensions to measure how India has fared in the last two decades in terms of being an inclusive economy.

We do understand the problem of generalizing about a country like India, where let alone socio-cultural diversity, even the processes of economic and political development have been far from similar. Hence, in this paper we choose to focus on two of the poorest predominantly rural states in India, namely Bihar and Rajasthan. Bihar and Rajasthan used to be part of an acronym, BIMARU (Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh), made popular by economist Bose<sup>1</sup> to denote the state of high poverty and low socio-economic development in these states. Whereas Bihar and Rajasthan have moved substantially ahead in terms of economic and social indicators in the last decade or so, there is still a strong debate about whether they can be still be considered BIMARU (bimar means sick in Hindi). However, our objective is not just to measure how these two states have fared in terms of inclusiveness and extrapolate those findings to understand India's journey towards inclusivity. We rather try to use these two cases, in close comparison, to project a more complex picture of how inclusion/exclusion has developed in India. We then tie the findings from these cases to understand our framework of measuring inclusive economies and how this framework can inform our analysis of the two subnational cases.

## **2. Inclusiveness and Development Planning in India: A Brief Overview**

Since Independence from British rule in 1947, India adopted a mixed economy model of state-led growth and development. It relied on development planning characterized by Five Year Plans, to render the economy self-sufficient. The establishment of the planning commission in 1950 and the adoption of the Industries Development and Regulations Act (IDRA) were the two instrumental factors in shaping the fate of the developmental state of India (Chibber 2003). As Chibber argues, the planning commission maintained the state's internal cohesiveness, whereas the IDRA created the institutional set-up for the state's involvement in the industrial sector (128).

The first three plans from 1951-1965 focused on planned growth and did not take any special measure for poverty alleviation. The assumption was that growth will reduce income poverty (Patnaik and Patnaik 2001). The focus was on capital accumulations under the conditions of structural underdevelopment (Chakravarty 1987). The period of the first Plan was marked by high growth of food production and public projects of large-dam irrigation. However, poverty indices started to rise by mid-1950s, which was followed by a food crisis

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during the Third Plan period. The acute food crisis was due to rising demands and particularly bad harvests in 1965-67 and resulted in famine like situations in Bihar and a high volume of food imports and food prices inflation. Also due to increasing defence spending after 1962, there were major cuts in public spending (ibid).

Overall, the first three plans focused mostly on increasing growth rather than on income inequality or poverty reductions as the common assumption was that growth needed to be increased to a satisfactory level for it to have any impact on income inequality. The First Plan, while investing heavily on public irrigation for the agricultural sector, followed an otherwise conventional development strategy. The Second Plan emphasized industrialization more than agriculture and the focus was mostly on the capital goods sector (Chakravarty 1987). However, countering this simplistic understanding, Chakravarty argues that agriculture was treated by Indian planners as a 'bargain sector'. By this he meant that "They [Indian planners] were aware that certain institutional changes were required in order to realize the production potential of agriculture, but they did not realize the nature and dimension of political mobilization that would be necessary to bring about the necessary institutional changes." (pp.21). In fact, the second Plan had a chapter on Land Reform and Agrarian Reorganization which provided a strategy for more progressive agrarian structures. It was hoped that such structural reorganization coupled with public irrigation facilities would have a positive impact on agrarian input-output ratio (Chakravarty 1987).

To overcome the crisis of the agriculture sector, policy for the sector was changed during the yearly Plan regime between 1965 and 1969 which was carried over to the fourth Plan in the 1970s. From land reform, the attention shifted towards technological modernization, the culmination of which was the Green Revolution. This plan period was marked by success of Green Revolution technologies, setting up of the Agricultural Prices Commission (for price regulation of food grains) and a gradual consolidation of the Public Distribution System (PDS) (ibid). Thus, after an initial decline, the agricultural sector was boosted by investment made in the Green Revolution. Despite its success in increasing output of the sector, Green Revolution technologies also enhanced polarization of the rural society in favour of the "better-off farmers in the infrastructurally well-endowed regions" (Chakravarty 1987, 27). Also mechanisation of the agricultural sector led to more rural-urban migration.

However, the impact on poverty of growth in the agricultural sector was not clear until the mid-1970s as there was fluctuating rate of poverty without a distinct trend (Ravallion and Datt 1996). Until the 1970s, industrialisation policy relied on public sector investment and import substitution policy. The industrial policy was also a tool for regional development where special subsidies were provided for firms to be set up in listed "backward" districts (Parthasarathy and Mohan 2013). By mid 1970s, redistribution was also being considered as a development strategy. The Approach document to the Fifth Five Year plan (1974-79) tried to define poverty in terms nutritional inadequacy and listed redistribution catering towards poorer sections of the society as an objective of the Plan. However, the poverty reduction strategy was reliant mostly on growth during this period which changed under the sixth Plan (1980-85). In this Plan, a number of poverty alleviation measures were taken in the form of

rural employment programme, self-employment programme for small and marginal farmers and rural artisans. Their impact on poverty was differentially experienced in different parts of the country (Chakravarty 1987).

Overall the Fifth and Sixth Five Year plans moved from heavy industrial bias of the previous plans to occupation with food and energy sector. It is the Sixth and Seventh Five Year Plan (1985-90) in the 1980s that took poverty alleviation more seriously. From 1984 onward there was a decline in the import substitution and self-sufficiency policy in India. One of the noted developments during this period was the gradual development of the Indian Software Industry. Policy frameworks, such as, the Computer Policy in 1984 and the Computer Software Export Development and Training Policy in 1986 and Software Technology Parks in 1990, were distinct from the preceding years as government's role was limited to only promotion and infrastructure provision (Parthasarathy 2010).

As Chandrasekar and Patnaik (1995) argues that State's responsibility to maintain public expenditure and expansion of domestic market was financed by internal credit rather than tax. This coupled with the lack of any clear redistributive strategy meant that the State became an instrument of elite enrichment. All these slowly created an acute deficit in the public finance and led to the adoption of Structural Adjustment Programme (SAP) and economic liberalization in 1991. The objective of this major economic restructuring was to increase efficiency of industrial production, attract foreign investment, improve public sector (Aoyama and Parthasarathy 2016). The impact of these reforms on poverty has never been a matter of consensus among Indian planner and economists. What is noteworthy in the first decade after economic reform was increased growth and significant measures of governance reform as evident in the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment Acts, 1992. This Act granted urban and rural local bodies greater responsibility and financial autonomy for effective self-governance (Jayal 2001). The agrarian sector, however, experienced a decline in growth from 1990s until 2007 (Parthasarathy and Mohan 2013).

Governance reform followed by economic reform in 1991 held a very important position in the policy domain. Towards the end of the 1990s, following the international trend, the discourse of development strategy in Indian started to move towards 'participatory development', 'inclusive human development' (Currie 2001) and finally 'inclusive growth' as seen in the Eleventh Five Year Plan. During this time, the role of the state was going through a shift as there was growing partnership with private sector and civil society organizations. The National Human Development Report (2001) in its chapter on 'Governance for Human Development' emphasized the role of 'good governance' in sustainable development and also the changing role of the state in delivering welfare (Chaudhuri 2014). From the Tenth Five Year Plan (2002-2007), there were two major shifts in the policy discourse: firstly, there was increasing focus on poverty reduction, creation of employment opportunities and skill development, improving health and education for poor; secondly, market and civil society were considered to be partners in achieving some of these goals, whereas the State's role was to create and support a conducive political and economic environment (Chaudhuri 2014, Aoyama and Parthasarathy 2016).

In the first three decades after economic liberalization, India has experienced steady economic growth and the development strategy of the state has shifted more towards institutional reform, infrastructure development and public provision for social development and inclusive growth. Some of the schemes which hold testimony to the State's effort for social development are the National Rural Employment Guarantee Act in 2005, National Rural Health Mission launched 2005, Right to Education Act 2009, Prime Minister's Rural Road Programme (PMGSY) launched in 2000, Right to Information Act 2005, Backward Regions Grant Fund 2006-07. To what extent, this strategic shift in development policies has impacted both economic and social development in India is a matter of measurement and debate. In the next section, we attempt to understand and address some of these questions by looking at data from two of the most poor states in India, namely Bihar and Rajasthan.

### **3. Inclusive Economies and Regional Development: a tale of two states in India**

Regional disparities in growth and human development has been a concern for scholars and policy makers in India for a long time. There is a vast and rich literature examining regional disparities among Indian states, in terms of economic growth (Bajpai and Sachs 1996, Cashin and Sahay 1999, Aiyar 2001, Kumar 2000), socio-economic indicators (Ahluwalia 2000; Kurian 2000; Dholakia 2003; Singh et al 2003; and Chaudhuri and Ray 2010) and also demographic indicators (Bose 1988, Dreze and Khera 2012, Sharma 2015). While studies focusing on economic growth often present conflicting narratives (Purfield 2006) of convergence and divergence among Indian states, findings from socio-economic and demographic studies found some states always lagging behind the national average despite policy intervention and steady economic growth. As we mentioned earlier, demographer Ashish Bose in the early 1980s used demographic indicators such as, birth rate, death rate, female literacy rate, mean age of marriage of female years, growth rate of population, percentage of urban population, and growth rate of urban population (Sharma 2015). On the basis of these indicators, he found Bihar (which at that point included the state of Jharkhand, which was split off from Bihar in 2000), Madhya Pradesh, Rajasthan, Uttar Pradesh, which accounted for 40% of the population, to be demographically sick (ibid). In 2015, amidst much optimism among scholars and media hype about high growth rates in these states, Vineeta Sharma revisited some of these indicators<sup>2</sup>. She concluded, that despite significant overall progress, BIMARU states have still not converged to the national average and the rate of convergence has been quite slow.

Keeping this broader context in mind, in this section we will examine the exact nature of such regional divergences by comparing two BIMARU states, namely, Bihar and Rajasthan. In doing so, our focus will not be on convergence to national average but to understand the ways in which these two states are diverging from the national average.

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<sup>2</sup> She included Jharkhand in her study for a balanced comparison as it was part of undivided Bihar till 2000.

**Profile of the States:** Bihar is a state in the eastern part of India.

According to 2011 census, the population of Bihar is 104.1 million, which is about 8.6 percent of India's total population. The decadal growth rate of population in Bihar during 2001-11 was as high as 25.1 percent which is much higher than the national average. Population density in Bihar (1106 persons/sq.km.) is also much higher than the national average (382persons/ sq.km.). Population pressure has been a major challenge for development in the state. It is a predominantly a rural state, where total share of urban population is only 11.3% and urbanisation between 2001 and 2011 has increased by only 0.8 percent, in comparison to a 3.4 percent for the entire country (GoB 2016).



Demographic Indicator	Bihar		India	
	2001	2011	2001	2011
Population (million)	82.9	104.1	1028.7	1210.6
Sex Ratio (females per '000 males)	919	918	933	943
Density (persons per sq. km.)	880	1106	325	382
Urbanisation (Percentage)	10.5	11.3	27.8	31.2
Decadal Growth (Percentage)	28.6	25.1	21.5	17.6
SC Population to total Population	15.7	8.2	16.2	16.6
ST Population to total Population	0.9	1.3	8.2	8.6

Rajasthan is one of the larger states situated in the north-western part of India with a population of 68.6 million, which is 5.6% of India's total population. The decadal rate of growth of population have been 21.3% between 2001 and 2011. This is much lower than Bihar albeit slightly higher than the national average. Population density in Rajasthan (200 persons/sq. km.) is much lower than the national average (382 persons/sq.km.) and way below the figures in Bihar. The urban population in the state is 24.9% of the entire populations and the rate of urbanisation has not changed much from 2001 (23.4%) (GoI,2011).



Demographic Indicator	Rajasthan		India	
	2001	2011	2001	2011
Population (million)	5.65	6.86	1028.7	1210.6
Sex Ratio (females per '000 males)	921	926	933	943
Density (persons per sq. km.)	165	201	325	382
Urbanisation (Percentage)	23.4	24.89	27.8	31.2
Decadal Growth (Percentage)	28.4	21.4	21.5	17.6
SC Population to total Population	17.2	17.8	16.2	16.6
ST Population to total Population	12.6	13.5	8.2	8.6

There are two categories on which these states differ notably, *population density* and the *state of urbanisation*. On both accounts Rajasthan appears to be at an advantageous position. Given this overall background of the two states, we will now examine the position of these states within the framework of inclusive economies.

Incorporating insights from ecological economics, theories of social well-being, and above mentioned concepts of pro-poor and inclusive growth, The Rockefeller Foundation defines an inclusive economy as one in which there is expanded opportunity for more broadly

<p style="text-align: center;"><b>INCLUSIVE ECONOMIES</b></p> <p style="text-align: center;"><i>Expand opportunities for more broadly shared prosperity, especially for those facing the greatest barriers to advancing their well-being.</i></p>	EQUITABLE	A. Upward mobility for all.	Experiences of historically marginalized populations	Distribution of power
		B. Reduction of inequality.		
		C. Equal access to public goods and ecosystem services.		
	PARTICIPATORY	D. People are able to access and participate in markets as workers, consumers, and business owners.		
		E. Decision making transparency and accountability.		
		F. Widespread technology infrastructure for the betterment of all.		
	GROWING	G. Increasing good job and work opportunity.		
		H. Improving material well-being.		
		I. Economic transformation for the betterment of all.		
	SUSTAINABLE	J. Social and economic well-being is increasingly sustained over time.		
		K. Greater investments in environmental health and reduced natural resource usage.		
		L. Decision-making processes incorporate long-term costs.		
	STABLE	M. Public and private confidence in the future and ability to predict outcome of economic decisions.		
		N. Members of society are able to invest in their future.		
O. Economic resilience to shocks and stresses.				

shared prosperity, especially for those facing the greatest barriers to advancing their well-being. In developing this understanding, the Foundation argues that inclusive economies have five broad characteristics: they are equitable, participatory, growing, sustainable and stable.

In the report, “Inclusive Economy Indicators: Framework & Indicator Recommendations”, Chris Benner and Manuel Pastor (2016) took the definition above and identified a list of 15 sub-categories and 57 indicators associated with each of these five characteristics.

In the table below, we present the data collected along these sub-categories for the states of Bihar and Rajasthan.

### ***Bihar and Rajasthan through the RFIE Framework***

The RFIE framework is designed to measure outcome indicators. These indicators, we hope will point to areas of relative success or relative challenges that can inform further research on inclusiveness in India. Below we provide some summary insights of key patterns of inclusion in the range of dimensions we have tried to measure for states of Bihar and Rajasthan. These patterns are primarily based on the most recent year of reported data. We hope this can provide a robust starting point for discussions about inclusive development in India. Note that the cells are color coded so that the red cells are less inclusive and the green cells more inclusive.

		<b>Indicator</b>	<b>Bihar</b>	<b>Rajasthan</b>
<b>Equitable</b>	A. Upward mobility for all	A4c. Enrollment of all categories female students in pre-primary schools (2011)	0%	5%
	B. Reduction of inequality	<b>B1. Gini Coefficient (Rural, 2011)</b>	22%	21%
		<b>B3. Percent of population in highest national wealth quintile (2005-06)</b>	9%	19%
		<b>B4. Reproductive Health: Maternal Mortality Ratio (Per 100,000 Live Births, 2011-13)</b>	208	244
		<b>B4. Reproductive Health: Adolescent (15-19) Birth Rates (2005-06)</b>	13%	10%
		B4. Empowerment: Women Members of Legislative Assembly (MLA) (% ,most recent year, 2010-14)	10%	14%
		B4. Empowerment: Per 1000 Distribution of Persons (Female) of Age 15 Years and above with at least secondary (2011-12)	78	65
		B4. Economic status: Women's Workforce Participation Rate (All population, 2011)	19%	35%
	C. Equal access to public goods and ecosystem services	C1. Proportion households having toilet facility within the premises (2011)	23%	35%
		C2. Access to safe drinking water in households (All population, 2011)	94%	78%
		C3. Households having electricity (% , 2011)	16%	67%
		C4. Net Enrollment Ratio in upper primary (2009-10)	49%	55%
		<b>C5. Infant mortality rate (per 1000 births, 2013)</b>	42	47
		<b>C7c. Alleged human rights violation of women (2012-13)</b>	202	278
	<b>Participatory</b>	D. People are able to access and participate in markets as workers, consumers, and business owners.	D1. Rate of Workforce Participation (2011)	33%
D4. Average Monthly Per Capita Expenditure (Rs) for rural areas (2007-2008)		₹ 598	₹ 801	

	E. Market transparency and information symmetry.	E1. Assessment of State Implementation of Business Reforms (2016)	76%	96%
		E2. Newspapers registered with RNI (per 10,000 population, 2015)	0.17	0.82
	F. Widespread technology access	F1. Households with mobile phone connection (2011)	52%	63%
		F2. Internet (Narrowband + Broadband) Subscribers (per thousand population, 2014))	107	173
Growing	G. Increasing good job and work opportunity	G2. Growth rate of per capita income (% , 2012-13)	9%	4%
		<b>G3. Percentage of Population Below Poverty Line (2011-12)</b>	<b>34%</b>	<b>15%</b>
	H. Improving material well-being	H1. Per Capita Net State Domestic Product (NSDP, 2012-13)	₹14, 356	₹ 30,839
		<b>H2. BMI below normal &lt;18.5 (women ages 15-49) (2012-13)</b>	<b>20%</b>	<b>28%</b>
		<b>H3. Slum population (% of total population, 2011)</b>	<b>1%</b>	<b>3%</b>
H4. Life expectancy at birth (all population, 2010-14)	68	68		
I. Economic transformation for the betterment of all	I2. Expenditure on R&D as a percentage of total NSDP (2009-10)	0%	0%	
Sustainable	J. Social and economic well-being is increasingly sustained over time.	J1. Change over time in BMI below normal <18.5 (women ages 15-49, 2005-2013)	-56%	-23%
		<b>J2. 10 year change in slum population (% change of number of people, 2001-2011)</b>	<b>144%</b>	<b>71%</b>
		J3. Change over time in life expectancy at birth (1993-2014)	115	114
	K. Greater investments in environmental health and reduced natural resource usage.*	<b>K1. Energy intensity (GWH/crore rupees, NSDP, 2012-13)</b>	<b>0.05</b>	<b>0.2</b>
		<b>K3. Sewage generation per treatment capacity of urban population (2015)</b>		<b>3.2</b>
		<b>K4. Coal energy capacity (in MW) (2015)</b>	<b>90%</b>	<b>55%</b>
		<b>K5. PM10 annual average (µg/m3) for selected state stations (2012)</b>	<b>167</b>	<b>174</b>
		K6. Forest land conserved (Ha) from 1980 to 2016	21%	198%
	K7c. Share of renewables of total energy (2015)	6%	37%	
L. Long-term Decision Making	N/A			
Stable	M. Public /private confidence & predict decisions	<b>M1. Standard deviation of year-to-year GDP growth (2006-13)</b>	<b>7%</b>	<b>3%</b>
	N. Members of society are able to invest in their future	N1. Households availing banking services (2011)	44%	53%
	O. Economic resilience to shocks and stresses.	O2. Per 1000 Distribution of Persons Benefited by Various Social Security Measures (2009-10)	15%	17%
O5i. ERS Vehicles Operational under NRHM (per hundred population, 2012)		5%	7%	
Rural	Access to Irrigation	Share of irrigated land for all crops (2010-11)	62%	32%
		Share of irrigated land by wells (2010-11)	1%	32%
	Water availability	Average annual rainfall (millimetre, 2002-14)*	1125	641
		Source of drinking water within the premises (% of HH, 2011)	65%	69%
Crop intensity	Cultivated area as a percentage of total land in operational holdings (2010-11)	96%	92%	
*Rajasthan values are only for East Rajasthan		<b>Bold= Indicators where higher number is less inclusive (red is less inclusive, and higher number)</b>		

### Equity:

In order to examine to what extent Indian states have been equitable, we looked for data in three sub-categories, upward mobility for all, reduction of inequality and equal access to

public goods and services and ecosystem. For the first sub-category, getting data for specific indicators proved to be a challenge.

As for the reduction in inequality, Bihar and Rajasthan project similar Gini-coefficient in rural areas since 2001, but overall income inequality seems to be higher in Rajasthan. In other indicators of inequality, Bihar and Rajasthan do not show much of a difference, except for women’s workforce participation. Women’s workforce participation is much higher in Rajasthan (35%) in 2011 in comparison to Bihar (19%). This is noteworthy, given that Bihar is not far away from Rajasthan when it comes to women’s participation in legislative assembly. This could be due to Bihar government’s reservation policy in local and state representative bodies (GoB, 2016). Conceptually speaking, *the distinction between women’s workforce and political participation underpins an important insight for measuring inclusive economies.*

In terms of access to public goods, Bihar and Rajasthan exhibit significant improvement in access to safe drinking water and access to electricity respectively. In Rajasthan, installed capacity of power has increased substantially since the 1990s. Whereas in the early 1990s much of the power source was allocated or purchased, by 2015-16, we see a steep rise in the internal capacity of generating electricity. In Bihar, the internal generation capacity has declined over the years, whereas the purchasing capacity of the state has also not been increased. There may be two reasons behind this. Firstly, by the late 1990s or early 2000s, even though most states moved from all pervasive electricity board based operation to independent regulators, Bihar stayed on with the older model. This resulted in inefficient and poor delivery system of power in the state. Secondly, the other major reason was the bifurcation of the state that created the state of Jharkhand in 2000. As a result, most areas of natural resource reserves and industrial hubs went to Jharkhand. The split also adversely affected the electricity sector, because most generating capacities and industrial consumers were located in Jharkhand (Siddiqui 2017)<sup>3</sup>.

Generation of Electricity in Rajasthan (Million Unit)			
Year	Own Generated & Partnership Project	Electricity Purchased/ Central allocation/Others	Total Generated and Purchased
1991-92	3671.98	9307.61	12979. 59
2001-02	12785.98	11402. 91	24188. 89
2007-08 (P)	23108.09	13142.72	36250.81

Installed Capacity of Power in Rajasthan (MW Unit)	
Year	Capacity
1995-96	3049.00
2001-2002	4517.00
2011-12	10308.45
2015-16	17439.78

<sup>3</sup> Siddiqui, Zakaria 2017. From Gloom to Boom: Bihar’s Electricity Sector. Centre for Policy Research Working Paper

Generation of Electricity in Bihar (Million Unit)		
Year	Own Generated	Purchase
2000	2423.13	8538.96
2009	93.34	8491.35

State of Electrification in Bihar (in lakh)

Category of Household	2001	2011	Projections for December, 2015
Total Households	139.83	189.41	213.85
Rural Households	126.60	169.27	190.12
Urban Households	13.23	20.14	23.82
Total Electrified Households	14.33	30.98	53.35
Rural Electrified Households	6.50	17.55	32.58
Urban Electrified Households	7.84	13.44	20.76
Total un-electrified Households	125.49	158.42	160.51
Rural un-electrified Households	120.11	151.72	157.54
Urban un-electrified Households	5.39	6.70	3.06

Source: Department of Energy, GoB 2014

In terms of access to land, landlessness has been a major concern for Bihar. As per Socio-Economic and Caste Census 2011, landlessness in rural Bihar is 65.8% in comparison to a much lower percentage in Rajasthan of 37.96%. As per NSSO data, rural landlessness in Bihar stood at about 67%. Thus, the situation of landless poverty has not improved in Bihar despite high growth rate in more than a decade now.

Also, putting the second and third sub-category together, Rajasthan shows contradictory indications of gender equity—high economic and political participation of women, but low levels of girls' education, and a high level of reported human rights violations of women (Ref. to our data) Whereas in Bihar, even though the enrolment of all categories female students in pre-primary schools is found to be at 0% in 2011, the gender gap in elementary education has been slowly decreasing over the years. The growth rate of enrolment of girls was 8.1 percent during 2009-10 to 2013-14, compared to 3.3 percent for the boys. The total enrolment of boys at the elementary level was only marginally higher than that of the girls in 2013-14. This pattern of higher growth rate of enrolment for girls, and a marginally lower share of girls in total number of students, is also observed for both primary and upper

primary schools. Taking primary and upper primary together, boys accounted for 56.0 percent of the total enrolment in 2009-10; but in 2013-14, this share was 51.6 percent. Even the drop-out rates of girl students at all level of education is found to be lower than boys in Bihar since 2009-10. (GoB, 2016). Thus, even though workforce participation of women in Rajasthan is much higher, girls' education seems to be catching up faster in Bihar.

### **Participation**

The three sub-categories under participation are participation in market, market transparency, and access to technology. On all the indicators under participation, Rajasthan fares better than Bihar.

State	Work Force participation Rate (2011)		
	Total	Rural	Urban
Bihar	33.4	34.0	28.6
Rajasthan	43.6	47.3	32.3

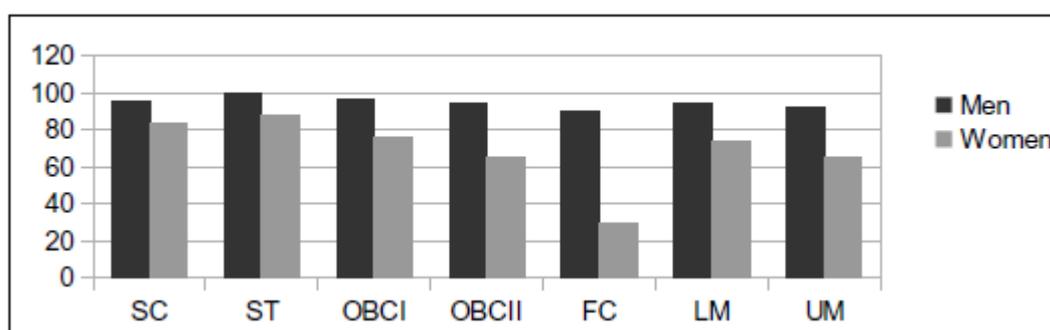
The workforce participation rate in Bihar is significantly low. However, drawing on the Bihar Inclusive Development Project by Institute of Human Development, Rodgers (2012) presents a more complex understanding of workforce participation in Bihar<sup>4</sup>. This study concludes that massive migration of male labour has led to higher participation of women in the labour force. Even though women have been largely confined to agriculture in rural Bihar, the education and health sectors, in recent times, have offered some opportunities for better-educated women. Caste appears to be a stronger determinant of female labour force participation than class.

As per this study, labour force participation tends to be lower at the higher levels of the social hierarchy. The highest participation of men is recorded among the Scheduled Tribes (STs) (100 per cent) and the lowest among the Forward Castes (FCs) (89 per cent). Upper Caste Muslim men are more active than Forward Caste men. The same pattern is found among women but is much more amplified, as social norms are more stringent for women than for men in a patriarchal society such as that of rural Bihar. The difference between the highest and lowest participation rates of men is only 10 percentage point, while the corresponding difference reaches 59 percentage points among women.

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<sup>4</sup> This study distinguishes between concept of work and labour by considering labour as broader concept. Labour here includes work done without any direct exchange of money. For example, women's labour in the household agriculture.

**Labour Force Participation (Wide Definition) Aged 15-59 by Caste**



Note: SC = Scheduled Castes, ST = Scheduled Tribes, OBCI = Other Backward Castes I, OBCII = OBC II, FC = Forward Castes, LM = Lower Caste Muslims, UM = Upper Caste Muslims

According to Rodgers' study, child labour has remained a persistent concern, even though school enrolment has increased substantially, especially among girls. This improvement, Rodgers (2012) attributes to the "support of government programmes targeting Below the Poverty Line (BPL) families, such as mid-day lunches, free books, free school uniforms and free bicycles for students who successfully complete class 8 and enrol in class 9." Moreover, this study identifies a correlation between labour force participation and the size, level of development, incidence of migration, and caste and class composition of the village (Rodgers, 2012). Villages with a high proportion of migrants tend to have high labour force participation rates among both sexes. The correlation between men's participation and the proportion of migrants is stronger in the case of long-term migration (that is, migration for more than three months in a year). The work-load of women who are left behind increases when men migrate (Datta and Rustagi, 2010). The correlation is more pronounced in the case of short-term migration because long-term migrants have access to more regular and better-paid jobs, which may induce an income effect that affects female labour force participation. Labour force participation is higher among agricultural labouring households. The effect is stronger on women's participation than on men's. When men migrate for employment outside the village, the demand for female labour (and perhaps child labour) is likely to increase within the village. Better-off villages show relatively lower labour force participation rates. This is because they may be endowed with more productive and labour saving assets, and better-off farmers can also afford to hire labour from neighbouring villages. A high literacy rate is associated with lower labour force participation. The literacy rate goes hand in hand with social and economic hierarchies. Labour force participation drops as the social and/or economic status of the households increases. This tendency is valid for both sexes but much stronger in the case of women.

In Rajasthan, in the period between 1981 and 1995, there were nine years of drought, which was particularly severe in 1985-87 and 1992. Large-scale loss of livestock and deprivation occurred in rural areas during this period, especially in the southern and western regions. Following monsoon failure in 1999, a massive drought has now gripped the state, with 26 districts declared as drought-affected, a large-scale outmigration and loss of cattle wealth.

Despite these adversarial conditions, work participation rates (WPR) have increased from 36.6 per cent in 1981 to 43.6 per cent in 2011. In 2011, the WPR for the overall population was 43.6 per cent; for males it was 51.5 per cent and 35.1 per cent for females (GoR 2016).

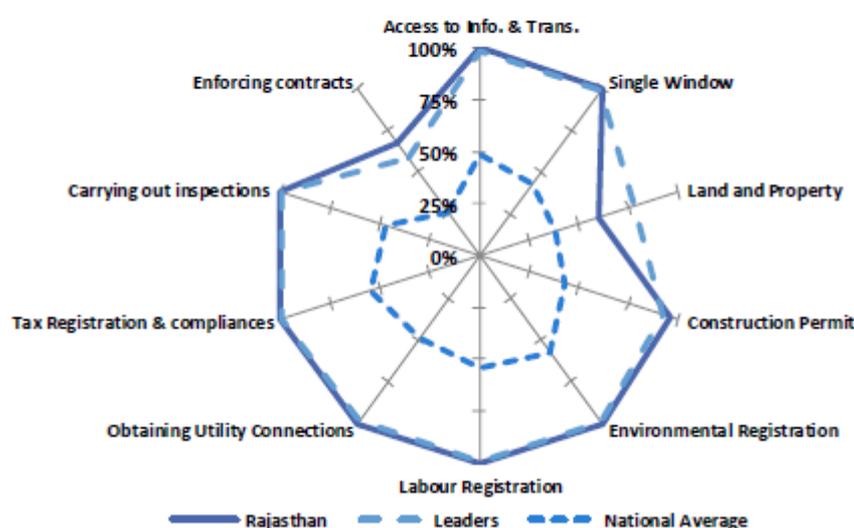
Particulars (in per cent)	Year			
	1981	1991	2001	2011
Work Participation Rate	36.6	38.9	42.1	43.6
Male	50.9	49.3	50.0	51.5
Female	21.1	27.4	33.5	35.1

Workforce Participation Rates in Rajasthan

One of the factors of participation we want to look at is the ability for people to form new businesses and become business owners. Here, Rajasthan also ranks higher than Bihar. According to the Assessment of State implementation of Business Reforms Report of World Bank in 2015, Rajasthan ranked 6, whereas Bihar lagged far behind ranking 21. The parameters on which these rankings were decided are: setting up a business, land allotment and obtaining of construction permits, compliance with environment procedures, complying with labour regulations, obtaining infrastructure related utilities, registering and complying with tax procedures, carrying out inspections and enforcing contracts. Again, as per the implementation scorecard for Business Reform Action Plan 2017, published by Ministry of Commerce and Industry (GOI), Rajasthan fared much better (87.80%) as compared to Bihar (69.92%)(GOI 2017).

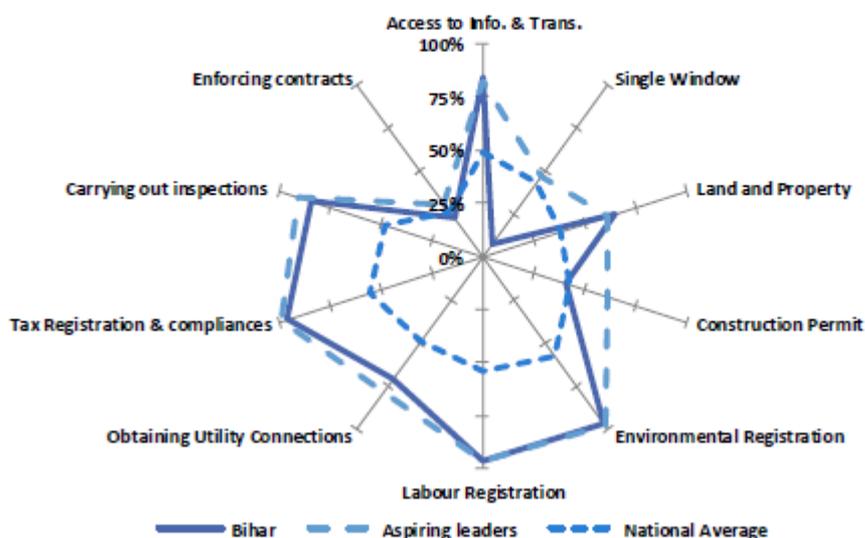
### Rajasthan

#### 2016 Performance by Parameter:



### Bihar

## 2016 Performance by Parameter:



### Growth

Under growth, our focus has been on increases in good job and work opportunity, improved material well-being and economic transformation for the betterment of all.

Our data shows, despite higher rates of growth of per capita income, poverty seems to be a persistent concern in Rajasthan but more so in Bihar. According to the Tendulkar Committee estimates, the poverty ratio for Bihar is 34.1 percent for rural and 31.2 percent for urban households in 2011-12, implying an overall poverty ratio of 33.7 percent. Between 2004-05 and 2011-12, the poverty ratio declined by 20.7 percentage points for Bihar, as against 15.3 percentage points for all-India. The pace of reduction of rural poverty has been faster than that of the urban poverty, in both Bihar and India as a whole. (GoB 2016. ). With the level of urbanisation at 11.3 percent, Bihar is the least urbanised state in India. For the entire country, the urbanisation level stands at 31.2 percent. Bihar accounts for 8.6 percent of India's total population, but it has only 3.1 percent of its urban population. This pattern of urbanisation in Bihar has continued for long. Between 1961 and 2011, the level of urbanisation has increased by only 3.9 percent (7.4 percent in 1961 to 11.3 percent in 2011) (GoB 2016). Landlessness is considered to be a major reason for poverty in Bihar. In Bihar, around 90 percent of the population reside in villages and 70 percent workforce are employed in agriculture and related works. The proportion of the landless or near landless among the rural households is steadily increasing. In an agrarian economy like Bihar, where density of population is very high and distribution of land is very unequal, resulting to a large mass of the rural population below the poverty line. As per the Socio-Economic and Caste Census of 2011, 70.8% of rural household income in Bihar comes from manual casual labour, whereas only 18.24% of income comes from cultivation. This again follows from the higher rate of landlessness in rural Bihar. No less than 91.1 percent of the farmers in Bihar

have marginal holdings (less than 1 hectare). Their share in total land is only 57.6 percent. Another 5.3 percent of the farmers have small holdings (between 1-2 hectares) and their share in total land is 18.6 percent. The land endowment of farmers belonging to SC/ST is even poorer (GoB 2016). Despite an increase in the GSDP, including its non-primary sector component, the numbers of the urban poor have continued to rise with their share in the total having escalated from 5.3 percent in 2004-05 to 7.1 percent in 2011-12.

#### Slum Population in Bihar (2001-2011)

Year	Number of Towns	Slum Population		
		Number (in lakh)	As percentage of Urban Population	As percentage of India's Slum Population
2001	22	5.16	5.95	1.37
2011	85	12.37	10.52	1.89

Source: Census of India 2011

As per the human development report of Rajasthan (2002), The southern NSS sub-region of Rajasthan is the poorest. In contrast, the western zone, comprising all the desert districts and the agriculturally prosperous districts have the lowest overall poverty ratio. At a more disaggregated level, the southern region of the state has the highest rural poverty rates (31.34 percent), while the north-eastern sub-region has recorded the lowest rural poverty rates (10.71 percent) and the highest urban poverty rates (32.07 percent). The living conditions of the urban slums. Interestingly, the north-eastern sub-region includes Rajasthan's largest industrial and commercial centres, viz. Jaipur, Alwar and Bhilwara. With higher rate of urbanisation in the state, percentage of slum population has also doubled between 2001-2011. This scenario goes against linear models of economic growth, which assume that increased urbanisation and subsequent transformation of the workforce lead to increased prosperity and lower poverty ratios.

One of the thriving sectors of growth and employment in Rajasthan has been Tourism Industries. It has been one of the largest revenue generators for the state. According to the Ministry of Tourism, Rajasthan accounted for 2.7% of the tourists in India and 7.2% of the total international tourist arrivals in India in 2013. Tourism contributed 2.7% (5.2% after adding indirect effects) in Gross State Domestic Product and 1.9% (7.2% after adding indirect effects) in state employment (FICCI Report 2016).<sup>5</sup> The importance of tourism in state's economy has positive spill-over effects on its infrastructure and civic amenities.

Overall, Rajasthan has managed to provide much better and diverse work opportunities beyond agriculture, whereas in Bihar agricultural labour, landlessness and heavy migration of men have kept its workforce participation low. Even though as per the Bihar Development Report 2013-14, the state has seen a growth of 14.53% since 2009, its impact

on labour migration has drawn contradictory analyses (Gupta 2014). This is a significant finding given consistently high growth rate of Bihar in the 21<sup>st</sup> century.

### ***Sustainability***

In measuring sustainability, we focus on two sub-categories: social and economic well-being increasingly sustained over time, greater investments in environmental health and reduced natural resource usage.

Even though Rajasthan performs better in maintaining better human development index, in terms of environmental sustainability, Bihar and Rajasthan are not much different. As per the Environmental Sustainability Index for Indian States 2011(Centre for Development Finance 2011), Rajasthan is a less sustainable state, whereas Bihar is one of the least sustainable states in India. The air and water quality are poor in both the states whereas Rajasthan faces an additional burden of poor ground water drafts. Rajasthan performs better than Bihar is usage of renewable energy sources, whereas Bihar predominantly relies on coal energy. However, Rajasthan gets a very low score on policy response to environmental conservation. It is a crucial finding, especially when we see significant improvement in infrastructure development and urbanisation in Rajasthan. Overall, the dismal states of environment and environmental sustainability is particularly worrisome given higher rates of poverty in both the states.

### ***Stability***

While, as per our data, economic resilience to shocks and stresses have been fairly low in both the states, both the states have experienced better governance in recent years. As for the Public Affairs Index (2017) Rajasthan is way ahead of Bihar (ranked 12<sup>th</sup> as compared to Bihar at 30<sup>th</sup>). However, Bihar witnessed significant improvement in recent years in public sector investment and also in increasing transparency and accountability of the government. For example, a study on Governance Performance of Indian states, in Bihar government has played a very active role in driving growth by boosting public investment and improving social service delivery (Mundle et al. 2016). In terms of economic freedom and provision of future investment, Rajasthan fares much better than Bihar. This finding is congruent with other findings in previous categories, where Rajasthan shows better performance in creating more opportunities for economic activities.

#### **4. What explains the different trajectories in Bihar and Rajasthan**

From the data presented here, it should be clear that Bihar continues to lag behind in a wide range of indicators of an inclusive economy, while Rajasthan has managed to do somewhat better. Before turning to a specific discussion of the inclusive economies framework and its usefulness in understand this, it is worth tracing the broad outlines of what might explain why and how Rajasthan seems to have been more successful in creating a more inclusive economy. One factor has to do with economic structures. Rajasthan is a significant tourism destination, for both internal and international tourists. This provides an important economic enterprise in rural areas outside of agriculture. While many jobs in tourism are seasonal and low-paid, it does provide some diversification of livelihoods. Perhaps more

importantly, government efforts to attract tourism has included significant investments in infrastructure, including roads, telecommunications and the energy sector. This has clearly been an area of positive development in Rajasthan, while progress in health and education indicators have been less clearly successful there.

Another important difference between the two states is clearly the high levels of landlessness in Bihar, which both reduces rural livelihoods and leads to significant migration out of Bihar. Lack of land reform coupled with lack of investment in infrastructure have resulted in fewer economic opportunities along with lower rate of work participation in Bihar.

A third factor seems to be a more stable governance. For example, according to the Public Affairs index (published in 2016 and 2017) which is based on a wide range of themes such as essential infrastructure, support to human development, social protection, women and children, crime, law and order, delivery of justice, transparency and accountability, fiscal management and economic freedom, Rajasthan held a much higher position in 2016 (Rank 20 as opposed to Bihar 29) and again in 2017 (Rank 12 as opposed to Bihar 30)<sup>6</sup>.

Even though growth has been consistently high Bihar, overall indicators of inclusiveness shows a rather different picture for Bihar. This is not to say that Rajasthan has done particularly well within our framework. However, it shows the pockets in which Rajasthan has managed to march ahead somehow.

## **5. Discussion on the RFIE Framework**

The overview of India's development strategy reveals a more conventional theory of trickle down growth in the initial years post-Independence which was then followed by more concerted efforts at poverty reduction since the 1990s. In last decade or so, it has moved more toward a paradigm of inclusive growth which will not only look at poverty reduction but also non-economic well-being across all social categories of population. This shift from growth to poverty reduction to inclusive growth in India's development strategy resonate well with the RFIE framework.

Given this similar evolution in policy discourse, we set out to understand the implications of using the RFIE framework in understanding inclusive economies in India. In doing so, in this paper, we chose two of the poorest rural states in India, in terms of both growth and inequality, and whose growth has improved substantially with the shifting policy regime. The intention was to see if policy orientation towards inclusive growth has made these Indian states more inclusive economies. While mapping our data across first three categories within the RFIE framework, we find both Bihar and Rajasthan have achieved important developmental goals in terms of growth, reduction in poverty, improved participation of women in economic, political and educational domain. In comparison, Rajasthan has performed better than Bihar, particularly in infrastructure development, business reform and creation of economic opportunities for all segments of population. From a point of view of inclusive growth, these findings would have projected a fairly

positive trend. However, when we add the category of sustainability, both Bihar and Rajasthan perform very poorly both in terms of the state's responsiveness to issues of sustainability as well in their inability to foster sustainable source of basic public goods such as energy and drinking water. Thus, when we look from the framework of inclusive economies, it is not only important to measure equity by measuring access to basic goods and services, it is also important to ask if this access is provided by sustainable sources. Similarly, while measuring creation of employment opportunities through investment in infrastructure, it is also important to understand its implications for the environment. We observe a similar pattern of contradiction while looking at the category of stability. Even though Rajasthan ranked much higher in business reform, economic resilience to shocks and stresses have been fairly low in both the states. However, Rajasthan's high rank on governance index also reflects on its ability to create more economic opportunities, whereas a lack of the same opportunities has led to a persistent problem of migration in Bihar.

Thus, we argue that measurement of Indian economy through the indicators of RFIE framework, brings out some of the intrinsic dilemmas of growth, development and inclusiveness to the forefront of our analysis. Hence, we argue, instead of measuring more or less inclusiveness, what we gain here is a more complex understanding of patterns of inclusion and exclusion. Such an understanding may assist in shaping policy priorities at the subnational level.

## **6. Conclusion**

As mentioned in the Inclusive Economy Indicators - Framework & Indicator Recommendations Report (2016), there are a wide array of indicators of inclusiveness available across various organizational and geographic boundaries. RFIE framework is not an attempt to synthesize those, nor does it claim consensus over the indicators it developed under the concept of Inclusive Economies. In an attempt to formulate a shared analytical framework of measuring inclusiveness, it focuses more on outcome indicators without a necessary focus on the theory of change. This means that the trend we see in this framework gives us an understanding of range of inclusion and exclusion in a context, without necessarily providing any explanations behind them.

Instead of looking at this as a weakness of the framework, we argue, it points out the spaces of inclusion and exclusion in a more complex manner which we hope, will then serve two purposes: firstly, it will facilitate the formulation of process indicators which are more context-specific, secondly, it provides policy directions for creating more inclusive economies. It was with this aim of understanding inclusion as a context-specific process that we looked more closely into the status of two poorer states in India over last two decades. With this detailed account of the nature of inclusiveness in Bihar and Rajasthan, we hope, will emerge further research that will inform better policies and development strategies in achieving inclusive economies. We also hope the learnings from the Indian case study within RFIE framework will add to the global understanding of inclusive economies.

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