Bihar: How it can escape its 'sub-Saharan India' status

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At India's independence, an explicit government objective was to have a more egalitarian society, coupled with balanced development of different regions; active state intervention was envisaged to reduce disparities. Yet, despite 15 Finance Commissions and the former Planning Commission, divergence across states has increased and might have assumed extreme proportions. None exemplifies this other than the case of Bihar, which fits in with the perfect typology of a low-income sub-Saharan state in terms of economic indicators and its standard of living.

The debate on regional or population-wise inequality is neither new nor unique to India, but it has different manifestations globally. Thomas Piketty stormed the debate by breaking up measures of inequality and showing that India's top 1% had 22.6% of income and 40.1% of all wealth (among the highest shares in world). Economist Surjit Bhalla and others critiqued the findings for methodological deficiencies. Philip Aghion, on the other hand, documents positive correlations between measures of innovation and top income inequality, and argues for innovation by new entrants to contribute to social mobility. Other common measures of inequality include gaps between rural and urban areas, and between skilled and unskilled workers. These debates, however, do not adequately address settings with exceptionally low per capita incomes. Bihar's per capita income, for example, is higher than only Sierre Leone, Malawi and Niger in sub-Saharan Africa. This article looks at that case of 'sub-Saharan India,' economically and developmentally speaking.

The origins of unbalanced development across regions in India are deeply rooted in history. How did Bihar get here despite the avowed objective of balanced development? After all, we had embarked on our development path as a democracy, however new or complex. From the beginning, Bihar, among other things, has been a victim of the unintended consequences of well-meaning policies. India's Freight Equalization Scheme (FES) introduced in 1952, which aimed to promote even industrial development by subsidizing long-distance transport of key inputs such as iron and steel, possibly contributed to this divergence. Remember, undivided Bihar was a resource-rich state until 2000. Research by John Firth and Ernest Liu suggests that over the long-run, the FES contributed to the decline of industry in eastern India, pushing iron and steel using industries towards more prosperous states. Due to a location shift in the processing of basic ferrous materials, resource-rich states suffered under the scheme and never fully recovered.

The Green Revolution was another experiment that brought Indian regional inequality into sharp focus. Punjab and Haryana benefited the most, and helped solve India's hunger problem. These states were heavily invested in agriculture infrastructure, even as input subsidies and output price support and procurement policies aided them in boosting farm production. But it bypassed eastern India, where Bihar lies.

It needs an economic plan that can seize its demographic dividend and spur rapid output growth

Never has inequality across regions been so stark. Bihar accounts for 9% of India's population, yet less than 2% of its GDP. Bihar's annual per capita income, at close to ₹60,000, is the lowest in the country and comparable to that of Liberia, one of the poorest African countries, inflicted by civil wars. The poverty headcount ratio in Bihar is the highest in India. It is also among the most densely populated and least urbanized states, but at the same time has the youngest population too (close to 60% is under 25), along with India's highest fertility rate at 2.98 (NFHS-5), much higher than the replacement rate of 2.1. Its headcount will, therefore, continue to grow fast, compounding its challenges. Based on the Periodic Labour Force Survey of 2022-23, the unemployment rate in Bihar is 13%, thrice the national rate of 4%. For the 15-29 years age group, this rate is 31%, again thrice the national-level 10%. Bihar's higher education gross enrolment ratio (14.5, compared to Tamil Nadu's 51.4, as seen in the All India Survey on Higher Education 2021-22 report) and its learning scores (National Achievement Survey 2021-22) are among the lowest. The statistics are appalling for a state with a rich history of education and high aspirations, evident in its ever-exploding number of coaching institutes. Bihar also has the lowest workforce participation rates (WPRs) for women, in low single digits, compared to higher than one-third for India.

While Bihar significantly lags other states in economic growth and development, what is even more striking is that its divergence from other states has increased over time. At current growth rates across states, Bihar would need 17 years to catch up with Odisha, and 61 and 318 years to catch up with half the all-India average and Gujarat, respectively. If Bihar were to raise its growth rates in nominal GDP per capita by 50%, it could potentially converge much faster: it would take 16 and 24 years to catch up with India and Gujarat respectively, assuming *status quo* rates for other states. This scenario could entail either faster nominal GDP growth or lower population growth, though the latter seems comparatively far-fetched.

Bihar urgently needs an economic plan with a strategy to seize its demographic dividend and spur rapid economic growth and development. Human-capital growth and large-scale trading are two turnaround engines the state could start with.

These are the author's personal views.