
The Hindu : Reforms in the States

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Reforms in the States - II

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THE CUMULATIVE share of financial assistance disbursed by national financial institutions in India during 1991-96 indicates a big gulf between the less developed and more developed States. Maharashtra alone received almost as much financial assistance as Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal put together. Bihar and Orissa have shares of financial assistance that are adversely disproportionate to their population shares.

With regard to FDI, Tamil Nadu has attracted several automobile manufacturers, such as, Ford, Mitsubishi, and Hyundai. Near Chennai, an auto-ancillary park is coming up that will help enhance the availability of world-class auto components to multinational manufacturers in Tamil Nadu and neighbouring States. Karnataka and Andhra Pradesh have witnessed investments by software giants, such as Microsoft, Oracle, Novell, and Sun Microsystems, as India is increasingly emerging as a major software development centre. These companies are operating in the Indian market either through 100 per cent equity holding, joint ventures with Indian companies; or marketing or technical collaborations. In addition to IT companies, Andhra Pradesh has also been successful in attracting ABB, Rolls Royce, General Electric, Lurgi, and U.S. First Boston. Similarly, Gujarat has the presence of AT&T, GE Plastics, Unilever, Sumitomo, and Siemens. Finally, Maharashtra has Coca-Cola, Enron, Mercedes Benz, Siemens, Proctor & Gamble, Unilever, and Unisys.

In software exports, Karnataka, Maharashtra and Tamil Nadu are in the lead. While Bangalore and Mumbai were traditionally the choice locations of software companies, the last few years have seen the emergence of Chennai, Hyderabad, Pune, and Gurgaon as prominent software centres where both Indian companies and multinationals have located their operations. In addition, several foreign companies have located their back office operations in Bangalore, Chennai, and Pune. Abundant supply of labor, low wages, cheap satellite communications and the internet have been instrumental in the decision of foreign firms to establish their back office operations in India. These range from billing to payroll handling, from credit appraisal to airline reservations, and from inventory management to answering customer complaints. Data transcription and transmission for hospitals in the U.S. and tele-marketing for U.S. and European firms is also being undertaken by Indian companies based in Chennai and other Indian metropolitan cities.

The State-wise distribution of 100 per cent export-oriented units (EOUs) is also seen to be concentrated in the reforming States. Out of a total of 3281 EOUs all over India, as many as 2228 or 68 per cent were located in the five reform-oriented States.

Some of the social indicators for which State-wise data is available also indicate that our group of reform leading States are relatively better placed. Of course, Kerala is an exception with the highest life expectancy at birth, and the lowest birth rate, death rate, infant mortality rate and the total fertility rate among all the Indian States. On the other hand, Bihar, Orissa, Madhya Pradesh, Rajasthan and Uttar Pradesh have high infant mortality rates and life expectancy that is below the national average. Li-

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teracy indicators too depict a similar trend among the States with Kerala once again ahead of them all.

While Kerala and Tamil Nadu have already reached replacement level TFR, only seven States are expected to attain that status by 2025. These are Andhra Pradesh, Assam, Gujarat, Haryana, Karnataka, Maharashtra, Orissa, and West Bengal. The TFR is expected to be much above the replacement level well beyond 2025 in Bihar, Madhya Pradesh, Rajasthan, and Uttar Pradesh. Data from the 1991 Census showed that in order to achieve universal literacy Kerala would require 1.2 decades, Madhya Pradesh 5.6 decades, Uttar Pradesh 7.1 decades, Rajasthan 7.3 decades, and Bihar 9.7 decades. Universal female literacy, according to Census projections, would be attained in Kerala in 1.3 decades, but it would take 7.3 decades for Madhya Pradesh, 12.4 for Rajasthan, 9.2 for Uttar Pradesh, and 12.1 decades for Bihar.

The Andhra Pradesh Government has taken important measures to improve public finances and sector policies. In particular, it has increased the cost of subsidised rice from Rs. 2 to Rs. 3.5 per kg, and reduced per-family allocations by 25 per cent. It has also raised power tariffs by 20-60 per cent to non-agricultural consumers, and by 10-25 per cent in the case of agricultural tariffs. Subsequently, facing strong opposition to these measures the Government had to reduce these tariff levels by about 40 per cent. While this was a significant reform initiative, the revised average tariffs for farmers still covers only 9 per cent of production costs. Other measures include tax increases; the first steps toward the reform of the power sector and significant increases in irrigation charges along with important institutional reforms, such as the creation of a Water User Associations and the devolution of operation and maintenance to them. Additional measures being implemented include containment of the wage bill, further reduction of food subsidies, relaxation of prohibition, privatisation of SoEs, further adjust-

ments of water and power rates, and other revenue enhancement efforts.

The key fiscal objective is to achieve fiscal sustainability through a change in the composition of public expenditure. That is, a significant reduction of rice subsidies and employment in the State Government and a corresponding increase in expenditure in social and infrastructure sectors particularly in primary education and health, nutrition, irrigation and road sectors. Fiscal reforms are being accompanied by significant changes in sector policies - restructuring of the power sector; improvement of service delivery in primary education, primary health and nutrition; strengthening of O&M management in roads and irrigation sectors, and acceleration of users participation in the management of public canal irrigation networks.

The Gujarat Government is in the process of undertaking policy reform in several key areas of the State economy.

The major components of this reform programme are: a) Reform of State-owned enterprises through privatisation, divestment, closure, merger and restructuring. This component has been designed to reduce and rationalise the State Government's role in a number of areas and to curtail the financial burden of the SOEs on the State Government's Budget and the banking system. b) Fiscal reforms that consist of measures to reduce the State's fiscal deficit, including tax and expenditure reforms. The key objective of this component is to support the fiscal adjustment through design and implementation of tax and expenditure restructuring and upgradation of the Finance Department's Budget policy formulation, planning, management and control systems. c) Creating a policy environment for private sector participation in the development of infrastructure in the State. The primary idea in this segment is to enhance the capacity of the Gujarat Industrial Investment Corporation so as to promote infrastructure

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development and appraise, mobilise financing for, and supervise the implementation of, infrastructure projects by the private sector, especially in the roads and transport and port and power infrastructure sub-sectors in the state; and d) Development of a core investment program to ensure that sufficient funds flow into key areas of the State's economy, i.e., the social and physical infrastructure sectors. However, the State Government plans to continue with subsidised tariff for agricultural and socially obligatory activities such as supply of drinking water and street lighting and lighting for urban and rural poor.

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