

# A picture of a growing economic divide in India

## Context

Data from the paper titled, 'Relative Economic Performance of Indian States: 1960-61 to 2023-24', show a growing gap that is leading to the questioning of federalism

## Introduction

In September this year, the Economic Advisory Council to the Prime Minister (EAC-PM) released a paper shows the Relative Economic Performance of all States: 1960-61 to 2023-24. It presents the share of each State in the country's income and the per capita income compared to the all-India average.

- For Example, Maharashtra, which is the highest contributor to the nation's economy, has a per capita income of about 150% of the national average. It consists of Mumbai, which is rich, and Vidarbha, which is known for farmers' suicides due to poverty.
- Mumbai's rich contribute the largest amount of direct taxes and the city's municipality is the richest in the country. But it has huge slums with uncivilised living conditions.

## Regional Differences

- The report provides the consistently better performance of the western and southern regions of India and the weak performance of the eastern States.
- The northern States of India have poor performance with the exception of Haryana and Delhi.
- the data shows that, the growing economy divide in the country, which is not good for a federal and diverse nation like India.

## Effect of federalism

Definitions: Federalism is a system of government that distributes powers and responsibilities between a central government and regional governments.

- Representatives of the richer States recently held a conclave in Kerala and argued that they are not receiving their fair share of resources from the Centre. That shows the weakening of the spirit of federalism.

- In the year 2000 also, there was a 'Conclave of the successful' to protest the devolution by the Eleventh Finance Commission of India.

## Threat to federalism

- The continue differentials in the economic performance of different States are threatening the federalism.
  - The policy needs to reverse this trend by keeping differentials at the present level is no more an option.
  - The requirement of a reversal trend of private investment, weaken the governance and poor infrastructure in the States are lagging.
- Required Actions from Centre and States: Both the Centre and the States need to act on strengthening the federalism.
  - The States need to improve governance and reduce the levels of corruption in their jurisdiction.
  - Public expenditures on social sectors need to be raised substantially. Private investment in the poorer States cannot be raised by fiat in the market-driven economy.

## Way Forward

- Reassess the Role of Governors
- optimal Utilization of Inter-state Council
- Empowerment of Local Self-Governments
- Electoral Reforms for Political Equity

## Conclusion

Addressing persistent frictions in Indian federalism requires a comprehensive approach, it is crucial to work on issues like fiscal policies, institutional mechanisms, and political empowerment, ensuring a more cooperative federalism and effective governance system which could help the poor performing states to concretise the federal structure.