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SUBSISTENCE ECONOMIES AND INORGANIC STATES : ECONOMIC INVOLUTIONS IN BIHAR AND MADHYA PRADESH

Introduction

Unlike in many countries of the developing world which are crippled with both economic and political crisis, the Indian scenario is characterised primarily by an economic crisis in the form of its stark failure on the distribution front, in spite of a growth momentum that was at least moderate throughout since independence. For a large section of the population, the resulting deprivation in terms of social opportunities is much deeper than what the usual consumption or poverty estimates indicate. That this prolonged deprivation implied certain incapacitation, both in social and political sense, it constrained the functioning of the state and a political crisis has, thus, gradually emerged, secondary to the economic one but yet very critical. Among the studies that address this distributive crisis, the most voluminous are the poverty studies on the profile of the poor, determinants of poverty and strategy of poverty alleviation, most of them focusing on the rural poor. Since India is a large country with wide regional variations and, in any case, a federal political structure is operative here, an alternative approach to the same enquiry could be regional — analysing first how the regional inequality itself has moved over the years and then relate the regional poverty levels to the growth and structural changes in respective regions. This approach obviously creates a space for judging how the functioning of the economy and the state at regional levels have tried or failed to respond to the problem of persisting distributive failures and the recurrent poverty.

On the first issue, viz., inter-regional disparity in India, the evidence clearly demonstrates a disturbing trend — not only the different regions in India have ‘diverged’ vis-à-vis their per capita income status since at least the early seventies, but the process has been faster since the mid-eighties (Dasgupta et al, 2000). This is in complete contrast to India’s development experience in any other field, where the progress might have been of varying magnitude, but nowhere has it been in the ‘opposite’ direction. Further, apart from widening over the years, the regional disparities in India also show that the relative ranking of the different regions in terms of their per capita income levels has remained practically unchanged for poorer regions for last three decades, with very moderate changes in the ranking of some of the richer ones (Table 1); in other words, the regions that were poor (rich) earlier are also the ones that continue to be poor (rich) today. If the state were indeed the principal development agency, such a secular homogeneity among the poorer and richer regions of India probably indicates that the relation between functioning of state and development, howsoever strong, is not strong enough to reverse the historical trend. Secondly, that the regional inequality in India is actually widening for last three decades also suggests that the relation between state and development is not uniform throughout the country; it unfolds itself in one manner in poorer regions and in a different manner in richer regions. Alternatively, one could also hypothesise that, in the face of a failing or a weak state, the initial small differences among the regions are a kind of self-reinforcing force, thereby making the differences wider over time. There could be several factors behind such contrasting pattern of state-development relationship in poorer and richer regions; it could be related in the nature and capacity of regional states, the policies of the

national state, the nature of market forces at the regional/ national level or any other region-specific factor. But if one were to unravel the nature of this relationship, the preferred point of departure should obviously be an exercise to characterise the nature of development itself at regional levels. We, therefore, start with such an exercise in the specific context of Bihar and Madhya Pradesh, two of the most backward regions of India. Among the 15 major Indian regions (each with a population exceeding 20 million), Bihar has been consistently at the bottom, whereas Madhya Pradesh has always been around twelfth position in terms of their per capita incomes (Table 2).

Development Patterns : National and Regional

A striking feature of India's development experience since independence is the continued dependence of a vast majority of her growing population on agriculture for its precarious livelihood. This is in spite of a growth rate of aggregate output at round 4 percent up to the seventies and close to 6 percent thereafter. During the same period, dependence of the population on low-productivity subsistence agriculture has decreased only marginally. This problem of duality (coexistence of large labour-surplus subsistent agricultural sector along with a small but modern industrial sector) was first analysed by Lewis (1958) and his model had also visualised that, with an emphasis on agricultural growth, a substantial transfer of labour from agriculture to industry will fuel a sustained expansion of modern sector to absorb productively the surplus labour in agriculture. This is obviously an agenda for a 'structural transformation' of the economy and all that Lewis had done was to indicate a pathway for that transformation. One could possibly identify an alternative pathway for the same development agenda (not easy at all, as the literature on dual economies clearly indicate), but any development of a largely subsistence economy is unlikely (nay, impossible) without 'breaking' this duality. Quite surprisingly, the development pattern of the overall Indian economy has not been analysed much along this framework of duality. A notable exception to this trend is a study by Patnaik (1997) which notes that the growth of agricultural production in India after 'green revolution' has been sufficiently high to meet the entire urban food demand and also helped to create a large food stock, the two together ensuring that the industrial economy does not suffer from any food supply constraint (as it severely did in the sixties) even in the face of serious crop failures. This economic achievement has been noted by many; but Patnaik simultaneously observes three other accompanying trends which together indicate how the Indian economy is made to miss Lewis pathway of transformation of subsistence agricultural sector. After the initial success of green revolution, these trends are indeed paradoxical :

1. The real net domestic product per head of rural population has remained nearly constant and the current per capita food production in India is barely 10-15 percent higher than it was in early fifties. If one takes out the green revolution areas (less than one-fifth of country's total cultivated area), then it is very likely that per capita food production is indeed declining. This is exactly the opposite of what Lewis model envisages as a necessary condition for breaking the sectoral duality.
2. Irrespective of the growth rates of aggregate output in different regions, the shift of labour from agriculture to non-agriculture is extremely slow. In about fifty years since

independence, the urbanisation has gone up by barely 16 percentage points. Not only the absolute size of rural population today is larger, but rural workers per acre of gross (not just net) cultivated area is also higher, far exceeding the carrying capacity of land. The expected sectoral shift of workers/ population would have been in any case slow in backward regions; but even in the fast-growing regions, the shift was only marginally higher.

3. Quite paradoxically, a phase of deceleration in the industrial growth has gripped the Indian economy after the green revolution which indeed had freed the industrial sector of the critical problem of adequate supply of food for its workers. The industrial sector had later revived after liberalisation when the export market had tried to supplement the sluggish domestic demand; but, as was noted earlier, the pace of widening of regional disparities had also increased during this later period.

These three observations, taken together, indeed present a most comprehensive description of the development ‘pattern’ of the Indian economy, seen from the perspective of either structural change or growth of aggregate output or the distributive outcomes. For one, the first observation clearly indicates how, after it had ensured a steady supply of food for the urban workers, the rural economy was made to remain otherwise insulated from its urban counterpart. In the face of much higher growth rates of urban economy, this insulation only meant further dualisation of the Indian economy which was already a dual one to start with. This in a sense is a structural retrogression. This insulation would not have mattered much if the insulated subsistence economy was becoming steadily smaller. But, as the second observation indicates, this was certainly not the case. With its low productivity, the rural economy had to support a large and growing population, thereby allowing an acute problem of distribution — both within rural economy and between rural and urban areas, the regional disparities being the reflection of the same phenomena. Finally, the third observation underlines that the growth of agricultural/ rural economy is not merely an issue of inequality and poverty; it is also a critical condition for economic growth per se through its immediate implication for sustained domestic demand and, at a not too distant period, for higher savings. In the face of a continued existence of a large subsistence economy, growthrate could at best be moderate, with distributive problems ever-attendant and sometimes threatening.

It is very rational to treat the above notes on overall national development pattern as the reference point for an analysis of regional development patterns, including that in Bihar and Madhya Pradesh. In fact, the framework is even more relevant for these two states, as their economies are more dual than India as a whole. Restricting this analysis to the period of eighties and nineties, we may first note that the agricultural growthrate in India during this period has been around 2 percent, just around the growthrate of population, implying a constancy in the per capita availability of food grains; in contrast, the non-agricultural output has grown at a much higher rate around 7-8 percent. During the period, the relative size of the population dependent on agriculture has of course decreased (urbanisation increasing by about 5 percentage points), but the overall impact of widely varying growth rates and moderate shift of population has been a deepening of duality of the Indian economy, during both eighties and nineties. Madhya Pradesh, which is often cited as one of the better performing regions among

the backward ones, is also characterised by a similar trend, with the additional unpleasant trend that per capita food availability there is indeed declining. In other words, notwithstanding the decent growth rate of its non-agricultural sector (close to the national average), the challenge of subsistence for its rural population is even more threatening.

Unlike the development trends in India as a whole and Madhya Pradesh where aggregate growth and structural changes during eighties had continued in the next decade, the trend in Bihar is extremely dissimilar between eighties and nineties. In the earlier decade, it had broadly followed the national trend — a none-too-low growth of the non-agricultural sector, accompanied by an agricultural growth rate marginally below the population growth rate, the two together ensuring an overall growth performance, superior to Madhya Pradesh but inferior to the national average. But during the nineties, the economy seemed to be guided by an entirely different economic force, particularly its non-agricultural sector which practically stagnated. Fortunately, the agricultural sector continued its buoyancy, recording a growth rate in excess of population growth, probably for the first time since independence. The aggregate growth rate, however, was so low that there was no addition to per capita income levels in Bihar during the nineties. This is undoubtedly a crisis-like situation. If the economy was able to withstand this pressure, it was probably because, although aggregate growth had eluded it, the challenge of subsistence was at least lessened to some extent. Unsurprisingly, this trend also implies that Bihar's economy is less dual in nineties than in earlier decade; but it is obviously not a structural 'progress' which can happen only when the subsistence economy becomes smaller with shift of workers from agricultural to the non-agricultural sector.

In the context of regional disparities, if one compares the growth performance of either Bihar or Madhya Pradesh at one hand and the national economy at the other, it emerges that, leave alone Bihar, even Madhya Pradesh is increasingly lagging behind the national performance levels. An analysis of regional disparities in growth rates during pre - and post-reform periods clearly shows that some of the backward regions (like Rajasthan and Madhya Pradesh) might have performed well during the post-reform period, but none has acquired a growth rate high enough to reduce the gap between the region and the national average; hence, the regional inequality has not only persisted, but actually widened (Ahluwalia, 2000).

A parallel of the process of widening inter-regional disparities (present even in eighties, but faster during the nineties) can be found in the trend of intra-regional disparities also. If the sectoral composition of the economy of different districts within a region is not uniform, the observed sectoral disparities at the aggregate level manifest in different degrees among the districts, leading to varying patterns of intra-regional disparities. Since the districts are basically administrative units, with or without a distinct economic profile, an analysis of intra-regional disparity is probably more insightful when economic zones within a region are used in place of districts. In an Appendix, we have presented the results of an exercise which first identifies the important economic zones in Bihar and Madhya Pradesh and then enquires whether the disparities in development in these zones have widened or reduced during the nineties. In the first part of the exercise, through a cluster analysis, 29 districts in Bihar are grouped into 6 clusters / zones which could be ranked in terms of their development status. A similar exercise

then divides the 38 districts of Madhya Pradesh into six development zones. In the second part of the exercise, such a cluster analysis for Bihar and Madhya Pradesh is done twice — first using the data relating to 1990-91 and then for the year 2000-01.

A noteworthy feature of the development dynamics of the nineties, emerging from the second part of the above exercise, is the widening inter-zonal (and hence inter-district) disparities in development in Madhya Pradesh. At the end of nineties, the most developed zones had a few more members and the bottom zones were also swelling, thus leaving the middle zones much thinner. In contrast, a parallel phenomenon is nearly absent in Bihar. This finding is very similar to what we had noted earlier in our analysis of duality, viz., a structural deterioration of the economy of Madhya Pradesh, but not so much of Bihar. It would, however, not be proper to explain it as a consequence of the ‘pace’ of development in two regions — slow in Bihar and moderate in Madhya Pradesh. A number of variables included in our cluster analysis relates to agricultural sector, the main source of whatever growth that Bihar has recorded. It appears that Bihar’s growth (mainly in agriculture) had a reasonable geographical spread, whereas growth of Madhya Pradesh economy (mainly in non-agricultural sector) had obviously showed high geographic concentration.

Bihar and Madhya Pradesh : Disaggregated and Compared

A cluster analysis, as done above, is generally used as a statistical method for classification and not for comparing two entities. But we have attempted here to use the technique for such comparison through an atypical approach. The genesis of this exercise laid in the uncomfortable question that one could not avoid at the end of earlier analysis — are the clusters in Bihar and Madhya Pradesh (labeled A to F) are comparable? Alternatively, one could also ask — is the cluster A of Bihar and that of Madhya Pradesh are nearly the same? Since clustering was done using as many as 9 variables, straight comparisons of a given cluster (say, A) was bound to be inconclusive. However, one alternative way of answering this query was to put all the 67 districts of Bihar and Madhya Pradesh in a combined database (as if they are from the same region) and then subject them to a cluster analysis. In doing so, however, we had increased the number of clusters to be 10 to avoid too many districts thronging in a single cluster. The results of this exercise, as presented in the Appendix, are indeed interesting.

The best cluster A comprises only one district Patna from Bihar. Cluster B then draws Gwalior and Indore from Madhya Pradesh. All these three districts, as is obvious, are highly urbanized ones. Because of an exceptionally high decennial growth rate of population (one of the variables used for the cluster analysis), the capital district of Bhopal was placed alone in cluster G, far down the development ladder. It would be more meaningful to ignore this ranking and treat Bhopal as a member of cluster A or B. Surprisingly, the next two best clusters – C and D – are both occupied by the districts of Bihar. Thereafter the four clusters — E, F, G and H – are occupied all by the districts of Madhya Pradesh (except one district of Bihar falling in cluster F). The penultimate cluster I contains the largest number of 17 districts from both Bihar and Madhya Pradesh which are all very backward ones and the only cluster to have mixed membership. Cluster J, the most backward, then contains two frontier districts of Madhya Pradesh (Sidhi and Jhabua). This classification of the 67 districts of Bihar and Madhya Pradesh obviously presents a paradox — while Madhya Pradesh as a whole is better off than Bihar in

terms of aggregate growthrate (and some other indicators of development), most of the districts of Bihar are placed at a higher development level by the present exercise compared to those in Madhya Pradesh. The paradox can be largely resolved if one remembers that the chosen variable for the cluster analysis were not adequate to capture the achievements of the Madhya Pradesh economy in the non-agricultural sector which is much larger there than in Bihar. With an alternative indexing that adequately recognizes the contribution of non-agricultural economy towards the overall level of development, the districts of Malwa region of Madhya Pradesh would have probably occupied clusters C or D. However, if the comparison has to have a rural 'bias' (since most people live in villages), the development levels will probably be higher in Bihar.

Poverty Reduction and Employment

By the middle of seventies, it was realized by the Indian planners that the task of reducing absolute poverty in India cannot be left to the growth process alone. A number of programmes had thereafter been launched as targeted exercises for alleviation of poverty. The regular estimates of headcount of population below poverty line also started receiving wide public attention from this period and the pace of reduction in poverty estimates became a crucial element in judging the economic performance of various regions in India. Alleviating poverty was considered as much a challenge to the state as the task of attaining high growth rates.

The poverty estimates of India, latest as well as previous ones, show that its intensity is the highest in Bihar. The situation in Madhya Pradesh, as expected, is much better, in consonance with its higher income level. But the performance of the state in two regions can probably be better compared in terms of the pace of reduction in poverty, not just its absolute level (Table 5).

During the eighties, the pace of poverty reduction was nearly uniform in Bihar, Madhya Pradesh and India — the poverty estimates decreasing each year by a little less than 1 percentage point. The decomposed estimates of poverty reduction in rural and urban areas in India as a whole showed uniform pattern in both the areas. However, at the regional levels of Bihar and Madhya Pradesh, they showed an awkward trend, more so in the latter. There was a clear dissonance between agricultural (non-agricultural) growth rate and pace of rural (urban) poverty reduction, the contrast being very sharp in Madhya Pradesh where a 7.5 percent growth rate of non-agricultural sector during eighties did not make any impact on urban poverty ! Thereafter, the nineties had witnessed an acceleration in the poverty reduction process for the country as a whole, poverty estimates dropping by 1.6 percentage points each year, roughly double the space of eighties. But here again the pace of poverty reduction at regional levels did not seem to be much related to growth of sectoral outputs. In Madhya Pradesh, although the reduction in urban poverty levels was substantial, the rural poverty levels had decreased only marginally. Therefore, the overall poverty levels had decreased there at a moderate rate, in spite of a steady growth of the economy during the decade. With a lower growth rate of regional economy, the pace of poverty reduction was, however, faster in Bihar. But this is not indeed a paradox; it was possible because whatever little growth that Bihar economy had managed, it was all in the agricultural / rural sector.

A summing up of these economic trends clearly indicates two distinct development patterns in Bihar and Madhya Pradesh. The contrast is not just limited to a large difference between the growth rates of these two economies, but it concerns their structural characteristics as well as distributive mechanisms. Madhya Pradesh economy had certainly grown steadily over the eighties and nineties, but most of this growth was concentrated in its non-agricultural sector. The growth pattern had also entailed widening intra-regional disparity and a very modest progress towards poverty reduction. At the current low income levels, widening of these disparities in Madhya Pradesh is certain to create some additional economic and social pressure, deepening its development crisis. Bihar, on the other hand, is facing a different kind of crisis, its economy stagnating during the nineties, after experiencing a modest growth during the eighties. But fortunately, its agricultural sector had maintained steady growth rates during both eighties and nineties, having obvious favourable distributive implications. It is most likely that in the absence of this (fortuitous?) agricultural growth, the development crisis in Bihar would have acquired dangerous dimensions.

Development connotes growth of aggregate output, structural changes to break the duality of the economy and distributive gains, all in concomitance and, in that framework, it was a failed process in both the regions. Although the national economy as a whole was a victim of this economic malaise, albeit to a smaller extent, this was not the pattern in every part of India. In several (smaller) regions, high and sustained agricultural growth rates have played an important role in shaping the regional development patterns through creating agricultural surpluses for investment in the industrial sector and simultaneously enlarging the local demand. Exploring this relationship, concludes a study “Certain parts of Andhra Pradesh, Kerala and Karnataka in the south, Haryana in the north, Gujarat and parts of Maharashtra, have shown prominently dispersed growth ... We note the importance of agricultural surpluses in adequate quanta to sustain industrial expansion. The regions sharing some industrial vitality appear to be the one where agricultural growth has also been promising” (Bhardwaj, 1995).

The recent development experiences in Bihar and Madhya Pradesh, however, are in sharp contrast to those observed trends in limited parts of the country. In Bihar, although there was no structural retrogression and there were also some distributive gains, the growth process itself had become thwarted during the nineties. Madhya Pradesh, on the other hand, had experienced a moderate growth rate, but its gains were far from distributed and further, structural features of the economy had indeed worsened during the period. Taken together, these two economic trends suggest that subsistence economies, when they fail to tread the evolutionary Lewis path of structural transformation, can either remain in a stationery state or at best experience ‘involutionary’ changes. The second possibility is more likely, because autarkic forces are operative even in backward dual economies, and in any case, they cannot remain insulated from all possible externalities. These autarkic forces or externalities might at best cause a growth in limited parts of the dual economies, without changing its structural parameters. Under such circumstances, the economy would change but not possibly move, as was observed in both Bihar and Madhya Pradesh.

The possibility that a subsistence economy may experience motion ‘within itself’, but not a motion ‘towards a higher development plane’ was identified as a ‘low level equilibrium trap’ in a theoretical formulation long ago (Nelson, 1956). Although the contribution of Lewis, published two years later, was analytically more insightful, Nelson’s formulation is very useful in the context of Bihar and Madhya Pradesh since, instead of asking ‘how subsistence economies grow’ as did Lewis, Nelson had addressed the query ‘how subsistence economies fail to grow’. Nelson demonstrated that subsistence economies are caught in a low-level equilibrium trap because an increase in per capita income there is associated with an increase in population growthrate (a very expected relation when the income levels are very low), thereby pushing back the per capita income to its stable equilibrium level. Bihar’s economy appears to be a neat example of this theory; Bihar is the only region in India where population growthrate during nineties was higher than in eighties. Per capita income in Bihar had remained unchanged during nineties, although its agricultural economy had registered decent growth. The trap in Madhya Pradesh was operative, because agricultural economy had not grown there.

Policies of the State and Regional Development

If the state was granted to be a ‘developmental’ state, the development patterns unfolded in Bihar and Madhya Pradesh would probably appear to be contradictions. In other words, such development patterns probably negate the existence of any relation between state and development. But this negative conclusion will be no less contradictory for two reasons. First, it would not be able to explain why some of the sectors and areas grow even within a backward region; and secondly, why some regions within the country develop in spite of sharing a common central state. It will, therefore, be meaningful to argue here that the relation between the state and development does indeed exist, but in the context of regional development patterns, the state in this relation includes one at the centre as well as its region-level counterpart. This is primarily because the major constituents of development policy in India have always emanated from the central state.

Before we proceed to explain how these unified policies of the central state have worked, it is necessary to outline here the broad features of these policies. These features were certainly not unchanged during the five decades since independence and they reflected the shifts in planners’ perception regarding the overriding economic issues and problems that the country was confronted with at various times. The four major phases of these policies were — (i) phase of heavy industry-led industrialization (up to the mid-sixties), (ii) phase of strengthening agriculture (late sixties and seventies), (iii) phase of pump-priming of aggregate demand (eighties) and (iv) phase of economic liberalization (nineties) (Jha, 2001). During the first phase, economies of both Bihar and Madhya Pradesh have been direct beneficiaries of central policies, by virtue of being mineral-rich states. The second phase of strengthening agriculture (through Green Revolution) was, however, clearly irrelevant for Madhya Pradesh where agriculture is basically of semi-arid nature and in Bihar it was relevant only very marginally. The Green Revolution was restricted to barely one-fifth of the total cropped area in the country, all outside Bihar and Madhya Pradesh. The main policy thrust in both these phases of development was certain ‘sector selectivity’ (heavy industries in the first phase and agriculture in areas with assured irrigation in the second phase), but they certainly had clear implications

for regional development patterns. Because of varying natural endowments in different regions and their growth patterns in earlier (colonial) period, the sector selectivity was certain to be automatically translated into ‘region selectivity’ and the thereby cause varying regional development patterns. It is in this sense that the central state is of more relevant in analyzing state-development relations even the regional level. If the region selectivity had operated in opposite direction (that is growth of backward regions fitting none into the sector selectivity) India would have had a difficult development trajectory. But that was neither likely nor reality.

For the present exercise, however, we are more concerned with the decades of eighties and nineties, the former characterized by pump-priming of aggregate demand and the latter by economic liberalization. The policy of pump-priming of the aggregate demand during the eighties was effected through substantial increase in government expenditure, both of the central and regional governments. This policy, as discussed extensively (for example, in Srinivasan, 200) had seriously affected the fiscal health of the state, again both at the centre and at region levels, but its success in enhancing the overall as well as industrial growth rates was too visible. Further, among the different development strategies at four phases, enhancing aggregate demand through government expenditure was the least discriminatory (regionally) and it had benefited even the poorer regions, though not equally. Under this policy, the economies of both Bihar and Madhya Pradesh had, therefore, grown at a moderate rate during the eighties, although both lagging behind the national growthrate. Bihar was indeed able to perform better, because its agricultural sector had also started growing during the eighties, a process possibly unconnected with the strategy of propping up aggregate demand.

The process of liberalization that the nineties ushered in, for its very nature, meant a much weaker state-development relationship, but even here the impact was of varying degree. A smaller role of the state affected those regions more where the alternative institution of market was weaker. And this is where a major structural difference between economies of Bihar and Madhya Pradesh lies. The market orientation of the Madhya Pradesh economy is higher, not merely because its non-agricultural economy is larger in size, but much of its industrial sector rests on private investment, not on a few large public sector undertakings that Bihar has. The industrial economy of Madhya Pradesh had, therefore, continued to grow at a decent rate of 6-9 percent during the nineties, ensuring an overall growthrate of 4.8 percent. Bihar, on the other hand, had suffered most because of liberalization and its non-agricultural economy was able to report a growthrate of mere 1.2 percent during the nineties. Thus, in spite of a very appreciable growthrate of its agricultural economy at 2.3 percent, the overall economy had practically stagnated. In the policy framework of Indian planning that we had outlined earlier, each of its four phases was seen to have a distinct policy thrust and one would not, therefore, certainly hypothesize a disassociation between state policies and regional development patterns. For regions like Bihar and Madhya Pradesh, this association might have entailed either absence of or very limited development, but there must have been other regions in India where the same policy, because of its discriminating nature, had shown opposite results.

The broad framework of planned development in India was pivoted, as shown to be so above, on the national macro-economic perspective which had informed the development pattern both

at the aggregate and at regional levels. This conclusion, however, should not be stretched far to imply that region-level states were left with no space to display their own development perspectives and the resulting tendencies. Such varying perspectives, either between the central and region-level states or among the latter, are very likely in face of dissimilar social base (not invariably though) of political powers controlling the different states, along with historical specificities of various regions.

Apart from Kerala which, because of its high levels of social developments, enjoys the reputation of an exemplary ‘out-lier’ in the Indian development model, there are a few other development phenomena in other regions of the country as well which can best be explained as the result of initiatives by the region-level states. Some of these developments, as located by Dreze and Sen (2002) are – rapid demographic transition (for example, in Tamil Nadu and Andhra Pradesh), land reforms (in West Bengal, Himachal Pradesh and Kashmir), the empowerment of disadvantaged castes (for example, in Maharashtra), democratic decentralisation (in Karnataka, West Bengal and Madhya Pradesh) and innovative education programmes (in Madhya Pradesh, Tamil Nadu and Rajasthan). Madhya Pradesh, interestingly, figures in the list twice – first in the context of decentralization and then for its education programmes. All these achievements had certainly raised the level of development in respective regions, but as was emphasized before, none of them had actually changed the relative overall development ranking of the regions vis-à-vis the rest.

Before we analyse how the region-level states have acted to cause these achievements, it would be useful to note that none of these interventions are indeed economic. Everywhere focus of the state-level governments was ‘social’— transforming the social base of agriculture (through land reform), strengthening social infrastructure (through education and demographic transition) or social empowerment (through positive discrimination favouring the disadvantaged in decentralisation process). All these achievements had obvious economic gains and some of these social programmes had entailed some immediate economic gains (particularly, land reform in West Bengal and demographic transition in Tamil Nadu and Andhra Pradesh), but they were not economic programmes in the sense of a state-led resource allocation exercise through investment, subsidy or the like. This tendency of the region-level states to restrict their interventions to social sectors, one can easily argue, is conditioned by their poor financial strength.

That the notable achievements of some performing regions are all in the social sector, however, does not explain why some of the regions have performed well while others, in spite of being even more backward (like Bihar and Uttar Pradesh), have displayed a resigned disposition. Any commonality among the performing regions is not discernable and, as such, one has to invoke some region-specific political considerations to explain their achievements, like a stable leftist government in West Bengal (to explain its land reform programme) or a strong ‘dalit’ movement in Maharashtra (to interpret the empowerment of the disadvantaged castes there). But the most noteworthy among list of phenomena is the performance of Madhya Pradesh (in both education and decentralization programmes) and Rajasthan (in education). Both these regions are from the group of low income states (Table 1) and neither of them enjoys the

advantage of a substantial social capital. However, these two regions are seen to share one common feature – although positioned around 10th and 11th vis-à-vis the income levels, their literacy status was comparatively lower (13th and 14th position) and Madhya Pradesh had an additional weakness because of its lowest rank in terms of ‘life expectancy at birth’ (Table 2). In other words, there was a clear ‘dissonance’ between the income and welfare levels of the people of these two states which seems to have generated a social pressure, leading towards a corrective development action. In all other poor regions of India (Bihar, Uttar Pradesh, Assam and Orissa) their welfare rankings are either very close to or better than their income rankings.

The nature of the state-development relation in the Indian context, as unraveled above, would suggest that while the states at the region-level have been mainly preoccupied with social sector, it was the central state that had mostly outlined the economic policies. This has generally been the practice in India, specially in recent decades, but the federal arrangements had not really ordained it to be so. There was at least one area, viz., physical infrastructure, which clearly fall within the realm of economic policies of both the central and region-level and where the latter had a large and specified responsibility. The continuous upgradation of physical infrastructure, however has been increasingly neglected by the states in the poor regions. This is a serious lapse which is turning the state-development relation in poorer regions even more feeble. The tendency is unquestionably attributable to the state of public finances at the region-level.

To maintain that the policy choices of the state were faulty or inadequate for any desired development and also demonstrate how indeed the working of those policies have steered the economy toward a less or un-desired path may be useful, but it obviously raises the query — what had indeed led the state to adopt those policies? The question is even more ‘natural’ in the Indian context since “a development ideology... was a constituent part of the self-definition of the immediate post-colonial state in India, and even now, after more than a decade of gradual liberalization, the state still (probably helplessly) carries that image of ‘prime mover’ of development” (Chatterjee, 1997). A recent paper on world poverty starting with the questions — why some region are poor and secondly, how they have ‘managed to do so’ — had addressed the issues from an economic perspective; but from a political perspective, issues are equally critical, specially the second one. The above inquiry, however faces one major hurdle — “Even though there probably are only a few pathways to economic prosperity, the number of routes societies can take to experience stagnation—even decay — are many” (Dasgupta, 2003). It is, therefore, a relatively easier task to explain ‘happening’ of a phenomenon, than its ‘non-happening, in our case development.

To begin with, we may first note that, along with some obvious failures in certain areas, the Indian state has also to its credit a number of achievements. Referring to the four major phases of Indian state planning in India mentioned before, one may note that in each phase the state had achieved certain important economic goals — establishment of a fairly strong industrial base in the first phase; removing wage goods (food grains) bottleneck in the urban areas during the second phase; managing of effective demand using Keynesian principles during the third phase to help the industrial sector sustain its growth; and finally, help the economy attain

increased growth rate for aggregate output during the fourth phase involving economic reforms. The tasks were not easy and, except in the last phase, it required major changes in the resource allocation pattern. Thus the state is clearly seen to be a major force guiding economic dynamics of India. However, states may differ in their capacities to get different things done because not all state intervention, impact the ‘content and process of politics’ in the same way (Currie, 2001); in the Indian context, its demonstrated ability to promote the industrial growth did not mean that it was also good enough to effect structural changes in its subsistence agricultural economy or eliminate widespread poverty. If the Indian state was responsive and effective for one task but indifferent and defaulting for another, then at least one explanation lies in the nature of the two tasks. For the promotion of the industrial sector, all that the state had to do is to ‘create some additional economic space’ through large public investments and extensive subsidies; in the process, it was certainly not disturbing or threatening any of the existing vested interests. This was not the case for effecting structural changes in the subsistence economies — the desired intervention of agrarian reforms there would have entailed ‘disturbing an entrenched vested interest’ in an already existing economic space. Politically, creating an additional economic space is certainly easier than redefining the distributive rules in an existing economic space which is what agrarian is all about. Therefore, that the Indian state succeeded in localised growth and failed in dispersed distribution is disturbing, but not paradoxical to the premise of a state–development relationship. If sometimes in lay discussions, this is treated as a paradox, it is probably because ‘expansive’ character of the Indian state is taken to be indicative of its ‘strength’; this is as good as confusing volume with density.

For the contrasting performance of the Indian state to meet two different challenges, it is not sufficient to differentiate between the two challenges in terms of their (political) difficulty-levels, as done above. It is equally possible that structural changes in the agrarian economy had never appeared as one of the agendas of the ruling polity and hence of the state. Of the two main constituents of the ruling polity in India — the corporate lords and the landlords — neither had suffered because of archaic agrarian relations ruling the subsistence agricultural economy. The former had to face suffering only once, when food supply in the urban market was less than demanded during the mid–sixties; but green revolution in limited parts of India’s agrarian economy during late sixties had fully and permanently removed that bottleneck. Thereafter, industrial growth became insulated from agricultural growth and the corporate lords have ‘reasons’ to be indifferent to the problem. For the landlords, however, it is not indifference; they have obviously reasons to be active to ensure the perpetuation of existing agrarian relations which offer ample opportunities for rent income. Therefore, abandoning of the agenda for structural changes in agrarian sector is not a failure of the Indian state — it is a ‘willful default’ of the agrarian polity and a ‘convenient default’ of its industrial counterpart. “For this reason, it seems likely that the delivery of development and welfare benefits relies upon some degree of protection for the public from the *excesses of development elites* (italics added). There is a need to regulate and discipline predatory elites and to ensure that contracts and promises that they have made are honored before the public “(Olson, 1973). It is in this sense that Indian state is inorganic — neither the economically excluded populace is politically represented in the state (a common phenomenon in most countries), nor their economic interests dovetail to the interests of the development elite who comprise the state, frustrating a

possible indirect relation between the state and the excluded populace. In most of the developed Asian economies, the state has responded to the needs of the huge population dependent on subsistence economy—through the second path.

The wide phenomenon of rent income is not restricted to agricultural sector alone. The state structure itself is yet another large source of rent income and it remains so in all economies, backward or advanced. The government revenue is partly spent on public goods and the rest is drained away through rent income (for example, unnecessarily large bureaucracy and the straight leakage through corruption). The performing state or the good governance in this scenario only means minimising rent to maximise public goods, just as bad governance means maximizing the former to minimise the latter. But even bad governments have two options to maximise the rent income. Under the first, it could let the size of the government revenue remain same and then maximise rent entailing curtailing of public goods. Alternatively, it could increase expenditure on public goods at the current period (foregoing self-interest temporarily) causing expansion of the economy and higher government revenue and then extract larger rent income, made easy by the pie of government revenue becoming larger. Under the second scenario, there would be space for development even under ‘bad’ governance. This possibility was not altogether unfeasible during the earlier decades after independence when the government expenditure was substantial even in backward regions. But for this to be materialized the ruling elite had to be sufficiently sure about its continuation in power, without which ‘temporary foregoing of self-interest’ would have been irrational. It would require an independent enquiry to substantiate it (not possible in this paper), but political certainty has eluded both Bihar and Madhya Pradesh (more in the former) after the sixties when the euphoria of planning was over and hard realities of poverty and structural stagnation have started being felt by the victims and noticed by the polity and the state.

It is true that Indian state has not altogether crumbled even in the face of such persistent economic strain, but signs of creeping crisis are certainly visible. This study emphasizes that this crisis is not the outcome of a failing state; its emergence can be convincingly traced to a functioning Indian state, occupied with an explainable (not justifiable though) agenda. Concerned throughout as it was with the issues of inequality, poverty and subsistence economies with special reference to Bihar and Madhya Pradesh, the analysis probably presents a more bottom-up view of the crisis of the Indian state without losing sight of the economic and political aggregates at the top.

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Table 1 : Index and Ranking of the Major Indian States vis-à-vis Their Per Capita Incomes (Base : 1960-61 = 100)

State	Rankings			
	1971-72	1980-81	1990-91	1997-98
High Income States				
Punjab	560 (1)	662 (1)	949 (1)	998 (1)
Maharashtra	396 (4)	532 (4)	760 (3)	986 (2)
Haryana	480 (2)	558 (3)	841 (2)	854 (3)
Gujarat	464 (3)	595 (2)	686 (4)	893 (4)
Middle Income States				
Tamilnadu	352 (6)	375 (7)	625 (6)	725 (5)
Kerala	279 (10)	350 (9)	493 (9)	477 (6)
Karnataka	340 (9)	358 (8)	582 (7)	631 (7)
Andhra Pradesh	379 (7)	410 (5)	653 (5)	674 (8)
West Bengal	376 (5)	398 (6)	542 (8)	578 (9)
Low Income States				
Rajasthan	347 (8)	310 (11)	438 (11)	375 (10)
Madhya Pradesh	263 (12)	279 (13)	403 (12)	434 (11)
Assam	258 (13)	313 (10)	462 (10)	451 (12)
Uttar Pradesh	269 (11)	287 (12)	363 (14)	368 (13)
Orissa	218 (14)	274 (14)	377 (13)	399 (14)
Bihar	203 (15)	224 (15)	280 (15)	299 (15)
India	346	413	592	604

Note : In the last column, the rankings are with respect to the Per Capita Income in 1997-98; however, the Indices refer to the year 1994-95.

Table 2 : Status of Major States in India Regarding Their Human Development, Human Poverty and Per Capita Income

State	Per Capita SDP (Rs.) (1998-99)	Human Development Index (2001)	Literacy Rate (2001)	Life Expectancy at birth (2001-06)
High Income States				
Punjab	21184 (1)	0.537 (2)	70.0 (4)	70.9 (2)
Maharashtra	20356 (2)	0.523 (4)	77.3 (2)	68.3 (4)
Haryana	19716 (3)	0.509 (5)	68.6 (6)	67.0 (6)
Gujarat	18815 (4)	0.479 (6)	66.4 (8)	63.6 (10)
Middle Income States				
Tamilnadu	17613 (5)	0.531 (3)	73.5 (3)	68.4 (3)
Kerala	16029 (6)	0.638 (1)	90.9 (1)	73.4 (1)
Karnataka	15420 (7)	0.478 (7)	67.0 (7)	64.4 (7)
Andhra Pradesh	13993 (8)	0.416 (10)	61.1 (12)	63.9 (8)
West Bengal	13641 (9)	0.472 (8)	69.2 (5)	67.7 (5)
Low Income States				
Rajasthan	12348 (10)	0.424 (9)	61.0 (13)	62.5 (11)
Madhya Pradesh	10682 (11)	0.394 (12)	64.1 (10)	58.6 (15)
Assam	8826 (12)	0.386 (14)	64.3 (9)	60.0 (13)
Uttar Pradesh	8633 (13)	0.388 (13)	57.4 (14)	63.8 (9)
Orissa	8324 (14)	0.404 (11)	63.6 (11)	59.8 (14)
Bihar	4474 (15)	0.367 (15)	47.5 (15)	62.2 (12)
India	14395	0.472	65.2	66.9

Source : (i) 'Economic Survey, 2002-03', Government of India (for Per Capita SDP)
(ii) 'Human Development Report', Planning Commission, New Delhi, 2003 (for remaining data)

Note : Figures in brackets denote the ranks of the states.

Table 3 : Growth in Aggregate, Sectoral and Per Capita Income During Eighties and Nineties — Bihar and Madhya Pradesh

	Bihar	Madhya Pradesh	India
A. Gross State Domestic Product			
(a) Eighties	4.8	4.4	5.3
(b) Nineties	2.2	4.8	5.9
B. GSDP from Agriculture			
(a) Eighties	2.1	1.6	1.8
(b) Nineties	2.3	1.8	2.0
C. GSDP from Non-Agriculture			
(a) Eighties	7.5	7.2	8.3
(b) Nineties	1.2	6.9	7.2
D. GSDP (Per Capita)			
(a) Eighties	2.6	2.2	3.3
(b) Nineties	0.0	2.7	4.0

Source : (i) Dreze & Sen (2002) for GSDP and Per Capita GSDP
(ii) Sectoral Growth rates computed from unpublished CSO data.

Table 4 : Index of Duality of Economy of Bihar, Madhya Pradesh and India

State/Year	Agriculture		Non-Agriculture		Index of Duality
	Percentage Share in		Percentage share in		
	Output	Workforce	Output	Workforce	
Bihar					
1980-81	51.0	79.1	49.0	20.9	3.63
1990-91	48.6	78.0	51.4	22.0	3.75
2000-01	47.5	77.0	52.5	23.0	3.70
Madhya Pradesh					
1980-81	50.2	76.2	49.8	23.8	3.18
1990-91	42.0	76.4	58.0	23.6	3.24
2000-01	38.2	71.6	61.8	28.4	4.08
India					
1980-81	35.7	66.5	64.3	33.5	3.58
1990-91	31.9	67.0	68.1	32.0	4.47
2000-01	24.8	61.4	75.2	38.6	4.82

Source : (i) Central Statistical Organisation (various publications) for data on share of sectoral outputs.
(ii) Census Reports of three years for data on share of workforce.
(iii) Index of Duality (I) is calculated as follows :

$$I = \frac{\text{Share of agriculture in total output} / (\text{Share of agriculture in workforce})}{(\text{Share of non-agriculture in total output}) / (\text{share of non-agriculture in workforce})}$$

Table 5 : Poverty Ratios in Bihar and Madhya Pradesh

Poverty Ratio / Reduction		Bihar	Madhya Pradesh	India
Poverty Ratios				
Rural	1983	64.4	53.1	45.6
	1993-94	58.2	40.6	37.3
	1999-00	44.3	37.1	27.1
Urban	1983	47.3	48.9	40.8
	1993-94	34.5	48.4	32.1
	1999-00	32.9	38.4	23.6
Combined	1983	62.2	49.8	44.5
	1993-94	55.0	42.5	36.0
	1999-00	42.6	37.4	26.1
Annual Reduction in Poverty (Percentage Points)				
Eighties	Rural	0.6	1.2	0.8
	Urban	1.3	0.0	0.8
	Combined	0.7	0.7	0.8
Nineties	Rural	2.3	0.6	1.7
	Urban	0.3	1.7	1.5
	Combined	2.1	0.8	1.6

Appendix : Economic Zones in Bihar and Madhya Pradesh

Economic zones in Bihar and Madhya Pradesh were identified in an exercise (Ghosh, 2002) through a district-based statistical cluster analysis which, instead of putting together contiguous districts with broad similarities into a single cluster, involves ‘similarities’ alone as the basis of clustering, irrespective of the contiguousness of the districts in a particular cluster and also the number of districts in each cluster (Kendall, 1975). This appendix presents the broad results of the exercise. The exercise was done using following 9 variables, each an indicator of development — (i) Value of agricultural production (Rs./ha), (ii) Percentage of gross cropped area irrigated, (iii) Fertiliser consumption (kg/ha), (iv) Road density (km / '00 sq. km.), (v) Bank branches (no. / lakh population), (vi) Decadal growth rate of population, (vii) Percentage of urban population and (ix) Literacy rate.

The exercise was first done taking the year 1959-96 as the reference year and the resulting development clusters/zones are presented on the middle column of Table A1. The exercise divides districts in 6 clusters in both the states — A (most developed) to F (least developed)

A general acquaintance with economies of Bihar and Madhya Pradesh will suggest that their major economic zones have remained largely unaltered during recent decades. This, however, does not preclude the possibility of a few backward districts surging ahead or some relatively developed districts slipping down. The present exercise had, therefore, attempted a inter-temporal comparison of clustering patterns which tries to identify the changes in the boundaries of development zones between 1990-91 and 1999-00. In the absence of required data on all 9 variables, this exercise was carried out with only 6 variables (excluding 3 variables on road, bank and primary school density). The resulting cluster positions of various districts of Bihar and Madhya Pradesh are also presented in Table A1. Two important results emerge from this exercise. First, 5 districts in Bihar and 9 districts in Madhya Pradesh have changed their cluster rankings more than one step. Secondly, and this is more important, a noteworthy feature of development dynamics of the nineties in Madhya Pradesh is the widening inter-cluster (and hence inter-district) disparities in development, a parallel of the widening inter-regional disparities during the same decade. From the distribution of 38 districts of Madhya Pradesh among 6 clusters (Table A2), one can easily notice that while the top clusters (A and B) have a few more numbers at the end of the decade, the bottom clusters (E and F) are swelling, leaving the middle clusters (C and D) thinner. No such widening of inter-cluster of disparities, however, is found in Bihar.

Finally, this technique of cluster analysis was used for a comparison of development levels in Bihar and Madhya Pradesh. The details of this exercise are presented in the main text of this paper. However, the final results, dividing 67 districts of Bihar and Madhya Pradesh into 10 clusters, are presented in Table A3.

Table A1 : Cluster Position of Districts (Bihar and Madhya Pradesh) (1990-91, 1995-96 and 1999-00)

No.	District/Division	Cluster Positions			No.	District/Division	Cluster Positions		
		90-91	95-96	99-00			90-91	95-96	99-00
BIHAR									
1.	Patna	A	A	A	16.	East Champaran	E	F	F
2.	Nalanda	A	A	A	17.	West Champaran	C	D	F
3.	Rohtas/Kaimur	A	B	B	18.	Muzaffarpur	D	D	D
4.	Bhojpur/Buxar	A	A	B	19.	Sitamarhi/Sheohar	F	F	F
5.	Gaya	B	D	E	20.	Vaishali	D	E	F
6.	Jehanabad	B	A	B	21.	Darbhanga	E	C	F
7.	Nawada	B	B	B	22.	Madhubani	E	E	D
8.	Aurangabad	B	B	B	23.	Samastipur	D	E	D
9.	Bhagalpur/Banka	B	D	C	24.	Saharsa/Supaul	E	F	F
10.	Munger/Lak/Shek/Jam	B	D	E	25.	Madhepura	E	F	F
11.	Khagaria	F	F	C	26.	Purnia	E	F	F
12.	Begusarai	D	C	C	27.	Araria	F	F	F
13.	Saran	D	C	D	28.	Kishanganj	E	F	F
14.	Siwan	C	E	D	29.	Katihar	F	F	F
15.	Gopalganj	D	E	D					
MADHYA PRADESH									
1.	Morena/Sheohar	A	D	B	20.	Dewas	C	B	A
2.	Bhind	C	D	D	21.	Jhabua	F	F	F
3.	Gwalior	A	B	A	22.	Dhar	C	F	F
4.	Datia	C	A	D	23.	Indore	A	A	C
5.	Shivpuri	E	F	F	24.	West-Nimar/Barwani	C	D	F
6.	Guna	E	F	F	25.	East-Nimar	C	B	D
7.	Tikamgarh	C	D	B	26.	Rajgarh	E	F	F
8.	Chhatarpur	E	F	F	27.	Vidisha	D	E	F
9.	Panna	E	E	F	28.	Bhopal	B	A	C
10.	Sagar	D	E	E	29.	Sehore	E	E	F
11.	Damoh	E	C	E	30.	Raisen	D	E	D
12.	Satna	E	C	F	31.	Betul	E	E	E
13.	Rewa	E	C	F	32.	Hoshangabad/Harda	C	B	D
14.	Shahdol/Umaria	E	E	E	33.	Jabalpur/Katni	D	C	D
15.	Sidhi	F	F	F	34.	Narsimhapur	D	B	D
16.	Mandsaur/Neemuch	C	B	A	35.	Mandla/Dindori	E	E	E
17.	Ratlam	C	B	A	36.	Chhindwara	D	E	E
18.	Ujjain	C	B	A	37.	Seoni	E	E	E
19.	Shajapur	C	B	A	38.	Balaghat	D	E	D

Table A2 : Inter-Temporal Changes in Clustering Patterns in Bihar and Madhya Pradesh (1990-91 and 1999-00)

Clusters	No. and percentage of districts	
	1990-91	1999-00
Bihar		
A and B	10 (34.5)	7 (24.1)
C and D	8 (27.6)	9 (31.0)
E and F	11 (37.9)	13 (44.8)
Total	29 (100.0)	29 (100.0)
Madhya Pradesh		
A and B	4 (10.5)	8 (21.1)
C and D	19 (50.0)	10 (26.4)
E and F	15 (39.5)	20 (52.6)
Total	38 (100.0)	38 (100.0)

Table A3 : Distribution of Districts by Clusters in Combined Cluster Analysis of Bihar and Madhya Pradesh) (1995-96)

Cluster	Districts	No. of districts		
		Bihar	Madhya Pradesh	Total
A	Patna	1	0	1
B	Gwalior / Indore	0	2	2
C	Nalanda / Rohtas-Kaimur / Bhojpur-Buxar/ Jehanabad/ Nawadah / Aurangabad	6	0	6
D	Gaya / Bhagalpur – Banka / Khagaria / Begusarai / Saran / Siwan / Gopalganj / East Champaran /West Champaran / Muzaffarpur / Sitamarhi – Sheohar/ Vaishali / Samastipur / Purnea	14	0	14
E	Morena –Sheohar	0	1	1
F	Munger / Bhind / Datia / Raisen / Hoshangabad-Harda / Narsimhapur / Chhindwara / Balaghat	1	7	8
G	Bhopal	0	1	1
H	Sagar / damoh / Satra / Rewa/ Mandasaur – Neemuch / Ratlam / Ujjain / Shajapur / Dewas / East Nimar / Vidisha /Sehore / Betul/ Jabalpur-Katni / Semi	0	15	15
I	Darbhanga / Madhubani / Saharsa-Supaul/ Madhepura / Araria / kishanganj / Katihar / Shivpuri / Guna / Tikamgarh / Chhatarpur/ Panna/ Shehdol-Umaria / Dhar / West Nimar-Barwani / Rajgarh / Mandla-Dindori	7	10	17
J	Sidhi / Jhabua	0	2	2
	Total	29	38	67



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- ✎ to undertake academic research of direct relevance to development efforts made by an individual or a group or the community itself;
- ✎ to broaden the database of research as also of its end use by involving as many classes of persons and institutions as possible;
- ✎ to offer research results in a more innovative, demystified and useworthy form; and finally
- ✎ to restore man to his central position in social research in totality and with full dignity.