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Good Governance and Social polarization amongst Indian States and its Implication

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Introduction:

The concept of good governance often used as a model to compare the performances of ineffective economies/regions with those which are better off. However the World Bank in its report entitled "Governance and Development", in 1992 defined good governance as "the manner in which power is exercised in the management of a country's economic and social resources for development", considering institutional approach where good governance is used as a process of decision making. In developing countries the policy-makers begun to view good governance as a pre-requisite to sustained increases in living standards (Kaufmann et al. 2000; Knack 2003) by achieving rapid economic development. Here governments are seen as an institution itself, who is supposed to be responsible to bring good governance in the economy by laying down effective policies that could ensure to achieve targets of higher growth rates. It is also presumed that the benefits of growth would automatically trickle down to the poor. But sufficient evidences indicate that rich are benefited more than the poor. The history of developing countries shows that these countries face rising income inequalities during the period of higher growth which affects their welfare aspects.

Discussing further on polarization, Joan Esteban and Debraj Ray, 2008 have also pointed out that although polarization and inequality are two different measures of society where society becomes polarized among different groups not only due to income inequality but for other factors also like wars, riots, crime, strike and many other form of social tensions, etc are clear elements of social polarization. Even then in economic terms social polarization is associated with the segregation within the states or society that may emerge from income inequality predominantly and other factors like lack of employment opportunity, gaps among poor and rich, differences in skills, education, real-estate fluctuations, economic displacements etc.

However, Kaufmann, et al. (1999a, 1999b, 2002) indicated a strong causal relationship running from good governance to an increasing level of per capita income and other social outcomes. Economists also agree that governance is one of the critical

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factors explaining the divergence in performance across regions / countries. Whenever any economy undergoes profound economic changes, it is implicitly presumed that the benefits of economic growth will automatically trickle down to poor and reduce income inequality across regions. As a result positive changes will be reflected in the form of increased employment opportunities, good standard of living and low rate of total economic crime and so on. As observed by the UNDP (1997) report that result of good governance is development that gives priority to poor, advances the cause of women, sustains the environment and creates needed opportunities for employment and other livelihoods. Therefore the phenomena of good governance that is usually explained in the form of economic policies in decision making processes must contribute to reduction in all types of inequalities across regions. Thus we see that the concept of good Governance is multifaceted and encompasses different element of the state and the society. The focus objective of good governance should be able to bring equality within economy with reference to different economic, social, political and ecological parameters of society. It must develop a kind of mechanism through which the existing system can provide equal opportunities to develop, grow and resource acquisition within society. The present paper attempts to examine how far the Indian policies able to govern Indian states in reduction in social polarization across Indian states.

It is hypothesized that if the state income of two periods is increasing in any of the Indian states due to national level economic policies, it should translate in to proportionate increase in purchasing power of common people, standard of living and employment opportunities that can further translate into economic prosperity. Otherwise, this can lead to the severe consequences like; increase in crime rate, shift of social groups from high income to low income categories. Therefore, this paper is an attempt to investigate the inter-relations among income inequality, unemployment and crime rate amongst Indian states during 2011.

The present paper attempts to examine the policies related to good governance have been exercised so far after post reform period in India and are these policies able to achieve its targets in terms of reduction in income inequality, increase in employment opportunity, health improvements, poverty elevations etc. or it has resulted in social polarization across Indian states.

Review of Literature:

A growing literature prevails on defining and analyzing the governance and how it can be translate into good governance. Governance can broadly defined as the traditions and Institutions that determine how authority is exercised in a country matters (Kaufmann et al.2000), to economic development. Building on the ideas of neo-institutional scholars such as Douglass North and Mancur Olson, several cross-national empirical studies have found a positive relationship between the quality of institutions and governance structures and economic growth.

Mac Lachlan and Sawada (1997) examined changes between 1970 and 1990 in the (socio-spatial) inequality of average household income among neighbor hoods, using census tracts as the unit of analysis. They applied the Gini coefficient (specifically, the Gini concentration ratio) to measure socio spatial (between-neighborhood) inequality, and demonstrated that the rise in inequality in Canadian metropolitan areas was associated with deindustrialization. Furthermore, they noted, correctly, that many researchers have mistakenly equated inequality and polarization, and vigorously argued that different measures are needed to measure the latter. However, the measure that they adopted – changes in the proportion of census tracts with average incomes in the middle of the income distribution – does not constitute a true index of polarization (since it does not meet the criteria for polarization indices, discussed below), and neither do the measures adopted by Bourne

Walks (2001) examined measures of neighbourhood income segregation in different zones of Toronto over the period 1971 through 1991, and showed that neighbourhood income differentiation is highest among neighbour hoods located close to the centre (in the inner city), and declines as one moves outward toward the edges characterized by new housing. This research also highlighted the decline of the inner-ring suburbs. Many of the same issues and patterns are evident in Montréal (Charron and Shearmur, 2005). Others have examined the degree to which poverty (with low income used as a proxy for poverty) is concentrated in certain neighbourhoods and segregated in space. Of course, inequality and poverty is not the same thing – inequality is relational and requires one to consider the full extent of the distribution, while poverty pertains only to the extreme lower portion of the distribution.

The above literature clearly indicates that polarization may it be social or economical, brings inequality within regions, within income groups, standard of living and difference with different segment of society. Polarization arises due to adverse effects of governance and policy failure. Hence the present paper attempts to assess the extent to which the income inequality prevails across Indian states and how far Indian policies are effective enough to reduce social polarization.

Objectives of the study:

1. To study income inequality among different states of India over the decade 2001-2011.
2. To measure the inequality between per capita income and total economic crime rate within different states during the study period.
3. To measure the inequality between per capita income and employment opportunity among different states.
4. To decide how social polarization has occurred due to income inequalities within the states.
5. To examine how far the Indian policies are able to govern Indian states in reduction of social polarization?

Methodology:

This study has used secondary sources of data for the decade of 2001-2011. The data was collected on different parameters which become the basis of social polarization like; income, economic crime, employment opportunity etc. These data are collected from authentic sources like indiastat.com, RBI website, etc.

The tools used to analyze these data are mainly percentage change, arithmetic mean, standard deviation, coefficient of variance and to measure inequality, method of Lorenz Curve has been used. The Lorenz Curve is a tool used to represent income distributions as proposed by Lorenz (1905); it tells us which proportion of total income is in the hands of a given percentage of population. However, instead of ending up with income shares, the Lorenz Curve relates the cumulative proportion of income to the cumulative proportion of individuals. The shape of the Lorenz Curve is therefore a good visual indicator of how much inequality there is in an income distribution. When incomes are less dispersed (i.e., there is little variability among incomes), the Lorenz Curve tend towards the equi-distribution line. When incomes are more dispersed (i.e., there is a greater variability among incomes), the Lorenz Curve tend towards the kinked curve.

The paper also analyses the cross section of Indian states to understand the perspective and extent of social polarisation. It is also used further to analyse the data on total economic crime and employment opportunity.

Analysis and Discussion:

The study found wide variation in per capita growth of income within states. Some states have experienced 60 to 70 per cent increase in income over the decade (2001-2011) while states like Goa, Uttarakhand, Andaman & Nicobar Islands and Sikkim have experienced growth of the tune of 200 to 300 per cent. Such wide variations in growth targets among Indian states have resulted in inequalities. The states that have experienced high growth have different reasons according to their priority areas with respect to each state. For example state like Sikkim receives special central assistance being a north eastern border state. This in turn contributes towards increase in income of the population, resulting in the growth of Net state income. However state like Uttarakhand declared tax heaven to increase investment in this newly formed state during this decade. This has increased both employment and investment opportunity for new industries. The establishment of new industries caused rapid industrial growth within the state. That positively contributed to state’s income. The table below gives the disparity in growth of Indian states over the decade.

Table 1 - **Income Inequality Among Different States**

States (in Ascending order of) →	**% change in NSDP per capita (2001 to 2011)**				
States	**% change below 100**	**States**	**% change 100 to 200**	**States**	**% change more than 200**
Assam	66.75	Himachal Pradesh	100.67	Uttarakhand	206.34
Manipur	68.25	Arunachal Pradesh	101.14	Goa	224.59
West Bengal	76.36	Chhattisgarh	107.79	Andaman & Nicobar Islands	245.50
Uttar Pradesh	76.96	Tripura	111.81	Sikkim	305.00
Punjab	78.34	Chandigarh	115.95		
Madhya Pradesh	80.88	Puducherry	117.08		
Jammu and Kashmir	83.92	Jharkhand	118.21		
Bihar	85.23	Odisha	120.81		
Rajasthan	91.16	Haryana	121.34		
Meghalaya	97.50	Karnataka	124.51		
		Andhra Pradesh	131.27		
		Mizoram	136.39		
		Kerala	141.25		
		Tamil Nadu	151.30		
		Nagaland	153.88		
		Delhi	157.32		
		Maharashtra	164.06		
		Gujarat	183.38		

States like Tamil- Nadu, Nagaland, Delhi, Maharashtra, and Gujarat have recorded a growth of 150 to 200 percent over the decade, except Nagaland all other are developed states. Consistent development of these states is one of the major reasons for attracting lot of FDI. This has led to spurt in business activities and employment; resulting into such impressive growth. The table also explains comparatively poor performance especially of BIMARU states along with states like Assam, West Bengal, Punjab and Jammu & Kashmir. Of the BIMARU states Uttar Pradesh has the least growth and

Rajasthan the highest growth over the decade. This may be a result of political instability in Uttar Pradesh in comparison to Rajasthan which witnessed shift from Bahujan Samaj party to Samajwadi party twice during this decade.

It may be noted here that the reason to measure this growth in per capita is to reflect the actual growth of the state when population is taken into account. We feel that the state should design such policies through its governance that can translate the benefit of growth into income growth of its people. To check how the growth has translated in the income of the people in the state and its consistency over the decade we have estimated coefficient of variation for the three important variables namely Per Capita Net State Domestic product (PCNSDP), Total Economic crime per capita (TECPC), Main Worker Per Capita (MWPC). The variable TECPC is taken to check whether enhancement in economic growth leads to increase in economic crime or vice versa. However MWPC is an indicator of employment scenario of the state. This variable is chosen to check the effect of economic growth on employment over the decade under study.

PCNSDP	2001	2011
Average PC NSDP	0.002	0.005
Standard Deviation of PC NSDP	0.001	0.003
Coefficient of Variation	50.257	60.575
TECPC		
Average TECPC	0.00007	9.64486E-05
Standard Deviation of TECPC	5.30109E-05	6.19683E-05
Coefficient of Variation	77.80	64.25
MWPC		
Average Main workers Per Capita	0.313	0.314
Standard Deviation of MWPC	0.045	0.055
Coefficient of Variation	14.490	17.593

The study of coefficient of variation for three variables namely PCNSDP, TECPC and MWPC shows that per capita income over the decade has increased variation of 10.32% while TECPC has decreased variation of 13.55 percent. On the other hand MWPC has increased variation of 3.103percent. We can deduce that there is inconsistency in PC income and MWPC whereas TECPC have become more consistent over the decade. The reason behind such variations lies in the fact that vast heterogeneity prevails in socio-economic and ecological indicators amongst Indian states. This leads to performance variation on account of PCNSDP and MWPC. In comparison to these TECPC has shown more consistency which clearly reflects that as the income of states increased it has resulted into the increase in Total economic crime also over the period of study.

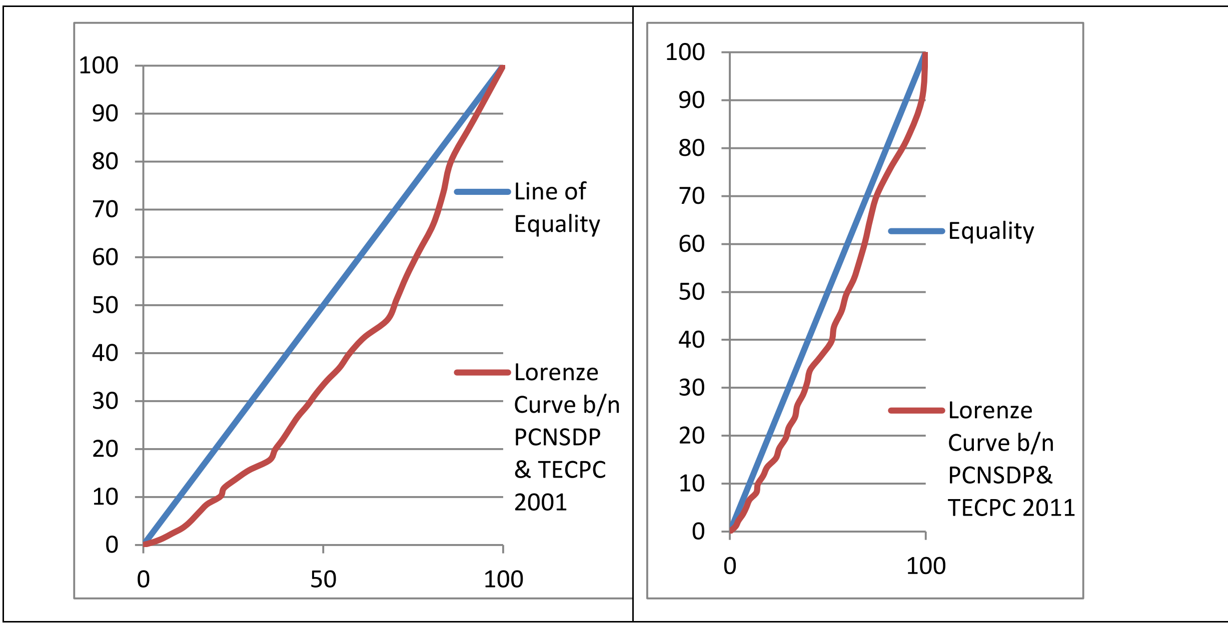
Furthering this important result it thus becomes vital to study the performance of Indian states in comparison to national average on account of the same variables viz. PCNSDP, MWPC and TECPC. This analysis will also throw light upon social polarization that has taken place due to lack of good governance in these states. As we know that good governance often used as a model to compare the performances of ineffective economies/regions with those which are better off. It is also used as an effective tool to minimize social polarization within economies. In social polarization society becomes polarized among different groups predominantly due to income inequality Yet other factors likelack of employment opportunity, gaps among poor and rich, differences in skills, education, real-estate fluctuations, economic displacements, crime, wars, riots, strike and many other form of social tensions, etc. (Joan Esteban and Debraj Ray, 2008) also indicate level of social polarization in the economy.

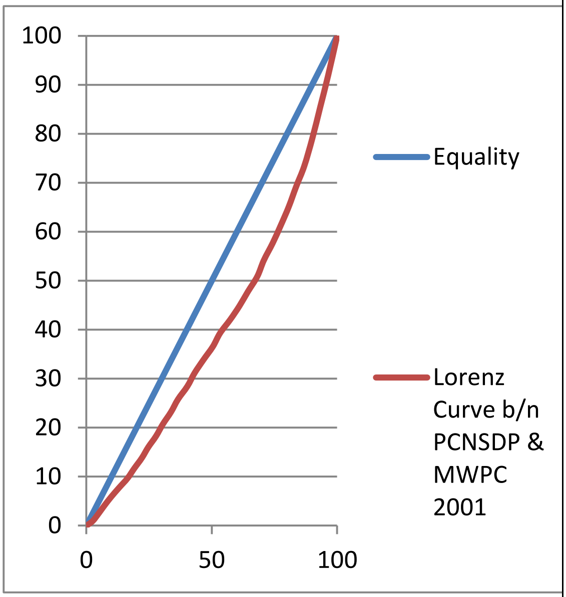
Social Polarization due to inequality		
	Increase more than National Average increase from 2001-2011	Increase less than National Average increase from 2001-2011
Per Capita NSDP	Kerala	Bihar
	Tamil Nadu	Uttar Pradesh
	Haryana	Assam
	Uttarakhand	Manipur
	Gujarat	Madhya Pradesh
	Maharashtra	Jammu and Kashmir
	Puducherry	Jharkhand
	Sikkim	Rajasthan
	Andaman & Nicobar Islands	Odisha
	Chandigarh	Chhattisgarh
	Delhi	West Bengal
	Goa	Meghalaya
		Arunachal Pradesh
		Tripura
		Punjab
		Karnataka
		Andhra Pradesh
		Himachal Pradesh
		Mizoram
		Nagaland
Total Economic Crime Per Capita	Tripura	Mizoram
	Meghalaya	Sikkim
	Puducherry	Delhi
	Jharkhand	Gujarat
	Karnataka	Madhya Pradesh
	Himachal Pradesh	Punjab
	Maharashtra	Chandigarh

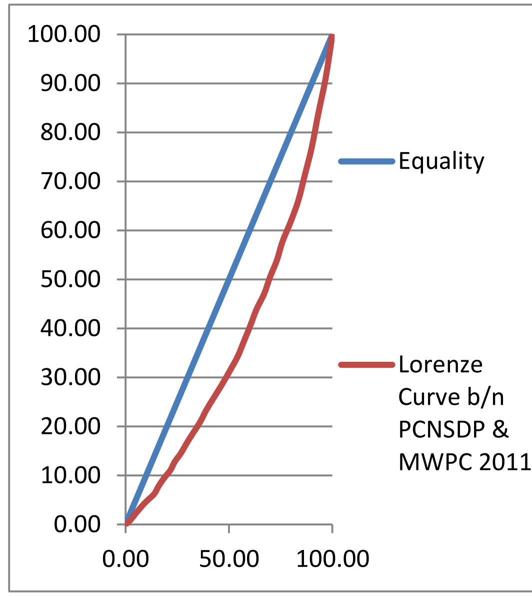
	Kerala	Uttarakhand
	Andhra Pradesh	Jammu and Kashmir
	Assam	Nagaland
	Arunachal Pradesh	Bihar
	West Bengal	Odisha
	Andaman & Nicobar Islands	Chhattisgarh
	Goa	Uttar Pradesh
	Rajasthan	Tamil Nadu
		Haryana
		Manipur
Main Worker Per Capita	Gujarat	Bihar
	Delhi	Jammu and Kashmir
	Tamil Nadu	Jharkhand
	Tripura	Arunachal Pradesh
	Andhra Pradesh	Mizoram
	Goa	Himachal Pradesh
	Uttarakhand	Haryana
	Assam	Punjab
	Andaman and Nicobar Islands	Chhattisgarh
	Karnataka	Meghalaya
	Kerala	Uttar Pradesh
	Nagaland	West Bengal
	Maharashtra	Puducherry
	Manipur	Odisha
	Sikkim	Madhya Pradesh
		Rajasthan
		Chandigarh

The comparison of Indian states on the basis of three important variables viz PCNSDP, TECPC and MWPC reflects that states which have performed better than national average in PCNSDP have outperformed in MWPC also but some of these states are having TECPC more than the national average namely Kerala, Goa and Maharashtra. Rest Gujarat, Tamil Nadu, Haryana and Delhi have less of TECPC in this decade. Also the BIMARU states have less than national average PCNSDP and MWPC and Rajasthan is an exceptional state amongst BIMARU states which has more than national average TECPC. This is an indicator that development process is not uniform and also states which have good growth have high crime rates. Thus this analysis makes a strong foothold for social polarization amongst Indian states. If we look at the table there is almost fifty-fifty divide amongst all Indian states for the two variables TECPC and MWPC but for PCNSDP there are only twelve states having PCNSDP more than national average while twenty states having per capita income less than national average.

We have also compared all Indian states for two decades to find that is there any shift or reduction in total economic crime as these states have progressed. Looking into these Lorenz curves between PCNSDP and TECPC for 2001 and 2011 for all Indian states we can infer that the inequality has decreased over the decade but when we look for the exhaustive analyses for each state we can say that overall disparity has decreased but there are some Indian states for which along with increase in PCNSDP there is increase in Total Economic Crime also.







When we do the same comparison for MWPC and PCNSDP we find that inequality here also has decreased over the decade but it does not hold true when we compare all states individually.

Conclusion

- Our study concludes that throughout the country although there has been an increase in per capita income (measured in terms of net state domestic product NSDP) over the decade (2000-2011) but the differences emerged in terms of increase in Income inequality, total economic crime and employment opportunities. With the help of Lorenz Curve, we have depicted significant inequality between income and total economic crime rate. Similarly, inequality also observed for per capita employment opportunity generation for all Indian states. The coefficient of variation for per capita income and per capita employment opportunity has increased by more than 10 per cent over the decade. Whereas for total economic crime, there has been a fall in coefficient of variation for more than 13 per cent which indicate that there has been consistency in total economic crime. Our study strongly advocates that Indian economic policies fail to translate its impact in the form of good governance because it has increased inequalities across Indian states.

Policy implications:

As now it is clearly evident from our study that Social Polarization is an outcome of bad governance in society. In India this polarization among Indian states has increased considerably during Post Reform period due to failure and ineffectiveness of economic policies, resulting reducing state incomes, increasing total economic crime rate and disparities across Indian states. It failed to create conducive environment for employment generation. The Policy on MNREGA suggested that for its implementation at least 60% of contribution should be labour intensive while the contribution of capital can merely be 40%. This shows a serious drawback because no project can bear less deployment of capital than labour. Such kind of technical combination would always increase the actual cost of project. This example also provide a reason to think why government projects always fail and not completed within specified time – why the government project cost escalate over time. All such issues demands proper planning designing and implementation of policies through a system of good governance. Thus our study strongly advocates that Indian economic policies fail to translate its impact in the form of good governance because it has increased inequalities across Indian states.

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