

# Economic Development During Liberalization and The Socio- Economic Status of The Rural Poor: A Case Study of Bihar

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## Abstract

This paper investigates the underlying causes of poor economic growth of Bihar despite being endowed with relatively rich natural resources. Against the conventional view, the analysis reveals that poor economic growth is not due to a particular factor but an outcome of a myriad of social, economic and political factors rooted in structural, historical and macro-economic policies. The economic marginalization of Bihar began in the colonial era through the establishment of an exploitative landlord class, which constantly resisted economic and social development even after independence in 1947. The process of marginalization has further been reinforced by the federal central government's policy of 'freight equalization', which nullified the comparative advantage of Bihar in natural resources by subsidizing railway freights of industrial inputs like coal, iron ore, steel, cement and other bulk resources. This, combined with relatively low financial resources received from central government over the consecutive plan periods, has undermined these states' capacity to invest in health, education, and other social and physical infrastructure and resulted in low human development. The poor performance of Bihar may be attributed to low human capital, weak institutions and poor infrastructure coupled with political instability and social conflict rooted in sectarian politics based on caste, class and ethnic division.

**Keywords:** Economic growth; resources endowment; government policy, Bihar.

## 1. Introduction

Bihar is the second poorest state after Odisha in India. The overall incidence of rural poverty was 62.3%, much above the all India level of 37.3%. The state experienced unprecedented socio-economic changes during last decade. Among major states of the country, Bihar recorded the highest growth in population and density(1102/sq.km) during the last decade. After independence, like most other parts of India , the state inherited a largely agrarian, backward economy. While the abolition of the zamindari system liberated a large number of peasants from the most glaring exploitative agrarian system, it also led to mass eviction of peasants and while the nature of land relations changed to some extent, the system was still semi-feudal. It is the least literate(63.8 %) state in the country. Bihar is heavily populated and depraved state in India. It is also regraded most economic backward state mainly known for droughts, floods, lawlessness and corruption. The state has a low work participation rate because of the lower work participation rate of women. The incidence of poverty, as per the estimates by the expert group methodology, declined from 62.2 percent in 1983 to 55 percent in 1993-94 and further to 41.4 percent in 2004-05. Apart from the very high level of poverty, the state also performs poorly in terms of most of the other social and human development indicators. An important development since the 1980s, which accelerated from the early 1990s, was the rise of the middle castes. Over the years the middle castes ascended in power. This political empowerment without economic development was somewhat disjointed

but played an important role in breaking the semi-feudal relations and changing the rural landscape. Over the last five to six years the image of the state has changed for the better, thanks to a turnaround in the growth rate and significant improvement in law and order. The improvement in economic growth of the state can primarily be attributed to the considerable rise in the growth rates of sectors such as transport and communication, trade and construction. Due to the higher growth rates achieved by the secondary and tertiary sectors, there have been significant shifts in the sectoral distribution of the state's output. Agriculture contributes only to about a fifth of the total GSDP, while it employs more than 62 per cent of the total workers in the state. Bihar has witnessed significant social, economic and political transformation during the last three decades or so. While progress has been uneven, there has been some social and political empowerment of the poor, more so among those belonging to middle castes, and considerable decline in poverty as well, although still more than half of the population continues to be poor. The recent spurt in growth along with improved law and order and move towards strengthening governance and institutions has generated a great deal of optimism in the state and among other stakeholders. The challenge is to sustain this high growth led by a select few, rendering it more diversified and inclusive by overcoming the massive development, infrastructure, resource and institutional deficits. The state, centre and other stakeholders have to work with a clear vision and a well-crafted strategy, based on objective analysis and hard facts, for achieving this goal. To design policies and strategies for accelerating economic and social development in Bihar and UP, it is vital to identify the underlying factors that have stalled development there. While huge efforts have been made to document the diverse patterns of economic growth in India (e.g., Ghosh, 2008; Parker & Kozel, 2007), little systematic work has been done to understand the factors that contributed to different growth patterns within the country. The focus has often been on micro-issues overlooking the broader structural and policy matters that shape the patterns of development (e.g., Parker & Kozel, 2007; Thakur, Bose, Hossain, & Janaiah, 2000). This paper explores the factors responsible for low levels of socio-economic development in Bihar from a macro-perspective. The purpose of the paper is not to identify the determinants of economic growth and quantify their role or testing hypothesis of any growth model, rather it is to understand what conditioned the economic growth and social development by looking at different strands of thought from an historical perspective. The contribution of this paper is therefore descriptive, aimed at a deeper understanding of social, political, economic and historical context that shaped the speed and path of socio-economic development of Bihar. Socio-economic conditions of Bihar. Although reducing poverty and accelerating economic growth has been the key focus in development economics, understanding about the causes of economic growth has remained poor (Kenny & Williams, 2001). While the empirical literature has contributed to an enhanced understanding of cross-country growth performance and recent development in econometric methods allowed endogeneity and model uncertainty to be explained (e.g. Dollar, 1992); Brock & Durlauf, 2001; Doppelhofer, Miller, & Sala-i-Martin, 2000; Mirestean & Tsangarides, 2009), econometric models fail to grasp fully the complex causal nature of the social world, underlying economic and social processes that reinforce each other and shape development patterns and space (Bunce, 2004; Mayntz, 2004; Pierson, 2007). Strategies and policies based on such analysis fail to address the fundamental causes of underdevelopment, as economic development is a multifaceted complex and dynamic process (Adelman, 2001; Kenny & Williams, 2001). This paper focuses on understanding the diverse factors and their underlying processes that contribute to the poor development of Bihar. It examines structural and historical factors and macro-policies (at the state and national level). Although the focus of this study is on Bihar the lessons that have emerged through this study would be useful for other countries of South Asia and elsewhere as similar development challenges are being faced by many countries in the world including China, Brazil, Mexico and Nigeria, where growth patterns are uneven (Jalan & Ravallion, 2002; Ravallion & Chen, 2007). This study relies on information drawn from various secondary sources including books, journals, and government reports and planning commission documents. The paper is structured as follows:

The second section develops a conceptual framework to understand the crucial factors that influence the development performance of a state by reviewing basic literature on economic development. This is followed by the presentation of data and interpretation of results in the third section. The fourth section draws conclusions and reflects on recent development in Bihar. Factors influencing economic growth: a conceptual framework the reason that different countries – even different regions within a country – achieve different levels of economic growth has been the focus of enquiry since the beginning of modern economics. The search for the drivers of national wealth can be traced back to the 1700s to the writings of physiocrats who believed that agriculture was the lone source of production; and that an increase in the productivity of agriculture increases the wealth of a nation (Brunnschweiler, 2008; Fontaine, 1996; Steiner, 2007). Adam Smith, David Ricardo and other classical economists considered land, labour and capital as the key factors of production and the major contributors to a nation's wealth (O'Brien, 2004). The followers of classical economists such as Gallup, Sachs, & Mellinger (1999), Ding & Field (2005) and Stijns (2005) consider resource endowment (i.e., natural wealth, land, soil, weather, climate and mineral resources) as the primary basis of agriculture and industrial growth. The differences in resource endowment among the different countries and regions lead to differential rates and levels of economic growth (Stijns, 2005). While there is general agreement that natural resource endowment is important for economic growth, there is a debate among scholars about whether this alone is the determining factor.

## 2. Characteristics of the villages studied

**Characteristics of the Villages Studied** The 36 villages under study are spread over seven districts of Bihar, three situated in the south of the Ganges (Gaya, Nalanda and Rohtas) and four in the north (Araria, Gopalganj, Madhubani and Purnia). Chosen originally to reflect the social, economic and technological diversity of the plains of Bihar, important differences are noticeable between villages, especially between regions but also among villages within the same region: in terms of population size, density of population, class and caste structure, land ownership pattern, accessibility, literacy rate, labour market structure and facilities endowment. Electricity supply, drainage and sanitation remain three major black spots. Agriculture remains the primary source of employment within the villages but Bihar is known to suffer from the vagaries of the weather. Droughts and floods are recurrent and can have devastating effects on people, livestock and the village economy. The relatively stagnant Bihar agriculture has not been able to provide enough employment for a growing population. The search for employment opportunities outside agriculture has been rising, be it through migration or commuting from the village. The incidence of migration varies widely across villages. The proportion of “migrant households” (households that had had at least one member working outside the village in the course of the year previous to the interview) ranges from 26% and 86%. Two indices - a development index and a remoteness index - have been computed to assess the overall situation of the villages the better-off villages were mostly located in Rohtas and Gopalganj, the least well-off in Madhubani, Purnia, Araria and Gaya. Nalanda villages belonged to the middle range.

## 3. The Social and Agrarian Framework: Caste, Class, Land and Assets

Historically Bihar's exploitative agrarian relations bore much responsibility for rural stagnation and poverty. They are inextricably linked with caste, class and landholding – the three major, visible dimensions of inequality in rural Bihar. Class, caste and land all have distinctive impacts on economic behaviour, with class the strongest factor overall. In the last 30 years there has been substantial change in the class pattern. Attached agricultural labour, which accounted for one-sixth of all households in 1981 have virtually disappeared. While landlords are in sharp decline, casual agricultural labour and poor peasants are increasing. The overall pattern of landholding is changing. In the last 3 decades, landlessness

has increased but remains concentrated among Scheduled castes, OBC I and lower Muslims. At the same time, the overall distribution of land has become less unequal, but more than half of the rural population remains landless. Among Forward castes, those who were previously landlords have diversified towards non-agricultural occupations; middle castes have gained land relative to upper castes and maintained their position overall; and backward and scheduled castes have benefited from the end of bonded labour but only a few have become small cultivators. Many Yadav households have increased their landholdings, and have moved up from the categories of marginal farmer and landless. Some Kurmi and Brahmin households have moved down, while others have broadly maintained status quo. The proportion of land leased has remained stable in the last 30 years, at about one-quarter, but fewer households are leasing in, so the average amount of land they lease has increased. Leasing in of land remains widespread among those owning small plots of land, especially very small plots, and constitutes a significant fraction of the area they cultivate. Tenancy increasingly reflects market relationships and the strength of the middle castes rather than semi-feudal exploitation, although sharecropping persists as the dominant mode. Upper castes lease in little land, but middle castes, especially the Yadavs, lease in a great deal, reflecting their importance in agricultural production and growth. While the proportion of households renting in land has fallen for the population as a whole, about a fourth of Scheduled Castes and OBC I households still rent in land. Overall household assets in rural Bihar are extremely low. Land accounts for 70 to 80 per cent of all wealth, and housing most of the rest. There are large differentials in asset holding by class, work status, education and the age and sex of the household head; differentials by caste and region are smaller. Over the last 30 years average asset holdings have increased for all caste/community groups, but proportionately gains are largest for Scheduled Castes, OBC I and Yadavs, and smallest for upper castes and middle castes other than Yadavs. These differences among castes in the long term change in asset holdings are greater than differences between classes, on average; so the caste pattern of asset inequality is changing faster than the class pattern. There has been a substantial increase in domestic assets, and land values have risen, but much less increase in productive assets and livestock. Some assets such as bicycles and mobile phones are found in all population groups, reflecting changes in life-styles. Access to credit is very strongly related with existing household assets. Credit flows are very weak – an average loan of only Rs 9500 per household. Loans, especially institutional loans, like assets in general are highly concentrated on richer households.

5. The Labour Market, Employment and Wages The labour market in rural Bihar has changed significantly over the last 30 years. From a stagnant, semi-feudal environment in which much labour suffered from various degrees of bondage, it has moved a more open, market driven system, in which labour migration to other parts of India has both reduced local relationships of dependency and provided new opportunities. Growing pressure on land has meant that more households depend on wage labour. Local opportunities have remained limited and local labour markets have been slow to expand. Yet, shortage of labour has emerged in some places and at some times of the year, with consequent pressure on wages, and new forms of organization such as contract labour are growing in importance. Overall, labour force participation rates are high – 94% for men and 64% for women, using a wide definition of labour force participation rate, and 81% for men and 37% for women, using a narrow definition. While men's labour force participation continued at the same high level during the last 30 years, the structure of their employment has diversified as migration generates not only casual but also a great deal of regular work in both industry and services. The level of women's labour force participation has increased but the structure of their employment has only marginally changed. In the villages their economic activities remain rooted in agriculture and animal husbandry. Caste and class are much stronger determinants of women's labour force participation than men's participation. The decline in the importance of agriculture as an occupation was already observed between 1981 and 1999, when the share of agriculture declined from 81% to 74%. This trend has clearly accelerated in the last decade and led to changes in the structure of overall employment. Between 1981-82 and 1998-99 there had been an increase in the proportion of

casual workers mainly at the cost of self-employment. Between 1998-99 and 2009-10 the proportion of casual workers stabilized at almost half of the total workforce, while the share of self-employment continued to decrease and regular non-agricultural employment, facilitated by migration, jumped up. Education plays a role in opening up employment opportunities. From primary education onwards it is associated with occupational diversification but secondary education does not make much difference. It is only at the higher levels of education that there is a significant growth of better paid modern service, professional and white-collar occupations, for both men and women. Child labour is still a concern though school enrolment has increased substantially especially among girls. Young people face difficulties in initial labour market access. It is only in the 25 to 39 age group that a broad-based occupational structure emerges. Wage structures in rural Bihar are complex, and they are becoming more diverse. Real daily wages have been multiplied by a factor of between two and three over the last thirty years. For men, the total rupee-equivalent daily wage is now mostly close to Rs 100 (a little lower than the statutory minimum wage being paid in NREGA work in 2011). The gap between men and women wages varies across villages but has narrowed in some villages. While there have been some dramatic changes in wage levels, there has been less change in wage institutions such as payments in kind or as a share of the crop. There has been a tendency towards an equalization of the daily wage and harvest share across districts (the highest increases have been registered where they were previously the lowest) though their variations remain fairly substantial.

6. Migration The migration from rural Bihar is high and has steadily increased in the 30-year time period under study. The proportion of migrant workers to total workers increased from 15.7% in 1998-99 to 25.5% in 2009-10. The incidence of migration is higher for the backward districts of North Bihar, in comparison with the better off districts of south Bihar. However, there are significant differences in the duration of migration, work status and occupational profiles of migrant workers of the two regions. Migration is predominantly for work, overwhelmingly to urban areas. The nature of migration has moved from seasonal to longer term overtime. The proportion of long term workers has increased in the migration stream from 40.0 per cent to 48.6 per cent from 1998-99 to 2009-10. At the same time, the proportion of households with temporary migration increased from 19.4 per cent in 1981-83 to 22.6 per cent in 1998-99 to 35.0 per cent in 2009-10. Among socioeconomic groups, the incidence of migration is the highest among Muslims, followed by the forward castes, OBC I, SC/ST and OBC II, respectively. By class, migration tends to be higher among non-agriculturalist and landlord households. Ownership of land, and the size of the land owned has a bearing on migration. Migration tends to be higher among the landless in poorer districts, as well as among large landowners in the better off districts. Household size varies significantly between migrant and non-migrant households. Across all caste, class and land categories, migrant households have more members than non-migrant households. The difference is most marked by caste, for upper caste, by class, for landlords, and by land size owned, for large landowners, which also had the highest intensity of migration. Almost three-fifth of the total migrant workers have little or no education. At the same time, the incidence of migration is the least for illiterate workers, and it keeps increasing with higher educational attainments.

SUMMARY OF the MAIN FINDINGS [ 13 ] Wage work is undertaken by almost 95 per cent of the migrant workers. Casual wage labourers form a majority of the migrant workers, closely followed by regular wage workers. Work status of migrant workers varies significantly with the duration of migration. Short term migrants are predominantly casual wage labourers, while long term migrants are regular wage labourers. Cultivation, construction and work in industry are the three main occupations, which engage more than half of the migrant workers from rural Bihar. There are significant district wise variations in the occupation of migrant workers. A major bulk of migrants from Madhubani and Purnia engage in agricultural work. Migrants sending remittances is a near universal phenomenon, and the amount of remittance depends on the number of migrant members per household, the type of activities undertaken and the duration of migration. As expected, the amount of remittance sent increases as one moves from the backward to the better off districts, and as one moves up the caste ladder.

Male migration has brought about several changes in the work women do – within and outside their household. They now undertake more agricultural, as well as non-agricultural work, which includes management of farms and animal husbandry. At the domestic front, the burden of their household tasks have increased, and they have become more involved in making decisions in the household, and managing household finances and remittances. At the same time, they face barriers in both accessing credit, and getting credit on favourable terms in the absence of their men. Male migration has been quite a catalyst in enhancing women's mobility, especially in some conservative communities. Women are more mobile today than they have been in the past. While migration of men has brought about profound changes in women's lives in rural Bihar, patriarchy and caste continue to be institutions which define and govern them in a fundamental way.

#### 4. Poor physical and economic infrastructures

Like private investment, public investment in agriculture in Bihar has remained inadequate. Per hectare capital expenditure in agriculture in Bihar is less than one-fourth of that of Punjab and less than half the national average (Guruswamy & Kaul, 2003). Bihar and UP have not made enough investment in irrigation infrastructure. Only 50% of agricultural land is irrigated in Bihar and 60% in UP, compared with 90% in Punjab and 87% in Gujarat. Owing to poor public infrastructure for surface water and increased water stress, farmers of Bihar have shifted to ground water irrigation as in the case of other states. There was a huge surge in the 1980s in Bihar in ground water irrigation. This, however, did not yield higher productivity because the poor electricity supply and sharp increase in diesel prices increased the costs of irrigation, land preparation and threshing (Ramagundam, 2009; World Bank, 2005). Fertilizer and pesticide prices also increased substantially. Yet, while input prices had increased significantly, the output price of agriculture remained almost stagnant. Thus, the output–input price ratio changed and reduced profitability. To keep the farming remunerative, the states of Punjab, Haryana, Gujarat, Maharashtra and Karnataka provided concessions in electricity and diesel prices. The Bihar government, however, could not provide such concessions to farmers due to financial constraints (Kishore, 2004). In addition, most of the farmers in Bihar are not able to receive the price incentives given by central government through food grain collection owing to small land holdings and little 228 G. Rasul and E. Sharma Downloaded by [118.91.160.226] at 23:32 06 October 2014 surplus. Bihar's food grain yield is lower than the national average and less than half of Punjab's (Government of India, 2007). Low public and private investment, poor physical and institutional infrastructure, unequal land distribution, poor agrarian social structure including persistence of feudal elements not only hindered the growth of productivity in agriculture but also reinforced social inequality that creates structural barriers to the overall development of the society and economy.

#### 5. conclusion

Bihar is classic examples of how a rich natural resource-based economy can be caught by a low-level equilibrium trap. This study analysed the underlying causes of low levels of development of Bihar. The analysis revealed that a host of interacting factors ranging from social and economic to historical and political directly or indirectly influenced the development path and pace of Bihar. The causes of poor economic performance of Bihar can be traced back to British colonial policy that not only created an intermediary exploitative class through Permanent Settlement, but also destroyed local knowledge-based industries that provided livelihoods to many urban and rural artisans. This policy also frustrated agricultural growth by strengthening the elite feudal class and creating landless agricultural workers. Moreover, it increased the pressure on agricultural land by transforming industrial workers to agricultural labourers. This has not only retarded the agricultural and industrial growth but also created an

unproductive class that has been constantly resisting the economic and social development as the tsar and landlord class opposed industrialization in Russia in the early 19th century (Acemoglu & Robinson, 2006). This policy has also created a political ethos of class-based resentment that has damaged the trust essential for being able to act together in the collective interest (Banerjee & Iyer, 2005). The economic marginalization that started during the colonial period continued even after independence. Despite several attempts, land, which is the main productive asset in rural areas, has remained in the hands of a few absentee landlords, who have little interest to invest in land to increase productivity. The sharecroppers, on the other hand, have little ability or incentive to invest in land. Consequently, investment in land, irrigation and flood controls has remained inadequate and agricultural productivity remained low. The process of marginalization has further been reinforced by central government's policy of freight equalization, which diminished the comparative advantage of Bihar and retarded the path of resource-based industrialization. Consequently, the economy of Bihar has remained agricultural despite possessing huge mineral resources. This, combined with continued minimal financial support from the centre, has undermined these states' capacity to invest in health, education, and other social and physical infrastructure. Hence, the states' vast human population has remained as a liability with poverty, illiteracy, malnutrition and low skill. Low human capital, weak institutions and poor infrastructure, together with political instability and social conflict, have put these two resource-rich states in the low-level equilibrium trap. The social structure, particularly caste, class and ethnic division, has made the development process more complicated and difficult. These, combined with unstable centre-state power relations that determine the resource availability from the centre, have undermined the capacity of the governments of Bihar to plan, implement and support development activities, and frustrated their attempts to create a conducive environment for investment, private sector engagement, infrastructure development and establishment of the rule of law. Despite recent changes in power structure, conditions favourable for investment, growth and social development have yet to be put in place due to political turmoil, corruption, and poor law and order conditions. As a result, Bihar lagged behind in economic growth.

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