

Convergence of Indian States in the First Decade of the 21st Century

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The paper examines inequality across the Indian states from 2000-2001 to 2009-2010. To address the factors causing the interstate differences we have focused on the coefficient of variation of private and public investment across the Indian states over the time period 2001-2010. In both of the cases we have observed an increasing trend. In this context we have identified the determinants of private as well as public investment. Here we observe conditional divergence across the Indian states but fixed effect panel data model exhibit conditional convergence. The factors such as grants received by the states as recommended by the Finance Commission, and political stability of the states in terms of irregular government change from one ruling political party to another and infrastructure are the statistically significant determinants of private investment. However, in the case of public investment, infrastructure of a state is not a statistically significant determinant. Therefore, to address the issue of inequality across states, the policy should focus on these determinants of private and public investment across them.

I Introduction

India's per capita income grew modestly since the time of its independence. Pro-business reform in the form of expansionary fiscal policy enhanced the growth momentum in 1980s, moving the economy to a higher growth path of 5.6 per cent (Rodrick, Dani and Subramanian 2004). Economic growth was further accelerated during the post-reform period. During the first decade of the 21st century Indian economy witnessed an average growth of 8.7 per cent. Recently India has emerged as one of the major engines of growth for the world economy due to its robust growth performance.

An analysis of growth performance across the states is a major concern of policy makers. Indian states show heterogeneity in terms of their historical backgrounds, socio-economic conditions and geographic locations. Accordingly, economists are likely to be interested in the issue of inequality within the Indian economy.

The scope of this study is limited to an analysis of 24 major Indian states during the time period 2000-2001 to 2009-2010. The choice of time period has

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