

# Analyzing an Account of British Injustice with Punjab and Vision for Economic Development in Punjab

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## ABSTRACT

Punjab economy remained a symbol of economic prosperity and a role model of economic development among the Indian states for more than three decades since the ushering in of the green revolution. The dismal performance of Punjab economy during the period of economic reforms relegated the state's economy from a leading to a laggard one. Punjab is now ranked at number seven among the major Indian states in terms of per capita income. Why has Punjab economy slipped to 7th position and turned from a leader to a laggard? This question is intriguing and demands answer from well wishers, policy makers, political leadership and the scholars working on Punjab economy. Despite the recognition of the problem and attempts made so far, the reversal in the trend has not yet occurred. In this paper an attempt has been made to analyze the factors that are responsible for the slow progress of the Punjab economy. An alternative pathway in the light of this analysis has been outlined to rebuild and resurrect the economic development dynamism in Punjab state.

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## 1. Introduction

Punjab economy during the last two decades (1991-92 to 2011-12) has shown dismal economic performance. The rate of economic progress of Punjab economy, in relation to the nation's average economic growth as well as with other fast growing Indian states, has remained quite slow. Two decades experience of slow growth in Punjab has relegated the state's economy from number one position to number seventh in terms of per capita income. Contrary to the expectation, the post reform economic performance of Punjab economy turned it from a leading state of Indian economy to laggard one. In fact, the pre reform economic growth experience was considered to be marred with high degree of regulatory framework that has been constraining to realize the full potentials of Punjab economy. However, Punjab economy under the regulatory development strategy has shown development dynamism and remained a symbol of economic prosperity. The rural economy of Punjab witnessed agricultural modernization, reduction of incidence of rural poverty and food surpluses that had provided the direly needed food security to the national economy. This remarkable economic success has been essentially attributed to the role played by the state in terms of laying down of conducive institutional and physical infrastructural arrangements (Chadha, 1986). These facilities generated essential incentive for inducement to private investment. Private investment flourished in rural economy of Punjab and generated enough surpluses for the economic transformation of the state economy from agrarian to industrialized one. However, there are several economic and non economic historical factors that have not allowed the otherwise legitimate structural economic transformation to happen. This failed economic transformation was expected to slow down the pace and level of economic growth of Punjab economy. But liberalization, privatization and globalization strategy adopted by the Indian government since 1991 was expected to revive the high hopes of acceleration of pace of economic development of Punjab economy along with ensuring much desired and long awaited economic

transformation of the economy of the state. Economic reform period has allowed political leadership at helm of affairs to eschew the structural problems of Punjab economy to be attended and resolved by the market forces themselves. However, the increasing dose of the market economy to already highly market oriented economy has deepened agrarian crisis, which was reflected through the unprecedented suicides reportedly committed by the farmers and agricultural labourers. The deepening crisis of agrarian economy has also been recognized in the approach paper to the Twelfth Five Year Plan while stating that the crisis engulfed the agriculture sector because terms of trade went against agriculture sector during the economic reform period (Planning Commission, 2011).

## 2. Review Of Literature

Punjab - a geographical region of the British colonial kingdom in India well-known as the land of five rivers and for its composite culture. With the end of colonial rule in 1947, Punjab was partitioned into East and West Punjab. This division resulted in turmoil in the region leading to an unprecedented transfer of population of around 10 million and communal riots that claimed the lives of between 0.5 and 0.8 million people (Ahmed, 2011; Singh, Singh and Singh, 2014). The erection of an artificial border, snapping of trade ties, and hostile international relations between India and Pakistan increased manifold the suffering of people of both East and West Punjab (Gill, Ghuman, Singh, Singh, Singh and Brar, 2010). The disruption of economic activities for a very large population occurred, and their rehabilitation posed a major challenge. However, the government of Indian Punjab quickly allocated productive assets such as land for cultivation, loans for housing, skill development and establishment of industrial areas near cities to rehabilitate the refugee population (Randhawa, 1954; Jain, 2016). Several institutional reforms were initiated with the objective of generating capability for building production base both in agriculture and industrial sectors. This was supplemented with heavy public investment

in electricity generation, irrigation system, credit network, agriculture marketing system, agriculture research and extension system and rural road networks. The web of institutional arrangements played a catalytic role in revamping and revitalizing modern agriculture production system and small-scale industrial development in Punjab. During this period of revival of Punjab's economy, the state was divided, again, into present day Punjab, Haryana and Himachal Pradesh on November 1, 1966. The division of Punjab coincided with a manifold increase in agricultural productivity due to the new technology of high yielding varieties of seeds, commonly known as the Green Revolution. On the one hand, the division of Punjab on the basis of language made it a Sikh majority state but on the other hand, it was politically weakened due to reduction in the number of members from Punjab in both the houses of parliament. (Ahluwalia, I. J. 2008) However, with the Green Revolution, Punjab became a net exporter of food to other states of India and this increased its economic strength. The gain in economic power, to some extent, compensated for the new, smaller Punjab's decreased political representation. Reduction of poverty and rise of per capita income were remarkable achievements of the Punjab economy. In the post Green Revolution period, Punjab became an iconic state (Basu, 2016) and was ranked number one among the major Indian states in terms of per capita domestic product. Punjab became a role model, a state whose success other states in India and in fact, other developing countries, wanted to emulate.

### 3. Economic performance of Punjab economy

The recently made available comparable per capita income estimates of major states of India Union presented Punjab state is ranked number seventh. First, second and third rank goes to Haryana, Maharashtra and Tamil Nadu states. The per capita income of Punjab for the year 2011-12 was of the order of Rs 74,606. The gap in per capita income between first rank state (Haryana) and Punjab is Rs. 34, 253. During the last two decades, Punjab economy has drifted from first rank to seventh and the gap between fast growing states and Punjab has been widened continuously. Two fast growing states, that is, Gujarat and Himachal Pradesh has also crossed the level of per capita income of Punjab state. As per the per capita income growth rate ranks, Punjab has reached to the bottom ranking states. It is surprising to note that Punjab state's per capita income has grown at 4.24 per cent during 2010-11 and 2011-12 and accordingly growth rate rank is 13th. This evidence clearly brings out the fact that the status of Punjab economy in the national reckoning has been eroded and going down at a fast pace. The falling behind of Punjab state compared with other states has happened due to achieving slow rate of economic growth of Punjab economy especially in post-reform period. The plan wise SDP growth rates from eighth five year plan to eleventh five year plan and target growth rates of twelfth five year plan across Indian states are presented. Punjab economy, during the eight five year plan period recorded growth rate of state domestic product of the order of 4.7 per cent per annum against the national average growth rate of 6.5 per cent per annum. Among the fifteen states, the SDP growth rate rank of Punjab economy was 13th. The growth performance further deteriorated marginally during the ninth Five Year Plan (1997-2002) period and the rate of

economic growth was 4.4 per cent in the state of Punjab. However, there were general slow economic progress during the ninth five year plan and all India average growth rate was also slowed down to 5.5 per cent per annum. The growth rates, during the period 1997-2002, across the board decelerated except Bihar, Karnataka, Odisha and West Bengal where the growth rates have actually increased.

### 4. Constraints on economic development in Punjab

Punjab economy has been growing but growing at a slow pace. The post reform growth experience neither fulfills the aspirations of the people of Punjab nor has a capacity to address the fundamental challenges faced by the economy. Therefore, there is an urgent need to identify factors that have been contributing to the relatively slow growth performance of the Punjab economy. The functioning of macroeconomic policies has a capacity to provide vital clues to identify the major factors that limits the growth performance of Punjab economy. Among the macroeconomic policies, fiscal policy has been widely recognized and acclaimed for its impact on economic development process. The impact of fiscal policy on economic growth is mainly dependent on the efficiency with which resource mobilization and expenditures are incurred. However, the fiscal policy of the Punjab state remained continuously in disarray since the mid eighties (Rajmal, 2009 and Ahluwalia, 2009). The fiscal deficit of the Punjab state remained 5.3 per cent during the period 1985-1990, which was highest among the 14 major states of India. Whereas the overall fiscal deficit of the 14 major state of India was 3.3 per cent and the fiscal deficit of Haryana and Maharashtra states were 2.7 and 3.1 per cent of gross state domestic product respectively (Rajmal, 2009). One fundamental reason for running a high fiscal deficit of Punjab state was due to relatively low revenue receipts as a percentage of gross state domestic product and was bracketed with the state of West Bengal, Bihar and Uttar Pradesh. State tax to gross state domestic product (tax effort) was 8.7 per cent in 2010-11 (Government of Punjab, 2011). Therefore, the fiscal deficit over the years has been financed through borrowings from the Union government and increasingly during the post-reform period through commercial borrowings. This has generated huge amount of debt stock over the years and consequently, the substantial proportion of the tax revenue goes as interest payments.

The total amount of interest payments and services of debt was of the order of Rs. 4526.92 crore in 2007-08, which increased to Rs. 5348.64 crore in 2009-10. This comes out to be nearly 44 per cent of the state taxes in 2009-10. This has led to further deterioration of fiscal situation of the state and has crippled the capacity of the state government to involve itself in developmental economic activities. It is indicative from the fact that the developmental expenditure in gross state domestic product has declined from 10.8 per cent during 1990-95 to 8.4 per cent during 2000- 2007. It is perturbing to note that Punjab state in terms of development expenditure is ranked number 13 among the major states of India. However, the proportion of non-developmental expenditure in gross state domestic product has increased from 5.9 per cent during 1990-95 to 9.8 per cent during 2000-2007 and occupies first rank among the major Indian states. Similarly, the capital expenditure in the total expenditure of the state has been very

low but marginally improved from 1990-95 to 2000-07 period. for the year 2009-10, the capital expenditure in sdp declined to 3.09 per cent shows the misplaced priorities of the state government (gill and gupta, 2011).

## 5. Conclusions

Punjab economy has experienced relative retrogression of its economic status in the post-reform period contrary to acceleration of economic growth of the national economy as well as majority of the major states of the country. The process of divergence of economic growth performance of Punjab state

vis a vis of nationaleconomy as well as of dynamic states has been examined with a view to identify the growth reducing sectors and constraints. The first decade of the post-reform economic growth pattern of punjab economy clearly brings out that the dominant sectors of punjab economy like agriculture, registered manufacturing, electricity, real estate, public administration and others services, which contributed 68.52 per cent of the net state domestic product at beginning of reform period, have experienced deceleration in economic growth.

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