Policy Watch

No. 5

The ‘One Nation’ Fallacy in a ‘New’ India

Praveen Chakravarty and Vivek Dehejia

THE HINDU CENTRE for Politics and Public Policy
The Hindu Centre for Politics and Public Policy is an independent platform for an exploration of ideas and public policies. Our goal is to increase understanding of the various aspects of the challenges today. As a public policy resource, our aim is to help the public increase its awareness of its political, social and moral choices. The Hindu Centre believes that informed citizens can exercise their democratic rights better.

In accordance with this mission, The Hindu Centre’s publications are intended to explain and highlight issues and themes that are the subject of public debate, and aid the public in making informed judgments on issues of public importance.
The ‘One Nation’ Fallacy in a ‘New’ India

Praveen Chakravarty and Vivek Dehejia

THE HINDU CENTRE
for
Politics and Public Policy
ABSTRACT

The early years of the Indian republic saw an emphasis on nation building, accomplished through a top-down policy paradigm driven by the centre and flowing down to the States. This was appropriate then and helped establish the ‘Idea of India’, a unified and stable political union.

There is now a new ‘Idea of India’. An India that is marked by large and widening divergence amongst major States, in terms of income per person as well as in social indicators. An India that is growing further apart economically, socially and demographically. Our research establishes that the divergence among India’s large States skyrocketed after the period 1990/1, suggesting a link with the liberal economic reforms initiated at that time. We also posit that the nature of contemporary economic development driven by agglomeration benefits is a better explanation for India’s divergence than quality of governance and political leadership. Policy makers must strive to strike a balance between efficiency of governance through a ‘one nation’ policy framework and the growing disparities among India’s large States.

Embedded in these policies are features that redefine the nature of India’s federal framework, as fashioned by its founders. This Policy Watch argues that this ‘new’ India demands a drastic shift towards maximum regional autonomy. Policies such as the Goods and Services Tax (GST), which further integrate the market while removing policy levers from States, can only exacerbate regional inequality.

A ‘one nation one policy’ paradigm can fan fissiparous tendencies in a diverse polity and create sub-nationalism fault lines. Our policy prescription is directional in nature: The Union government should avoid unitarism and adopt “place-based” policies, which maximise policy and fiscal autonomy for the States.
TABLE OF CONTENTS

I  The initial years of nation building 1

II  India’s puzzling divergence 2

III  The 1990/91 conundrum 5

IV  Governance or nature of economic development? 7

V  Free the States 9

VI  Lessons from other federal nations 11

VII  Political diversity — the icing on the cake 13
I. THE INITIAL YEARS OF NATION BUILDING

In 1947, after the bloody partition, the postcolonial state of India was born. Banding together regions formerly ruled directly by the British with some 548 princely States—with more than a few being recalcitrant joiners—Prime Minister Jawaharlal Nehru and Home Minister Vallabhbhai Patel managed to stitch together a new nation out of the ruins of empire. This nationhood was solidified and entrenched by the promulgation of the Constitution in 1950, creating the Republic of India as a federal Union of States.

India was created as a federal state, with distinct powers for both Union and State governments—but this did not lead to a decentralised model of policymaking and development. Rather, in the early days of the new Union, the priority was nation building, and this was front and centre in the priorities of successive governments. There was a real fear that India may yet pull apart and not survive as a unified nation-state, as the departing colonisers had prophesied. Indeed, the key ideological and policy planks of Nehru—socialism, secularism, and non-alignment—could arguably all be seen through the lens of the primary exigency of nation-building.

One important concession made by Nehru was to allow the reorganisation States along linguistic lines. Yet, in all key areas of policy, everything flowed from the centre down to the States, with little policy autonomy given to the latter. What is more, the Constitution itself gave primacy to the centre over the States, as the holder of all residual powers not assigned to the latter. Even the territorial sanctity of States was not protected—unlike in the U.S., for instance—so that successive governments have, indeed, carved up States into smaller constituent parts on numerous occasions, the most recent being of the creation of Telangana.
II. INDIA’S PUZZLING DIVERGENCE

Though it may be legitimately debated, we are prepared to stipulate for purpose of the discussion that the top-down, nation-first policy of the first generation of Indian leadership suited the needs of the time. And, though there were divergences in economic and other social dimensions amongst States, they were not such as to be overwhelming in magnitude to the conception of a unified nation. Thus, for instance, in 1960, Maharashtra, the richest State in the Union, had almost twice the per capita income of Bihar, the poorest State (Rs. 409 as against Rs. 215). Though substantial, this level of inter-State inequality was, arguably, tolerable, especially if there were a sense, or at least a hope, that it was going to attenuate over time as the national economy developed.

Fast forward to the present. In 2014, the income gap between the average resident of Maharashtra and the average resident of Bihar is now about four times (Rs. 1.34 lakh as against Rs. 35,000). While it is true that Bihar has got richer, Maharashtra has grown much faster, leading to a widening gap.

Income disparities are so pronounced today that India is characterised by what we term the “3-3-3” phenomenon: by 2014, the residents of the three richest States (Kerala, Tamil Nadu, and Maharashtra) had become three times as rich in terms of income per capita as residents of the three poorest ones (Bihar, Uttar Pradesh, and Madhya Pradesh). This stark gap shows no signs of abating. What is more, differences in income per capita correlate importantly with difference in social indicators, in predictable ways.

Thus, in 1961, the median age in India varied across States in the narrow range 19 – 22 years. By 2015, this gap had ballooned to a low of 19 in Bihar to a high of 30 in Tamil Nadu. For life expectancy, this spanned a range from 43 - 55 in 1970 and in 2013 spanned a low of 64 in Uttar Pradesh and Madhya Pradesh and a high of 71 in Maharashtra. The range in literacy rates across States in 1961 was 21 - 36 per cent. By 2011, the lowest literacy level was 64 per cent in Bihar as against 83 per cent in Maharashtra. As a final example, even in a measure of infant mortality, the difference between the rich and poor States have not narrowed. The charts below show snapshots of these various economic and social indicators across the large rich and poor States of India between 1960 and 2015.

THE ‘ONE NATION’ FALLACY IN A ‘NEW’ INDIA

![Graphs showing comparisons between 1960 and 2014 for per capita income, median age, infant mortality, and literacy rate across different states in India.](image)

Sources: India Public Finance report, Ministry of Finance.
Putting it all together, this data tell us that the residents of the richest States in India are not only wealthier but are doing far better on a range of important social indicators than those of the poorest States. The resident of a rich State is just about at middle income country levels of well-being—say a resident of southern Europe—while a resident of a poor State is at low income country levels—say one in sub-Saharan Africa. It is extraordinary that this staggering divergence in well-being and life prospects exists within the same country without (at present) major political or social disruption as a consequence. But we are not sanguine that this placid state of affairs will continue, to which we return below.
III. THE 1990/91 CONUNDRUM

What went wrong? Neoclassical economic theory predicts that, given some plausible assumptions (the most important being “diminishing returns to capital”), there should be a tendency toward “convergence” in income per person amongst countries and amongst regions within large, federal countries. Most places in the world conform to the law of convergence, sometimes also called the “catch up hypothesis”. Thus, there has been convergence within the member countries of the Organisation of Economic Co-operation and Development (OECD) economies, as well as convergence within large federal economies such as the U.S., Canada, and even within a fast-growing, emerging economy such as China. India, another fast-growing emerging economy, is the outlier which bucks the trend. The chart below shows the trend of income divergence (technically, known as “sigma”) among large States/Provinces of the U.S., European Union, China and India. Notice while other countries are experiencing convergence or flat trends, India stand out in its stark divergence pattern.

What makes this finding even more puzzling is that India has, indeed, deployed redistributive policies to attempt to ameliorate the problem of inter-State income differences. As our research shows, the four richest large States in the Union (Maharashtra, Tamil Nadu, Karnataka, and Gujarat) account for a whopping fifty per cent of central sales tax revenues, far higher than the comparable statistic in any other large federal country. Yet, income gaps continue to widen rather than narrow, despite significant redistribution over the years. One could argue the counter-factual

scenario that the gaps would be even wider in the absence of redistribution, but this still begs the question why the large quantum of redistributive effort has not borne fruit.

Our research documents that widening regional income disparity is a systematic phenomenon. Income per capita amongst the major States of India, which was showing signs of slow convergence up until 1990, began skyrocketing since 1991 and shows no signing of abating. The timing of this change should not pass unnoticed. The structural break we find in the data in the 1990/1 period corresponds precisely to the most important economic policy paradigm shift in post-independence India: the adoption of liberal economic reforms and the dismantling of the “license-permit-quota raj” following the macroeconomic crisis of 1991. While we caution in our research that we cannot “prove” rigorously that there is a causal relationship between economic reforms and skyrocketing regional income inequality, the hypothesis is tempting and the sharp correlation in the data itself is inescapable. Notice how between 1965 and 1990, India was also experiencing income convergence among its large States but it starts to diverge dramatically from 1991 onwards.

---

3 Chakravarty, P. and Dehejia, V., 2017. “Will GST exacerbate regional divergence?”, *Economic & Political Weekly*, June 24, and references cited therein. This paper provides further detail on our convergence tests, methodology, and data.
IV. GOVERNANCE OR NATURE OF ECONOMIC DEVELOPMENT?

Some scholars, including the Chief Economic Adviser to the government of India, Arvind Subramanian, have suggested that the nebulous concept of “governance” explains the divergence amongst States. On this view, Maharashtra and Tamil Nadu are richer than Bihar and Uttar Pradesh because, to put it bluntly, the former are well governed while the latter are poorly governed. This explanation has its own inherent problems, since “governance” becomes a catch-all to represent whatever specific attribute the analyst cannot explain—much like, in the growth literature, the “residual” which cannot be explained is assigned to unobserved productivity growth.

Yet, we can put this Subramanian hypothesis to a direct test. If governance is the correct explanation, and since governance levels are presumably approximately similar within States, we should expect to see convergence, even while States diverge from each other. Our research results show exactly the opposite: using “luminosity” (nightlights as measured by satellites) as a proxy for income, we show that most of the large States are characterised by internal divergence within them just as large States are diverging from each other. In other words, rich districts are overtaking poor districts both within rich and poor States. This intra-State divergence pattern would not be possible if State-level governance were supposedly the explanation for the divergence.

We would argue that far more persuasive than the nebulous catch-all of “governance”, the contemporary model of economic development itself is the most plausible explanation for skyrocketing disparities of income and well-being both within and across major States. Our explanation tallies as well with the fact of divergence taking off after a paradigm shift in the development model during the 1991 economic reforms: put simply, from a state-led to a market-led model. To be more precise, the neoclassical convergence theory, as we have mentioned, makes the critical assumption of “diminishing returns to capital”. In simple language, this means that the rate of return on capital is highest when its stock is low, and it diminishes slowly as the stock of capital rises. This is the reason why, for instance, yields on investments are higher in poorer rather than richer countries. This is a strong force for convergence, as poorer regions automatically will have higher productivity and therefore higher growth for a given quantum of capital investment than richer regions. Add to this the fact of inter-regional trade in goods, services, and people—the
former two presumably now increased by the Goods and Service Tax (GST)—and neoclassical economic theory makes a strong prediction of convergence in income per person among and within countries.

Yet, other concepts within economic theory itself suggest that the force of diminishing returns to capital may be offset by counteracting forces, what economists call “agglomeration economies” and “network externalities”. In simple terms, this means that it is more productive for capital (and skilled workers) to clump together rather than be thinly spread. That is why throughout economic history we have seen the clustering of similar economic activities together, such as in a medieval city which had different quarters for each trade, right up to the present day where a tiny country such as Luxembourg has enriched itself by fashioning itself as a hub for high-end banking services to residents of all of its neighbouring countries.

In the Indian context, this is why Apple would rather locate itself in costly Karnataka rather than cheaper Bihar, and why, even within Karnataka, it prefers to locate in costly Bengaluru rather than cheaper Shivamogga. This hypothesis awaits formal testing. Tempting as it may be to conceptualise a reversion to a centrally planned economy in which the centre directs Apple to set up in Bihar vis-à-vis Karnataka to force economic convergence, it will only exacerbate the federalistic tensions between the States and the centre, since now Karnataka will cry foul at being deprived of an economic opportunity.

In short, our hypothesis is that the modern economic development model, which creates a tendency toward agglomeration and network effects, best explains the rapid divergence since India turned decisively to the market in 1991.
V. FREE THE STATES

But where does this leave governance? Though top-down, centrally driven policymaking perhaps made sense in the world of immediate post-independence India, it is ill-suited to today’s world of wide and ever widening income disparities across and within States. While we laud the GST as a policy which may reduce trade barriers and thereby boost aggregate national income, we are sceptical of the claim that it will be a force for convergence. Rather, as our research suggests, with policy levers removed from the States, GST is likely to be a recipe for even greater divergence given this double whammy.

Yet, this is not an epistle of despair. We believe that, with re-orientation of the policy paradigm, India can adapt to this brave new world of widening disparities. Most importantly, the top-down, centrally-driven model of policymaking must be scrapped, and replaced with a bottom-up model which empowers States and gives them the maximum possible latitude to make policies for themselves (and, taking it a further level down, States, in turn, must empower municipalities and rural panchayats).

The one-size-fits-all model of “one nation, one policy” simply does not make sense at this point in our economic development, and can only lead to economic and social disaster, if it is continued without serious modification. How long will a Bihari and a Tamilian sit content in the same political economy with such widely divergent levels of well-being and life prospects? This widening divergence itself will create dangerous, fissiparous tendencies, in our judgement, which in the long run could pose as a great a danger to the integrity of the Union as the Maoists or any other separatist group.

We spend a moment here to emphasise that our attention to inequality is based on political economy reasoning, and is concerned specifically with regional inequality in the context of a federal economic and political union. Unlike the classical interpersonal inequality concept made most famous recently by Thomas Piketty, we can remain agnostic on the philosophical status of inequality of outcome between individuals but continue to argue that widening inter-regional disparity of income is problematic in the context of a federal union.
Where do we go from here? What is needed, we would argue, is devolution of powers along with devolution of finance. The latter has happened, to some extent, with the reforms of the Fourteenth Finance Commission, but the former is yet to happen in any serious way. If anything, as we have noted, well-intentioned central government policy initiatives, such as the GST, only reduce the space for policymaking by States. It is common sense that, given the different levels of income and life prospects across the States, priorities and needs will differ. Thus, while Bihar rightly concerns itself with solving the problem of high infant mortality, Tamil Nadu will need to begin looking at pensions policy as its population ages. Likewise, in the context of taxation, what is considered a “luxury” in Bihar may be considered a “necessity” in Tamil Nadu, and so forth.

In the language of economics, what India must move towards are “place-based” economic policies, which allow for divergence and experimentation at the level of the States, rather than imposing a unitary policy from the centre. And, this must extend from economic policy to social and cultural policy as well.

The mindset of “one nation, one policy” must give way to the idea of “cooperative federalism”, a concept that Prime Minister Narendra Modi pays abundant verbal obeisance to but tends to obfuscate in favour of unitarism. If at all, the current central government has a puzzling penchant for a “one nation one policy” framework as showcased in its slogans such as “one nation one language”, “one nation one tax”, “one nation one election”, “one nation one curriculum”, “one nation one religion”, “one nation one food”, and so on.

Oneness—imposing homogeneity—is inherently in conflict with autonomy and plurality. Uniformity conflicts with choice. A policy as simple as imposing Hindi as a “national” language in non-Hindi-speaking States, a top-down, centralising policy smack of north Indian chauvinism, is sure to backfire and lead to regional chauvinistic backlash in non-Hindi-speaking States, especially those of the south and east whose languages are not cognate. Witness the huge social media pushback when the central government attempted to impose Hindi as the third language (along with Kannada and English) on the new Bengaluru metro system, or the widespread, cross-party protests in Tamil Nadu to the centre dictating to the State on a regional festival such as Jallikattu. These examples may seem trivial, but they point to the ubiquity of a centralising mindset which sits uneasily with what we suggest is the need for a more flexible policy paradigm which allows maximum leeway to the States. The consequences of failing to adapt may be dire.
VI. LESSONS FROM OTHER FEDERAL NATIONS

Looking at the experiences of other large federal countries may be instructive in this regard. In particular, we would like to ask: can economic divergence — and dispute over economic policy — fuel secession? Indeed it can, and the most famous example is the U.S. Civil War (1861-65). Popular histories of the conflict, the bloodiest by far in U.S. history, far surpassing both world wars, focus on slavery and secession as the key wedges between the northern (free) and southern (slave) States. While this is true, the debates about the legal standing of the institution of slavery, both within the Union and within new territories that were being absorbed in the Union’s westward march, as well as the legality of secession by a State from the Union, were but the culmination of a long period of divergence, economic and otherwise, between the northern and southern States.

In studying the roots of the crisis, it is useful to pinpoint the conflict over the national tariff in the 1820s and 1830s, arising from the divergent economic interests of the north and south. In short, import-competing manufacturing interests in the north favoured a protective tariff, while slave-driven plantation interests in the south, which benefited from cheap imports and access to the export market, opposed it. The conflict culminated in the “nullification” crisis of 1832, in which South Carolina adopted an ordinance of nullification, which declared unconstitutional and unenforceable the federally imposed tariffs of 1828 and 1832, and asserted that if the Union attempted to enforce these, the State was prepared to secede. In a sense, the secession crisis of January 1861, in which seven southern States (joined later by four others) seceded from the Union to form the Confederate States of America, is but a footnote to the earlier nullification crisis. It took a bloody and destructive civil war between the Union and the Confederacy to prevent a sundering of the U.S., yet let us remind ourselves that the conflict was rooted in disagreement over economic policy, and, in particular, the resistance of southern States to the imposition of policies from the centre (which were seen to favour the more populous northern States).

Consider, next, the vicissitudes of federalism in the U.S.’ neighbour to the north. The creation of Canada in 1867 as a confederation of provinces which were British colonies created a new nation.

---


5 The discussion of federalism in Canada draws upon, and quotes passages from, Vivek Dehejia, “Will the GST increase political fragmentation?”, Mint, 10 April 2017.
which spanned a huge geography from the Atlantic Ocean to the Pacific Ocean. Indeed, the new nation adopted as its national motto the Latin Biblical expression, *A Mari Usque Ad Mare*, meaning “From Sea to Sea”, and it was clearly intended to foster the concept of nationhood and abet the building of the new nation. Policies such as the national tariff and the construction of an east-west national railroad represented a concrete implementation of this concept, and they did, indeed, serve to bind the new nation together, but not without cost. The once wealthy Atlantic provinces, which formerly had north-south trade ties to the American states of the Eastern seaboard, were, relatively speaking, impoverished by the shift to an east-west trade pattern, imposed politically on a natural economic geography in North America which is north-south. Even today, these are the poorest provinces in Canada, literally a backwater, while the central provinces of Ontario and Quebec and more recently the Western provinces have powered the nation’s economic rise.

The impoverished eastern provinces were disinclined to revolt, and they share a common language and culture with Ontario and provinces further west. By contrast, Quebec, an island of French language and culture in a sea of English, fostered a secessionist movement about a century after confederation, resulting in a clutch of terrorist attacks in 1970 known as the “October crisis”. Prime Minister Pierre Trudeau, a staunch centraliser (confusingly called a “federalist” in Canadian usage), cracked down hard, and invoked rarely used wartime emergency powers to quell the uprising. A little more than a decade later, in the infamous “night of long knives”, in November 1981, Trudeau struck a deal with the nine English speaking provinces, without Quebec, to repatriate Canada’s constitution from Great Britain.

Premier René Lévesque, a Quebec nationalist and erstwhile separatist, bitterly observed: “Trudeau represents the centralising of Canada, literally crushing provinces into a federal mode.” Grievances festered, resulting in a referendum (the second in as many decades) on Quebec independence in October 1995, which shocked many when it failed by less than a percentage point. In response to the crisis, the intervening quarter-century has seen considerable devolution of powers to Quebec, critically on immigration and cultural policy and on policies which promote the use of the French language, including draconian laws which restrict access to English public school education and even curtail the size of English language signage at commercial establishments. One could call such policies illiberal, and some even term them “anti-national”; yet the threat of secession has all but disappeared in Canada.

---

VII. POLITICAL DIVERSITY: THE ICING ON THE CAKE

India is an extreme example of diversity amongst all large federal nations in the world. India’s diversity is deep and wide. It manifests across multiple axes – cultural, linguistic, economic, demographic, social and even political. Political diversity is the proverbial icing on the cake. In which other nation are fifty different political parties in contention to govern the various States and Union Territories? Even after coming to power in India’s largest State of Uttar Pradesh, just 13 of the 29 States of India has a Bharatiya Janata Party (BJP) Chief Minister. Regional political parties either in alliance with a national party or on their own continue to play an inordinately large role in Indian politics, much more than in other large federal nations. These regional parties are usually confined to just one State and are incentivised to merely respond to voters in that State. This will act as a natural force against excessive imposition of a “one nation” rule on all of India, as the BJP realised with its language policy, where its own ally, the Telugu Desam Party (TDP) in Andhra Pradesh came out strongly against any attempts to impose Hindi.

Despite the narrative of a rolling BJP juggernaut across the length and breadth of India, the phenomenon of regional political parties catering to voters in specific States is the natural manifestation of India’s growing divergence across its various States. India’s national elections are “national” only in a temporal sense – a given election is in reality a series of State elections held simultaneously. With such levels of political diversity, a “one nation” imposition will prove to be fiercely counter-productive and even fan secessionist predilections.

Don’t crush; let them breathe

To us, the lessons for India are clear: we ought to take a leaf from mature and successful federations and evolve a policy paradigm which does not attempt to “crush” regions into a centralized mode but to give them room to breathe within the federation. Over-centralisation is a tendency in immature democracies and non-democracies, we would argue. In India, there are those arch-centralisers who might believe that a policy recommendation such as ours is tantamount to sanctioning the rise of secessionist movements all over the map.

Our response would be that we are far more likely to foster secessionist sentiments if we attempt to dictate to the States from the centre, whether on economic or on social and cultural policy. A “one nation, one ___” (fill in the blank with the policy domain of your choice) is anachronistic to the diverse reality of contemporary India.
About the Authors

Dr. Vivek Dehejia is Resident Senior Fellow in Political Economy at IDFC Institute. Dr. Dehejia is also Associate Professor of Economics at Carleton University in Ottawa, Canada and Columnist, Mint. He holds a Ph.D. in Economics (1995) from Columbia University in New York, where his thesis supervisors included the Nobel laureate Robert Mundell and the noted international trade economist Jagdish Bhagwati. Dr. Dehejia is also co-author of Indianomics: Making Sense of Modern India (Random House India, 2012, republished in paperback 2015).

Praveen Chakravarty is a Visiting Senior Fellow at IDFC Institute. Chakravarty’s work focuses on empirical research using diverse datasets for policy outcomes. It encompasses fields of political economy using electoral data and issues of public policy in finance and economics. He has been published in several Indian and foreign mainline publications and academic publications such as the Economic & Political Weekly. He writes a popular monthly column titled "Noise to Signal" in Bloomberg Quaint.

Chakravarty is the Founding Trustee of India Spend, India’s first non-profit data journalism initiative, a board member of PRS Research that provides legislative research support to Members of Parliament and a board member of Centre for Civil Society, India’s highest ranked think tank. Chakravarty holds an MBA from The Wharton School and an undergraduate degree from BITS Pilani.