

Economic Reforms and the Less Developed Regions: A Study of Uttar Pradesh in India¹

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ABSTRACT

The economic reforms introduced in India in 1991 following the neo-liberal approach, have sparked a debate on regional inequalities and the uneven progress of the states. Uttar Pradesh, which is the most heavily populated, having 16 per cent of the country's population, is also a less developed state of India. An outcome of the reforms has been decline in the credit to the less developed states. Hardly a few studies have focused exclusively on this outcome of reforms and its implication for such states. Even the current literature on the state does not take cognisance of this development for the state. This paper examines the credit given by the banks to the state at the aggregate level, covering a span of 33 years from 1972-2004 looks into the trends and pattern of credit in the state.

1. Introduction

Uttar Pradesh (UP) is the most populous province in India and occupies 7.3 per cent of the country's area. In 2001 in response to the long term movement of the hilly region for the creation of a separate hill state, UP was bifurcated and a new state, Uttarakhand, comprising thirteen districts of the hilly region, was created³ (Mawdsley, 2003). The state, though gifted with fertile soil and rivers, is one of the poorest states in India. Though endowed with 'Unlimited Potential' (Government of U.P., 2002), UP is often paradoxically called '*ulta* Pradesh'⁴. The state is well known for its success in the green revolution and is the highest producer of foodgrains and sugarcane in the country, yet the poverty level in the state is very high in comparison to other states, and about 32 percent of its population lives

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³ The creation of Uttarakhand has led to significant loss to the state in terms of loss in forest area, geographical area, and tourism revenue as most of the holy places of pilgrimage lie within the hilly region. Also this region was more developed in terms of social indicators.

⁴ '*Uta*' in Hindi means 'opposite'. An evidence of this is the recent reform measures of the state government and the Ayodhya temple controversy which affects the investment climate and portrays a negative image of the state to the entrepreneurs.

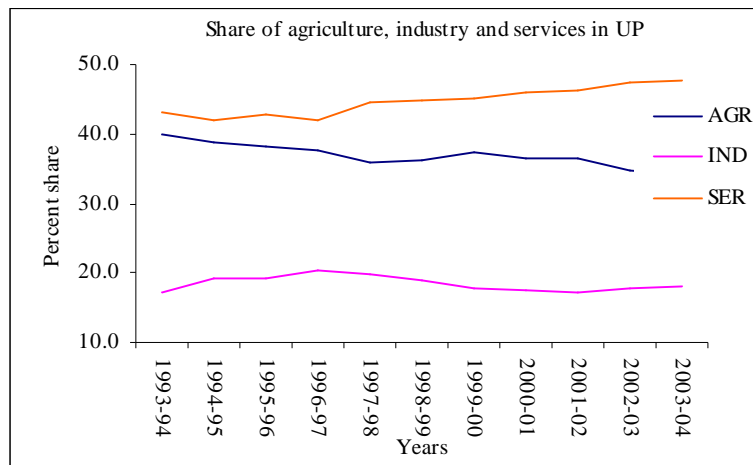
below the poverty line (Kozel & Parker, 2003). It lags behind not only in economic progress but in terms of indicators of human development too. The state's economy, primarily agricultural, is undergoing a gradual change with a decline in the share of agriculture and an increase in the share of the services sector. Agriculture now constitutes around 30 per cent of the state's domestic product (Figure 1). The state's 66 percent of the workforce however, is still dependent on the agriculture for its livelihood, with industry and services constituting 5.6 and 28.5 per cent in 2001 (Table 1).

Table 1: Structure of Employment in UP
(In per cent)

Sectors	1981	1991	2001
Agriculture	74.5	72.2	65.9
Industry	9.0	7.6	5.6
Services	15.8	19.3	28.5

Source: Registrar General of India (2002).

Figure 1



The economic reforms introduced in India in 1991 following the neo-liberal approach, have sparked a debate on regional inequalities and the uneven progress of the states. As with the Government of India, the state governments too initiated economic reforms in the early 1990s. In UP however, the reforms were introduced only in 1998-99 due to political instability, the preoccupation of the government with the rise of communalism, and casteism (Hasan, 2005). The reforms however, have not led to increased growth rates for the state⁵. During this period (1993-94 to 2003-04) the state's growth rate at 3.8 per cent was

⁵It could be argued here that the reforms and the reformers were not popular with the people. For instance, the erstwhile chief minister of Andhra Pradesh, Chandrababu Naidu, turned from an icon of liberalisation (Rudolph & Rudolph, 2001) to a reformer resorting to populist measures (G. K. Reddy, 2002) and subsequently failed to retain his post in the elections. Many studies have shown that the state did not achieve high rates of growth as during 1993-94-2003-04 (C. H. H. Rao & Dev, 2003; R. K. Rao, 2004). The average growth rate was 5.7 per cent, lower than the country's growth rate of 6.3 per cent during this period. This was, nevertheless, much higher than that of UP. Another argument which can be raised on the discussion of economic reforms is: should the less developed states be following a reformist model of development as is being pursued by other states.

considerably lower than other states, and the country's average growth rate of 6.3 per cent (Table 2).

Table 2: Decadal Growth Rate of Sectors

Period	Sectors			State Income
	Agriculture	Manufacturing	Services	
1950-51 to 1970-71	1.5	3.5	2.8	2.2
1970-71 to 1980-81	2.0	5.0	3.6	3.0
1980-81 to 1990-91	3.2	9.6	6.4	5.0
1990-91 to 1997-98	2.5	6.9	5.4	4.0
1993-94 to 2003-04	2.3	2.6	4.7	3.8

Source: Government of UP, (2002).

The per capita income of the state also declined over the years with the result that the gap between its per capita income and that of other states has widened (Table 3).

Table 3: Per capita income in UP in relation to other States

Years	(in per cent)								
	UP/GUJ	UP/AP	UP/HAR	UP/MAH	UP/TN	UP/PUN	UP/RAJ	UP/WB	UP/BIH
1993-94	50.7	69.2	45.5	42.3	57.6	40.4	81.7	77.0	172.4
1994-95	45.3	68.8	45.0	43.6	53.5	41.4	73.8	76.0	164.5
1995-96	44.4	66.8	45.6	40.5	53.0	41.0	73.7	72.9	198.4
1996-97	42.8	68.9	45.4	42.6	55.2	42.2	73.5	75.0	177.9
1997-98	41.5	69.0	44.8	40.2	50.3	-	66.1	68.7	185.3
1998-99	39.4	62.4	43.7	39.8	48.7	39.5	65.4	65.9	177.5
1999-00	41.7	62.1	42.9	38.1	47.8	39.3	67.7	64.4	181.4
2000-01	42.9	56.8	40.7	39.9	44.2	38.2	69.6	60.5	155.4
2001-02	41.0	54.9	39.9	38.9	45.9	37.9	66.2	57.5	176.2
2002-03	37.1	53.5	38.0	36.0	44.8	37.2	71.5	53.6	149.3
2003-04	33.9	52.1	36.9	35.3	44.8	37.3	66.3	51.7	168.8
Average	41.9	62.2	42.6	39.7	49.6	39.4	70.5	65.7	173.4

Also the bank credit to the state in the post-reform period is lower than in the pre-reform period. However, hardly few studies, including the literature on inter-state disparities have focused on this outcome of reforms. This paper examines the credit given by the banks to the state at the aggregate level, covering 33 years from 1972-2004 (includes the pre-reform and post-reform period) and explores credit,

- as a route to growth
- as a route to development
- as a source of inequality
- as a source of urban transformation
- as a source of empowerment

Our results indicate that credit has declined in the rural areas and increased significantly to the services sector in urban areas. The share of bank credit to the state in 2004 was even less than its level in 1972. Within the state the disparities across the regions have remained the same both in the pre-reform and the post-reform periods. The paper is organized as follows. Section II reviews the inter-state literature on disparities and also the literature which has emerged exclusively on the state. Section III examines the spread of credit to

various regions, districts, occupations, population groups (rural/urban), size of credit (large borrowers/small borrowers⁶) and even gender. The last section concludes the study.

2. The Literature on UP and Inter-state disparities

Inter-state disparities in India have been studied in a number of contexts. Studies exist on inter-state and intra-state inequality in the distribution of income and also the inequality in rural-urban areas within the states (Mishra & Parikh, 1997). Pant (2004) attempted to find out the factors responsible for widening intra-state disparities in per capita income. Kathuria and Shankar (2005) examined inter-state disparities in the performance of public health system in rural areas of the major states. Inter-state disparities have been related to caste too (Deshpande, 2001, 2003). Poverty and inequality across the states have been extensively examined by many studies. Dholakia (2003) examined the regional disparities using per capita income and human development indicators and has also examined the causality between the two.

A critique of the economic reforms in India has been an 'increase in spatial inequalities in the development process' (as expressed by Williamson, 1965). A number of studies examined the regional disparities in the economic performance of states in the pre-reform and post-reform period (Ahluwalia, 2000, 2002; Bhattacharya & Sakthivel, 2004; Kurian, 2000; Nagaraj, Varoudakis, & Veganzones, 1998; M. G. Rao, Shand, & Kalirajan, 1999; Sachs, Bajpai, & Ramiah, 2002; Shand & Bhide, 2000) have observed that the regional disparity in India has widened, especially during the nineties. These studies have emphasised the need for reducing inequalities across the states and raise the per capita income of less developed states. Joseph (2004) examined exclusively the performance of northern states in the post-reform period. Bhide, Chadha et al (2005) examined the spill-over effect of the growth rate among the states. Their results suggested that the spill-over effects have been limited which could be due to inter-state barriers in trade and other regulations. On a similar note Chelliah (2003) pointed out the need to develop the less developed states on the grounds that these would create large potential markets for the more developed states. He also urged for the removal of interstate trade regulations. Some studies have examined whether convergence in incomes has occurred across the states. Prominent among these are (Cashin & Sahay, 1996; D. Dasgupta, Maiti, Mukherjee, Sarkar, & Chakrabarti, 2000; Nagaraj et al., 1998; Purfield, 2006; M. G. Rao et al., 1999; also see Subrahmanyam, 1999). While Cashin and Sahay (1996) found that convergence across the states did take place between the period

⁶ Borrowers can be grouped according to the size of their borrowings. Until 1999 borrowers were defined as small borrowers if their borrowings were within the limit of Rs.25, 000. From 1999 onwards this limit has been raised to Rs.2 lakh (Rs.200,000). So borrowers with credit above Rs.2 lakh are large borrowers and below this limit are small borrowers.

1961-1991, Nagraj et al (1998) for the period 1970-94 find evidence of conditional convergence. Rao, Shand et al (1999) find divergence in the growth of per capita incomes of the states. Among the recent studies Purfield (2006) found that the gap in per capita income between rich and poor states has widened and that state policies matter in influencing pattern of economic growth. Using different reference periods all these studies have arrived at different results on convergence/divergence. Overall these studies examine regional disparities in various dimensions.

Though a lot has been said and discussed on the disparities across the states, there is a grey area as to whether the underprivileged areas have been affected adversely by the lack of credit and low investment, which are already caught in a vicious circle of lower investment, low growth and increasing poverty. The concern on poor credit flow and the emerging regional and sectoral inequalities in the deployment of commercial credit was highlighted by Narayana (2000) and Shete (2002). Reddy (2004) expressed concern over the decline in credit and raised issues relating to credit delivery and the role of credit in liberalized banking system. EPW Research Foundation (2004) in its analysis of the banks, noted low levels of credit to the agriculture, less developed regions and small-scale sector. The macro approach of these studies however, ignores the micro aspects including differences between states in trends in credit within and across the states. Burgess and Venables (2003) and Stern (2001) highlighted the importance of studying micro level heterogeneity and diversity.

The literature on the state can be distinctly divided into two groups: pre- nineties and post-nineties. While the literature in the pre-nineties eulogized the state for its agricultural achievement, in the latter period the literature is static in nature and focuses only on the human development of the state (See Dreze & Gazdar, 1997; Kozel & Parker, 2003). It does not take into account the underlying social and political changes taking place in the state. Hardly any study has emerged on the economic development of the state during this period. Incidentally this literature is influential as it finds its place in the various World Bank Development Reports and is mostly deriving out of the World Bank Projects and other multilateral organizations.

The `rediscovery' of UP in this literature fails to recognize the significant changes in the state in several aspects:

- i) decline in bank credit a consequence of reforms,
- ii) gradual change taking place in the state in the major regions of the state in terms of the redistribution of credit, shift in credit and agricultural output and non-agricultural output,
- iii) shift in terms of class and caste relations from higher castes to lower castes in the rural areas through the political mobilization of lower castes.

Even in the most recent mainstream Indian literature, a sort of inertness prevails with over the decades' contrasts being made between Eastern and Western UP in terms of physical attributes of regions, agricultural production, differences in terms of irrigation and so on. This literature fails to show the changes which are taking place in the two regions in agricultural output, usage of agricultural inputs and changing class/caste relations which are ushering in change in the state albeit gradually in the Eastern region and also the Western region.

Another stream of literature in the nineties on the state led by multi-disciplinary social scientists including sociologists, anthropologists, geographers and political scientists has examined the changing class and caste relations in the state's regions. In contrast to the macro approach of other studies, this literature through the case studies points towards the agrarian transformation taking place in the state and the various forces involved in this transformation including the farmers' movement (Brass, 1995; Hasan, 1995; Jaffrelot, Zerini-Brotel, & Chaturvedi, 2003; R. Jeffrey & Lerche, 2003; Lindberg & Madsen, 2003). It links the change to the political mobilization of lower castes in the state (C. Jeffrey & Lerche, 2000; Kothari, 1998). The increasing involvement of cultivators and agricultural labourers in the non-farm employment is also highlighted by these studies (Lerche, 1998, 1999). Some studies have even considered rapid growth of newspapers and satellite television media as the source of development and change in the state in eighties and nineties (Roberts, 2003; Stahlberg, 2003). The decline in credit to the state, however, does not find place in this literature as it was concerned mainly with the social and political changes in the state. In the less developed regions the lack of credit can further undermine the objectives of entering a higher trajectory of growth. How the banks have performed and what they mean to a state like UP in terms of its growth and development is our question here.

3. Banks and credit to the state

Banks act as the mobiliser of savings and allocator of credit for production and investment. Banks boost economic growth by identifying the entrepreneurs with the best chances of successfully initiating new goods and production processes (King & Levine, 1993) and facilitate long-run investments in high return projects (Bencivenga & Smith, 1991, p.196). Schumpeter (1934, p.74) assigned an important role to banks in economic development. According to him,

The banker, therefore, is not so much primarily a middleman in the commodity "purchasing power" as a producer --- and stands between those who wish to form new combinations and the possessors of productive means. He is essentially a phenomenon of development though only when no central authority directs the social process. He makes possible the carrying out of new combinations, authorizes people, in the name of society as it were, to form them. He is the ephor of exchange economy.

The total scheduled commercial banks in India are 284 of which 28 are public sector banks, 29 private sector banks, 31 foreign banks and 196 regional rural banks. The total number of branches of the banks in India at end March 2004 was 67,062 comprising 32,200 rural branches, 15,023 semi-urban branches and 19,839 urban and metropolitan branches. The average population covered per bank branch in the country was 16 thousand in 2004. This was a significant improvement from the population coverage of 64 thousand per bank branch in 1969 at the time of nationalisation of banks. In UP the total number of bank branches were 747 in 1969, much higher than in most of the states. The average population per bank branch was 114 thousand, way higher than the all India average. In 2004 the total number of bank branches in the state increased to 8,367 and the population covered came down to 21 thousand per bank branch. This however, hides a large disparity within the state, as the population covered per bank branch ranges from less than 10 thousand in two districts of the state to more than 30 thousand in at least 4 districts. The average share of bank branches in the Western region of the state during 1991-2004 was 38.1 percent, lower than its share of 45.6 per cent in 1972-76. The share of the Eastern region rose during the similar period from 28.8 per cent to 35.5 per cent.

The total number of bank branches and branch per population in the states and their per capita income is given in the table 4. Prima facie a relationship exists between the states per capita income and the coverage of population per bank branch. The table shows that the lower the per capita income of the state, the lower the number of bank branches and higher the population per bank branch. This can be observed in the case of Bihar and UP which are less developed, indicating that banks are less inclined to open branches in the less developed states (Table 4).

Table 4 : Spread of Bank Branches in various states

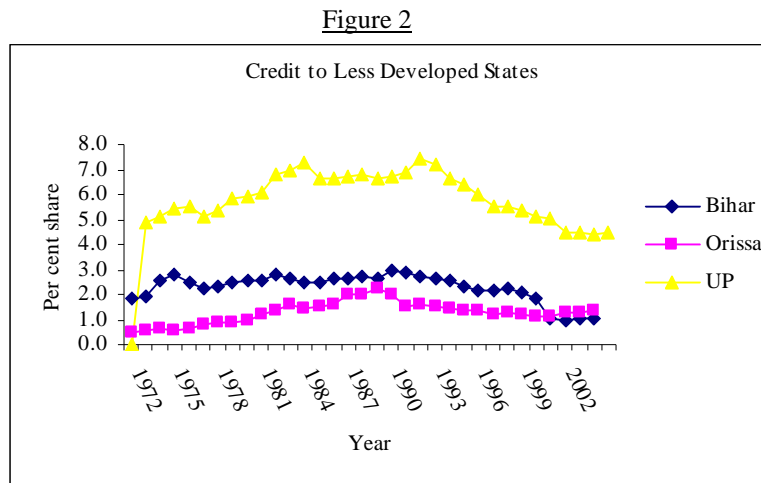
Selected States	No. of Bank Branches	Population per bank branch (in 000)	States' Per capita real income (in Rs.)
Haryana	1618	13	18067
Punjab	2645	9	17890
Rajasthan	3348	17	10056
Bihar	3560	21\$	4088
Orissa	2245	17	7447
West Bengal	4469	19	11998
Madhya Pradesh	3456	19	9414
UP	8210	21\$	6535
Gujarat	3677	14	19673
Maharashtra	6373	15	18614
AP	5300	15	12792
Tamilnadu	4768	13	15151
Karnataka	4851	11	13354

\$: Includes Uttaranchal in UP and Jharkhand in Bihar

Source: RBI (2004), CSO

Credit as a source of growth

The total credit to the state in 1972 was 4.9 percent. In 2004 this has gone down to 4.5 per cent i.e., the share has even reduced from its level in 1972. Figure 2 below shows the share of less developed states in total bank credit.



Has this been accompanied with increase in other forms of credit? Banks still remain the major source of credit to the state and other sources like capital market and development financial institutions (DFIs) formed only a miniscule proportion of total credit. Per capita credit to the state in 2004 at Rs. 2384 was the second lowest after Bihar, and was only 8.9 per cent of Maharashtra's per capita credit. It was only 3.0 per cent of an emerging state like Delhi. The credit-deposit ratio, (C/D ratio) a ratio used to judge the 'credit direction of banks' (R.B.I., 2005, p.77) of the state, was only 33.0 per cent in 2004 as compared to Tamilnadu (93.1 per cent), Maharashtra (81.8 per cent), Andhra Pradesh (74.4 per cent) and Karnataka (63.1 per cent). Has credit then worked as the source of growth in UP?

The growth rate of the state's output increased from 2.2 per cent in 1950-1970 to 5.0 per cent in 1980-90. Though the manufacturing output increased at faster rate, agriculture too, during this decade grew by 3.2 per cent. The food grains output of the state increased from 2.3 per cent in 1961-62 to 1968-69 to 4.2 per cent in the period 1971-72 to 1983-84. The production of wheat and rice increased to 7.5 per cent and 5.2 percent in the latter period (Agarwal, 1996, p.66). The increase in the output of food grains during this period and later from 1983-1995 in UP was occurring along with a decline in Punjab and Haryana's food grains output though this still remained higher than that of UP (Bajpai & Volavka, 2005). The importance of the adoption of capital-intensive technologies in agriculture including credit as an input in agricultural development was realised when high yielding varieties (HYVs) of seeds of wheat and rice known commonly as 'green revolution' were introduced in the western part of the state in the mid-sixties. In fact Basu (2003, p.105) assigns it as an important factor in the nationalization of banks in 1969. The bank credit during this period

raised from 14 per cent in total credit in 1972 to 26 per cent in 1981. This however, does not reveal the regional heterogeneity in credit as in the western region, a hub of green revolution, credit to agriculture doubled from 33 per cent to 60 per cent of the total credit to the agricultural sector in the state in 1985.

In the post-reform period, a sort of sectoral readjustment has taken place with the decline in credit to the agriculture and industry and a rise in the share of services sector. While the share of the services credit was 42.4 per cent in 1992-04, its share in total output of the state during this period was slightly higher at 44.9 per cent. The industrial sector, particularly the large industries were receiving highest credit in 1972. Around 60 per cent of credit in the state was to the industrial sector. At the end of March 2004, this had declined to 26.9 per cent (Table 5).

Table 5: Share of Different Sectors in Total credit to UP (averages)

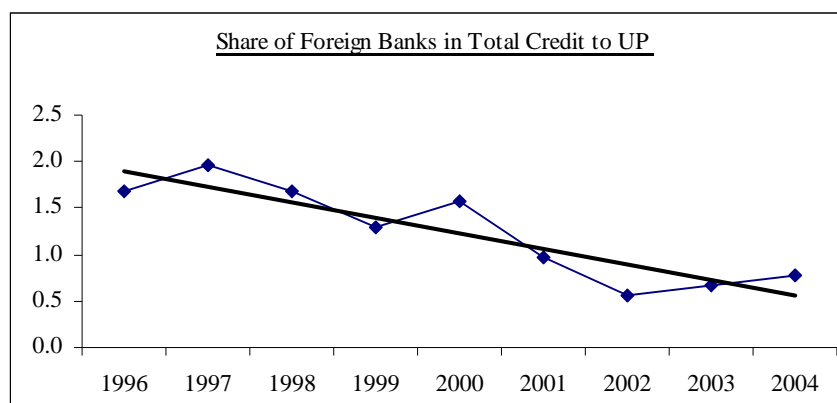
Years	Agriculture	Industry	Services
1972-1982	20.3	54.3	25.4
1983-1992	22.5	40.0	37.0
1993-2004	20.8	36.8	42.4

This decline in credit has been accompanied with decline in industrial output too, more so in the registered manufacturing. The decline in credit to agriculture in the post-reform period is often cited as the indicator of structural transformation of the Indian economy, as the share of agriculture in total output too, has declined (Misra, 2003).

i) Bank groups and Credit Growth

Much against the maligning of public sector banks in the Indian literature; it is these banks which have lent the most to the state. Their average share in total credit during 1996-04 was 95.0 per cent and supported 35.0 per cent of the total state output. The share of private sector banks increased from 2.0 per cent in 1996 to 10.6 per cent in 2004. During the similar period, the share of foreign banks in the state has been negligible, only 1.0 per cent. Even at the all-India level, the share of foreign banks in total credit in 2004 was 7.2 per cent. Only in Delhi, Maharashtra and Tamilnadu their share in the total credit was more than 12.0 per cent. This too, has gone mostly to the metropolitan areas. Most of the loans given by the foreign banks are in the services sector. What is even more striking is that the share of foreign banks in total credit to the state has been declining (Figure 3).

Figure 3



ii) Regional Output and credit

The four regions of the state-Eastern, Western, Central and Bundelkhand regions, though part of the same state, are at entirely different stages of development economically.⁷ The credit needs of these regions, therefore, are also different from each other. Within the regions, two shifts in agricultural output and credit have occurred since the seventies. In 1972, of the total credit to agriculture in the state, the credit to the Central region was highest followed by the Western region. The region received more than 50.0 per cent of the credit; its share however, halved to around 26.0 per cent between 1975 and 1980 and was only 15.0 per cent in 2004. This shift coincided with the rise of the Western region in agricultural credit, which rose to more than 50.0 per cent during the eighties. The shift rather followed the shift in agricultural output which took place in the Western region. The spread of green revolution, strong farmers movement⁸ in the Western part of the state (Brass, 1995), good irrigation system (N. Pant, 2004) were some of the factors explaining agricultural prosperity in Western UP and in the shift from Central to Western UP. The rise and commercialization of agriculture in the region has also been described as capitalist agrarian development. The Eastern region and Bundelkhand during the period received only 10.0 per cent and 3.0 per cent of the total agricultural credit.

The second shift is discerned in the nineties when the shift occurred from the Western to the Eastern region, with the rural credit in the region rising to almost at par with the Western region, even higher than that of the Western region in some of the years. The data on distribution of credit to rural/non-rural areas with their occupational pattern in different districts of the state is not available but it can be inferred that the non-farm activities, either in the services or manufacturing based in the Western region have increased.

Credit as the source of development

Typically in the current development literature, credit and development are often associated with microfinance i.e. credit in small quantities given to the poor to help them emerge out of poverty. Microfinance is defined as “the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and, their micro enterprises” (ADB, 2000). In India too, the microfinance is used as a tool for poverty alleviation. The model of microfinance followed in India is mostly through the Self Help Groups (SHGs)-Bank linkage (around 80 per cent)

⁷ The regions are different from each other not only economically but also socially, culturally and politically too. The different historical background of the regions leading to different cultures, languages were perhaps the reason that unlike other major states, people from UP do not have a UP specific ‘identity’ or even a language (Lerche & Jeffrey, 2003).

wherein the Non Governmental Organisations (NGOs) (which exist for rural development, women, child health etc and microfinance is one of their activities) form the self-help groups and assist the groups in accessing credit from the banks⁹. The role of SHGs in capital accumulation and poverty reduction is limited in the state due to its inadequate outreach. The Southern region in India (comprising the states Andhra Pradesh, Karnataka, Kerala and Tamilnadu) accounted for 63.0 per cent of SHGs and 79.0 per cent of SHG credit in 2004 Dasgupta (2005). Andhra Pradesh and Tamilnadu were the leading states. In contrast, Assam, Bihar, Madhya Pradesh and Uttar Pradesh account for much less share of SHGs and SHG credit. In relation to poverty, he concluded that SHGs are more active where it is lower and reverse in other states. This has been observed by other studies too (P. Basu & Srivastava, 2005). Thus the SHG – bank linkage programme, too, has suffered from the same trend which afflicted bank credit in the post-reform period viz., credit to the more developed states and which have lesser poverty.

Bank credit in small quantities to the small borrowers also assists in the starting of new enterprises and helps them in escaping the low investment -low income trap. In a state like UP, with high poverty levels, this has a different implication than in the state like Maharashtra. Credit per account to the small borrowers in the rural areas of the state was Rs.635, ranking ninth among the 14 major states. Surprisingly even a state like Maharashtra too ranked 11th among all the states indicating the urban orientation of the credit.

Credit as the source of Inequality

The literature has focused to a great extent on how inequality affects the economic growth. A large number of studies particularly in the nineties have burgeoned on the issue, a ‘culmination of several studies in the analytical, empirical and policy literature’ (Kanbur & Lustig, 1999). The research on the growth and inequality has largely focused on testing the Kuznets hypothesis and the evidence has been inconclusive. In the recent research, focus is on the channels through which inequality could effect economic growth. These include political economy channel (Alesina & Perroti, 1996; Alesina & Rodrik, 1994; Deninger & Squire, 1998; Persson & Tabellini, 1994) according to which unequal societies have higher political instability which has an adverse effect on investment and growth; income

⁹ In India three models of microfinance are being followed. Under *Model-I*, banks s, form and nurture the groups themselves, open their saving accounts and provide with bank loans. Up to March 2005, 15 per cent of the total SHGs financed belonged to this category. Under *Model-II*, SHGs are formed by NGOs and formal agencies but are directly financed by banks. This model has a major share, with 80 per cent of the SHGs financed up to March 2005, falling under this category. Under *Model-III*, SHGs are financed by banks using NGOs and other agencies as financial intermediaries (R.B.I., 2005). Women are often the targeted groups of these programmes. .As against the southern states, where SHGs are mostly comprised of women, in UP mixed groups of men and women or men only with a few women groups only are found (P. Basu & Srivastava, 2005).

distribution and capital market channel (Banerjee & Newman, 1993; Galor & Ziera, 1993) which relates income distribution and growth through links to capital market. They argued that economic opportunities vary with the unequal distribution of income. Poor people lack opportunities due to lack of capital. Research in this area emphasizes the link between inequality, social conflict and growth. Inequality may cause social unrest and could also lead to violence. The other channel is that of income inequality and social conflict (Fajnzylber, Lederman, & Loayza, 2002). They found evidence to suggest that income inequality is significantly associated with violence levels across the countries. The latest World Development Report, 2006 (World Bank, 2005) has even included equity as its theme and defines equity as 'equality of opportunity'.

But could credit be a source of inequality? Investment could lead to inequalities if in a state of existing inequality the financial sector is liberalized, which could lead to control over finance by few accentuating the inequalities (Claessens & Perotti, 2005). The credit constraints could lead to inequalities in rural-urban credit which could further foster inequality in incomes. Inequality in credit across the individuals could be examined in terms of geographical spread i.e. rural-urban population or even rural versus rural population and small versus large borrowers. In 1972, about three years after the nationalization of banks, the credit to the non-rural areas of the state was almost 92.0 per cent and, in rural areas only 8.0 per cent. This is supported by the findings of All India Debt & Investment Surveys (AIDIS). Despite 33 years of massive branch banking and increased focus on agriculture, the credit to rural areas in the state was still only 26.0 per cent in 2004. The average share of the credit in rural and non-rural areas of the state in the post-reform period was 30.0 per cent and 70.0 per cent respectively. The decline in credit to the rural areas has particularly taken place in the nineties. With the increasing focus of banks to services sector and retail lending, the focus shifted to the non-rural areas. The credit-deposit ratio in the rural areas which was 60 per in 1991 declined to almost half of its level in 2004.

Credit as the source of urban transformation

A shift of credit from the rural to the urban areas can be an indicator of rural-urban inequality, but could also be a source of urban transformation and urbanisation. Urbanisation is usually defined as the effect of rural to urban migration, and natural growth rate of urban population. In most of the studies, urban transformation and urbanisation are used interchangeably (Gugler, 1996). In our study, however, the two are not used interchangeably as the effect of credit would first lead to change and transformation in the urban areas, gradually leading to increased urbanisation via urban growth and migration from rural to urban areas. So credit in this sense, assists in fostering change and urbanisation by shifting the loci of activities from agriculture to manufacturing and services.

In UP, the level of urbanisation is low due to high rural to rural migration. Historically, the state had high urbanisation levels. In 1901, UP had 21.0 per cent of India's urban population which declined to 12.9 per cent in 1991. In fact, during the period the 1901-11 in UP, the urbanisation increased by 11.0 per cent as compared to the country's average of 10.8 per cent and during the decade 1931-41 too, the pace of urbanisation was considerably high. Exclusive focus on migration to the existing urban areas and the exclusion of other towns is cited as an important reason in the slowing down of urbanisation in UP (Parveen, 2005). Table 6 shows the share of urban population in states along with their per capita income in 2001.

Table 6: Urbanisation in Different States in India

States	% of urban population	Per capita income in 2001-02 (.Rs.)
Maharashtra	42.4	16797
Andhra Pradesh	27.3	11906
Gujarat	37.4	15962
Haryana	28.9	16395
West Bengal	28.0	11369
Punjab	33.9	17254
Tamilnadu	44.0	14261
Rajasthan	23.4	9877
Uttar Pradesh	20.8	6539
Bihar	10.5	3712
Orissa	15.0	6787

Source: Census 2001, GOI

The states with low per capita income like UP, Bihar, Orissa also have lower urban population as share of the total population. The percentage of urban population in UP in 1991 was 19.8 and within a span of a decade has just increased to 20.8, an increase of merely .1.0 per cent. On the other hand, the states with higher capita income like Maharashtra, Tamilnadu and Gujarat had much higher levels of urbanisation. Sachs and Bajpai (2002) too found a strong association between urbanisation and growth in Indian states. Lack of availability of jobs, lesser skills of the rural people and also social exclusion were some of the factors in explaining low rural-urban migration in the state (Parker, Kozel, & Kukreja, 2003).

The increase in credit to the services sector in the Western region is an evidence of increasing credit to the urban areas in the region. It is this region which is more urbanised and the shift to urban activities in the region reflects also the decline of agriculture within the region. Many, among the richer farmers, owning more than 12 acres of agricultural land in the region, have moved to non-farm employment (C. Jeffrey, 2003; C. Jeffrey & Lerche, 2000). A trend which can be observed from Table 7 is that except the Western region, urban credit has declined in all the other regions of the state.

Table 7: Share of Rural and Non-Rural Areas in Different Regions

Year	ER		WR		CR		BR	
	R	NR	R	NR	R	NR	R	NR
1972	29.3	16.4	55.5	35.9	13.4	38.8	1.8	1.4
1975	28.2	12.0	58.9	39.2	10.9	42.6	2.1	1.3
1980	38.8	20.5	43.9	39.5	13.1	35.3	4.3	3.0
1985	33.9	42.0	40.6	30.4	20.8	25.2	4.7	1.8
1990	38.1	20.2	38.4	41.8	17.5	35.5	5.9	3.1
1995	41.9	22.4	37.4	45.2	14.3	29.3	6.4	2.8
2000	41.5	20.3	39.3	47.0	13.0	29.7	6.3	2.7
2004	38.2	19.5	38.4	47.8	15.3	29.4	8.1	3.3

It is the Western region which is attracting most credit in the urban areas. The credit to the rural sector in the Eastern region has increased in the state and is even more than that of the Western region in the recent years. In the urban areas, it is services sector which has been receiving a large share of the credit. Manufacturing was higher than services till 1998 in the non-rural areas. The turning point came in 1999 when the services share surpassed that of the manufacturing which declined since then.

Credit as a source of empowerment

Empowerment has become a buzzword since the nineties (see Page & Czuba, 1999) [*The Concise Oxford English Dictionary*](#) defines empowerment as giving *authority or power; authorize and. give strength and confidence*. It has been used in a number of contexts and perspectives, even used as ‘fiscal empowerment’ (Y. Reddy, 2006). Nevertheless, the word is frequently referred to empowerment of women, socially weaker groups like the disabled and low castes as in India. Large numbers of studies exist on empowerment of women. In a study of empowerment among women in Eastern UP, Pandey and Mishra (2004) found that the empowerment of women is extremely low and that access to ownership of assets, property, credit and education too, has not been important in women’s empowerment in this case. They found that decision making was more significant in women empowerment.

Empowerment of women can be not only through education and health, but also economically through access to financial resources, for instance, bank deposits and credit. Credit is associated as the route to empowerment for women, more so with microfinance. Not much information is available on the bank credit to women in the state. The data on credit, according to gender, is available only for small borrowers at the all India level for the year 2004. Further breakup for the states is not available which does restrict our analysis. Nevertheless, it does indicate that the share of the credit to women among small borrowers in the rural and non-rural areas is not very different from each other.

Table 8: Percentage Distribution of credit to small borrower accounts

Area	Individuals				Others			
	Male		Female		Male		Female	
	No. of	Amount	No. of	Amount	No. of	Amount	No. of	Amount
	Accounts		Accounts		Accounts		Accounts	
Rural	81.7	84.1	17.2	14.1	1.1	1.8	81.7	84.1
Semi-Urban	79.8	81.7	17.7	14.3	2.5	4.0	79.8	81.7
Urban	80.5	81.4	16.4	14.3	3.1	4.4	80.5	81.4
Metropolitan	73.8	79.1	23.2	16.5	3.0	4.4	73.8	79.1
All-India	79.8	82.0	18.2	14.6	2.1	3.4	79.8	82.0

Source: RBI.

Since the data on credit is available only for a year, it does not give any idea of women's access to resources in the pre and post-reform period. The table does show that maximum share of the credit among the individuals has gone to males. Only in the metropolitan areas the share of women is slightly higher as compared to the rest of the areas.

As in credit, the deposits too, are held mostly by the men and the share of women has not changed much over the years.

Table 9: Gender wise Ownership of Deposits in UP
(In per cent)

Year	Individuals		Others
	Males	Females	Year
1996	68.7	16.7	14.6
1997	69.0	17.2	13.9
1998	69.6	16.9	13.5
1999	68.7	17.2	14.1
2000	67.8	17.4	14.8
2001	69.6	17.6	12.8
2002	68.7	17.3	14.1
2003	68.7	17.6	13.7
2004	68.2	17.6	14.3

Source: RBI (2005).

The number of women accounts has increased, though this may not be the real indicator of their empowerment, as the accounts of women may be opened to spread the family wealth, and may have nothing to do with their empowerment.

4. Conclusion

In the post-reform period an outcome of economic reforms in India has been a decline in bank credit to less developed states. As these states are already less developed, decline in investment affects their ability to come out of the low growth- low income trap. This has been acknowledged by hardly few studies. Even the literature on the state has not focused on this outcome of the reforms. Our study, therefore, using a long term, time series data covering the period 1972 to 2004, set out to examine the pattern and trend of credit and what the credit means to the state and its regions, their growth and development. The gradual shift taking place in the state as observed by the multidisciplinary studies (R. Jeffrey & Lerche, 2003, among others) reflects in the shift in credit too from Western to Eastern region, rural to urban

areas and agriculture to services sector. However, our study does not find evidence of shift from the large to the small borrowers and in the composition of credit/deposit based on gender.

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