

# Economic Backwardness of Bihar : A Historical Perspective

## Abstract

Deep historical legacy, both in the era of colonial subjugation and in the post-independence period, forced Bihar to remain economically and infrastructurally the most backward state in the country. The historical setting of permanent settlement established production relations that inhibited the growth of productivity resulting in stagnation of Bihar's economy in general and agricultural stagnation in particular. A host of policy measures undertaken by the Central Government in the post-independence era also strangled the development of Bihar. A policy of freight equalization directly sabotaged any chances of industrialization of Bihar. Given this freight equalisation policy, there was no incentive for industrial capital to come to place like, Bihar which had rich mineral resources but comparatively lower infrastructural capacity.

**Keywords:** Historical Legacy, Colonial Subjugation, Negative Discrimination, Freight Equalisation, Permanent Settlement, Agrarian Relations, Locational Advantage.

## Introduction

Bihar has a glorious past. It has been a place of splendor and grandeur in the ancient and medieval periods, a cradle of ancient civilization, seat of education and spiritual wisdom that enlightened the world, from where rose great empires and dynasties, a land of Budha, Mahivr, Aryabhata, Banabhatta, Patanjali, Gargi, Maitrayee, Vatsyana, Balmiki, Vishwamitra, Panini, Chanakya, Chandra Gupta Maurya, Ashok, Samudragupta, Skundgupta in the ancient period, Sher Shah, Guru Govind Singh, Babu Kuer Singh in the medieval period, but in the modern era it not only remained neglected and over looked place in the colonial period due to colonial interest but it was also deliberately ignored in the post-independence period. Even other states or regions rose to their new heights of development at the cost of Bihar.

## Objective of the Study

Bihar is a tragic paradox of stagnation, poverty and backwardness amidst nature's unlimited bounties. Not only industrial backwardness but slow growth of agriculture has been a major factor for the sluggishness of the state's economy. A large number of social, economic and institutional factors have been responsible for the stagnation and high incidence of poverty in the state. But historical factors have also been responsible for keeping Bihar a backward state. The objective of this paper is to explore briefly two of the historical factors which may be held responsible for making Bihar backward as compared to other states of the country. These are the Permanent Settlement system of land revenue under the British Raj and Freight Equalisation Policy in the post-independence era. This paper seeks to examine how, while under Permanent settlement Bihar experienced the worst exploitative agricultural growth, the freight equalization policy stifled industrial progress of Bihar.

## Deprivation

Deprivation of Bihar stands out on several counts among the Indian States. In some cases, its deprivation is more acute than even states which have been granted special category status. Deep historical legacy running through both the era of colonial subjugation and the post independence period forced Bihar to remain economically and infrastructurally the most backward state in the country. Developmental woes of Bihar are compounded by a significant and explicit bias in the central policy environment against the state. Bihar has faced negative discrimination in the de-facto allocation of resources from the central pool. Some central policies like freight equalisation have effectively frustrated all opportunities of industrial development in Bihar which was bestowed with rich mineral resources. Institutions like banks, which were meant to



**Ashish Kumar**  
Research Scholar,  
Deptt. of Economics,  
TM Bhagalpur University,  
Bhagalpur

facilitate development and build capacity for investment, have been draining out whatever surplus is generated in the state's economy.

#### **Poor Infrastructure**

Infrastructure development is critically linked to economic development. It is also a key factor influencing the cost and quality of governance. On the one hand, a sound infrastructural base entails positive externalities for the economy as a whole by creating an enabling environment for private sector and on the other hand it reduces cost of governance by reducing the cost of public services. The states with less developed infrastructure attracts less private capital, putting pressure on government to step up their spending.

#### **Pre-Independence Period**

Poor infrastructure in Bihar is a historical continuity of a colonial construct which have been left un-addressed in the post independence period too, continues to fetter state's development. The historical setting of Permanent Settlement of 1793 by Lord Cornwallis ensured backwardness of the region. As the revenue of the colonial state was fixed permanently, there was no incentive for the state to undertake productive investments in the region or to create institutional or administrative infrastructure other than the absolute minimum required for maintaining the imperial hold on the region. Permanent Settlement defined the legal and administrative framework within which the agrarian relations were determined until the zamindari abolition Act of 1950. Under the settlement, zamindars were not only to act as agents of the government in collecting land revenue from the ryot but also to become the owners of the entire land in their zamindaris. Their right to ownership was made hereditary and transferable. British officials being foreigners looked in zamindars as local supporters.

However, the cultivators were reduced to a low status of mere tenants and were deprived of long standing rights of the social and other customary rights such as use of pastureland, forest lands, irrigation canals, fisheries and homestead plots. This permanent marriage of interest between the colonial masters and their native co-horts i.e. zamindars obviated the need for expansive reach of institutions in the region.

The production relations under the system established a certain distinctive mechanism for distributing and a few limited methods for developing productivity, which together led to economic stagnation and involution of Bihar. Members of the major social classes, feudal lords and land possessing peasants were incompatible with the requirements of economic growth. Due to extra economic compulsion for extraction of surplus by tords and production for subsistence by peasants precluded any tendency towards specialisation of productive units, systematic reinvestments of surpluses or continuous technical innovation.

Within the Permanent Settlement regions, Bengal was relatively better placed, because it was centre of the colonial empire. The edifice of colonial administration, centered in Bengal had obvious institutional and infrastructural ramifications, along with the releases of developmental externalities in

social sector such as education. Further, since the state is not land locked like Bihar, historically Calcutta even in the colonial period, was major centre of colonial trade thereby generating an economic dynamics of its own. Similarly, though Orissa, like Bihar, is home to huge mass of poverty, its historical deprivation was lesser than that of Bihar. On the one hand, like Bengal, this region too was not land locked and on the other, in terms of revenue administration, Orissa was not as homogeneous a region as were Bihar and Bengal.

In contrast to Permanent Settlement areas, in Ryotwari and Mahalwari areas, there was hardly any intermediary between the rent paying production units, be it tenant farmer (Ryot) or a collective tenant farmer (Mahal) and the colonial state. This resulted in two things, one that the state had to have an expansive reach, right to the to the village level, with a very robust institutional capacity to ensure a steady flow of revenue, and two, that the farmers had an incentive as well as the wherewithal to enhance their productivity, as what was left after paying revenue was to be their own income. Secondly since the revenue had to be periodically assessed, it was in the interest of the colonial government to invest in infrastructural development of the region so as to generate a greater volume of revenue flow. Since these regions came under colonial subjugation much later than the Permanent Settlement areas, and the fact that the control was much shaky in these areas, local trade and industry were not stifled by colonial interests to the extent they were in the former regions.

#### **Post-independence Policies**

A host of policy measures undertaken by the Central government in the post- independence era also strangled the development of Bihar. A policy decision of freight equalization directly sabotaged any chances of industrialisation of backward Bihar. The locational advantage of erstwhile Bihar due to its rich mineral resources base was manipulated in such a way that it entailed an implicit charge on the development of industrial enterprises in Bihar subsidizing its competitors elsewhere in the country. An equitable regional development of industries in the country, as manouvered by Indian planners worked against the industrialisation of Bihar itself. Freight equalisation policy covered essential developmental inputs like coal, steel, cement, fertilizers etc and was introduced in order to make available these products at the same price throughout the country irrespective of the distance between the source of supply and consumer location. The consumers of freight equalised commodity were entitled to buy it at same delivered price all over the country from its main producer agencies. Thus the consumer location nearer the source of supplies of these basic industrial commodities cross- subsidized the consumers located at disadvantageous distance. Given this freight equalization, there was no incentive for industrial capital to come to place like Bihar, which had rich mineral resource base but comparatively lower infrastructural capacity.

As a matter of fact, this policy facilitated the process of concentration of industries in already developed industrial pockets in two major ways : First, the already developed industrial pockets in the

country did not have to face cost disabilities because of their distant geographical location from the key raw input or other material sources. Secondly, more bizarre consequence of this policy was that cost disabilities of developed states were subsidised by resource rich but backward state like Bihar. For every unit of consumption of key inputs like steel or any other item covered under this policy, Bihar had to literally subsidise its competitors in other states, as it paid a freight element in the price which would have been ideally borne by the industry at a distant place. Consequently, the Bihari consumers who were actually located nearer the source of supplies of these basic industrial commodities actually paid higher rates to cross subsidise the consumers located at disadvantageous distance.

There were two different ways by which this policy had damaged the growth of industrialisation in Bihar. First, since the local industries using steel were to pay the average freight cost, in spite of the actual freight cost being negligible, it implied that the steel based industries were actually subsidising similar industries elsewhere in India. By no standard this was a small amount for Bihar where the existing industrial base was rather narrow. However, the second component of deprivation was extremely large and relates to the investment in steel based industries that Bihar would have attracted because of its locational advantage. One should remember that in the post-independence phase, it was the metal based industries in general and steel based industries in particular that had accounted for major part of industrial growth in the country. In absence of freight equalisation policy, Bihar would have been the natural beneficiary of that huge industrial growth.

Thus not only Bihar has been denied its due share in country's resources, there has been a negative discrimination against the state.

### Conclusion

The historical roots of Bihar's backwardness can be traced back to nineteenth century or even earlier. The backwardness of Bihar's agriculture has its roots in its colonial past. The Permanent Settlement had a definite negative role in Bihar's economy that brought about stagnation and backwardness. After independence it was hoped that the regional disparities that had emerged in the country during colonial rule will be gradually lessened through appropriate policies. Unfortunately it was not to be. The freight equalisation policy whereby basic raw materials like steel, coal and minerals became available at the same price throughout the country destroyed comparative factor advantage of Bihar. This did not allow the state in developing manufacturing. It also destroyed all incentives for industry to locate in a mineral rich state but infrastructurally deficient state like Bihar.

Even before bifurcation the state lagged much behind other states in respect of

industrialization. After division, however, the situation became worse as the bifurcation of the state also changed the parameters of development matrix, particularly in terms of resource endowment.

### Suggestion

Post-2005 Bihar has made good strides to erase the ills of stagnant economy. Still, the recent turn-around notwithstanding, the challenges facing Bihar remain huge. The most important constraint is the lack of adequate infrastructure. Centre has a definite and important role to play in developing basic infrastructure in the state. The Centre should take measures to compensate the loss Bihar suffered historically. If not special status, then at least special package of sufficient size is a must for Bihar to make it catch up with other developed states of the country.

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