

Intrastate Income Disparities and Regional Convergence: A Study of Odisha, India

Abstract

Odisha, a state in India's eastern region, experiences a complex phenomenon of becoming not only the least developed state of the country but also striking disparities across its districts. The objectives of this study are to examine the regional income disparities and convergence across its districts and find out the contributions of different regions and sectors to the observed disparities. The study applies different measures of σ -convergence, and absolute and conditional β -convergence in addition to sectoral decomposition analysis, catching-up process and shift analysis. The results of σ -convergence indicate an increase in intrastate income disparities in Odisha since the beginning of the new century, which are largely attributed to within-division inequality. The results of the absolute β -convergence further confirm divergence. When the factors like economic structure, institutional quality and spillover effects are controlled for, there is conditional convergence. Though there are evidences of inverted U-shape relationship in regional income dispersion, it may not be prudent to assume that the state has reached stabilization as most of the districts along with industrial and service sector experience negative shifts. The catching up process indicates that the low income districts have to grow at least at 12 percent annually from now for their per capita incomes to be equalized to developed districts by 2030. The contribution of the industrial sector to inequality records an increasing trend. There is also a rising share of covariance between industrial and service sector, revealing a shift in state's income from agricultural to non-agricultural sector and the complementarity between industries and services. The results seem to indicate the failure of the trickle-down effect. Hence, any effort to bring about interregional balance may require special attention to the laggard regions with focus on fostering agriculture, institutional quality and interregional and inter-sectoral interdependence. Industrialization with focus on spatial spread may help reduce inter-district disparities. As farm sector creates a positive shift, efforts to promote agriculture also remain critical.

Keywords: Between-region inequality, catching-up process, intrastate disparity, Kuznets' hypothesis, convergence, shift analysis, within-region inequality, Odisha.