EAC-PM Working Paper Series
EAC-PM/WP/38/2025

The Great Convergence: A Case Study of Uttarakhand and Himachal Pradesh (2000 to 2020)

February 2025

Dr Shamika Ravi (Member, EAC-PM)

Alok Kumar (Principal Secretary, Industrial Development & MSME, Government of UP)

Abstract

We compare the growth and transformation of Uttarakhand (UK) economy to that of Himachal Pradesh (HP) over a period of two decades [2000-2020]. In particular, we examine the changes in the industrial sector output, particularly in view of the Concessional Industrial Package (CIP) for the Hill States announced by the central government in January 2003. What emerged subsequent to the central government's announcement is akin to a 'natural experiment' given the close similarities of the two neighboring states. We study the approaches of the two states in response to the CIP which resulted in differing long-term trajectories of growth for the two neighbors. The only fundamental difference between the industrial policies of the two states was in their land policies, while all others were identical. We find that UK was able to rapidly catch-up and subsequently exceed the per capita income of HP within a relatively short period of time. The state was able to better leverage the benefits of the CIP owing to a proactive and dedicated approach to town planning and land use policy which has emerged as one of the most critical impediments to industrialization and urban growth across India. We further investigate the impact of subsequent industrialization on tax revenues and spending patterns of the two states over two decades.

Key Words: Employment, Concession Industrial Package, Investment, Industrialization

1. Introduction

Uttarakhand (UK) came into existence as a new state on 9th November 2000. At the time of its formation, there were serious concerns about its fiscal sustainability, primarily on account of its narrow revenue base that would make it difficult to achieve financial self-reliance. The fears were not unfounded. One of the authors, who had an opportunity of working on the 10th Plan (2002-07) document – the first for the new state – noted that the annual plan size of UK was roughly half that of the neighbouring state, HP. The scale of difference was simply staggering for two states which were otherwise comparable, in terms of geographical area as well as topography. If at all, UK was approximately 40% *more* populous as compared to HP and therefore would have expected a higher plan size, but its ability to finance was encumbered by the significantly narrower tax base.

As UK celebrated its 25th foundation day on November 9th 2024, it is an appropriate time to take a closer look at its performance over the past two and a half decades. And there is no better benchmark for its relative performance than HP, owing to their similarities (refer to Table 1) and on account of the fact that both the states were beneficiaries of a Concessional Industrial Package (CIP) announced by the Union Government in January 2003 and much of their growth, particularly in the decade that followed (2000-2010) can be attributed to the successful implementation of CIP.

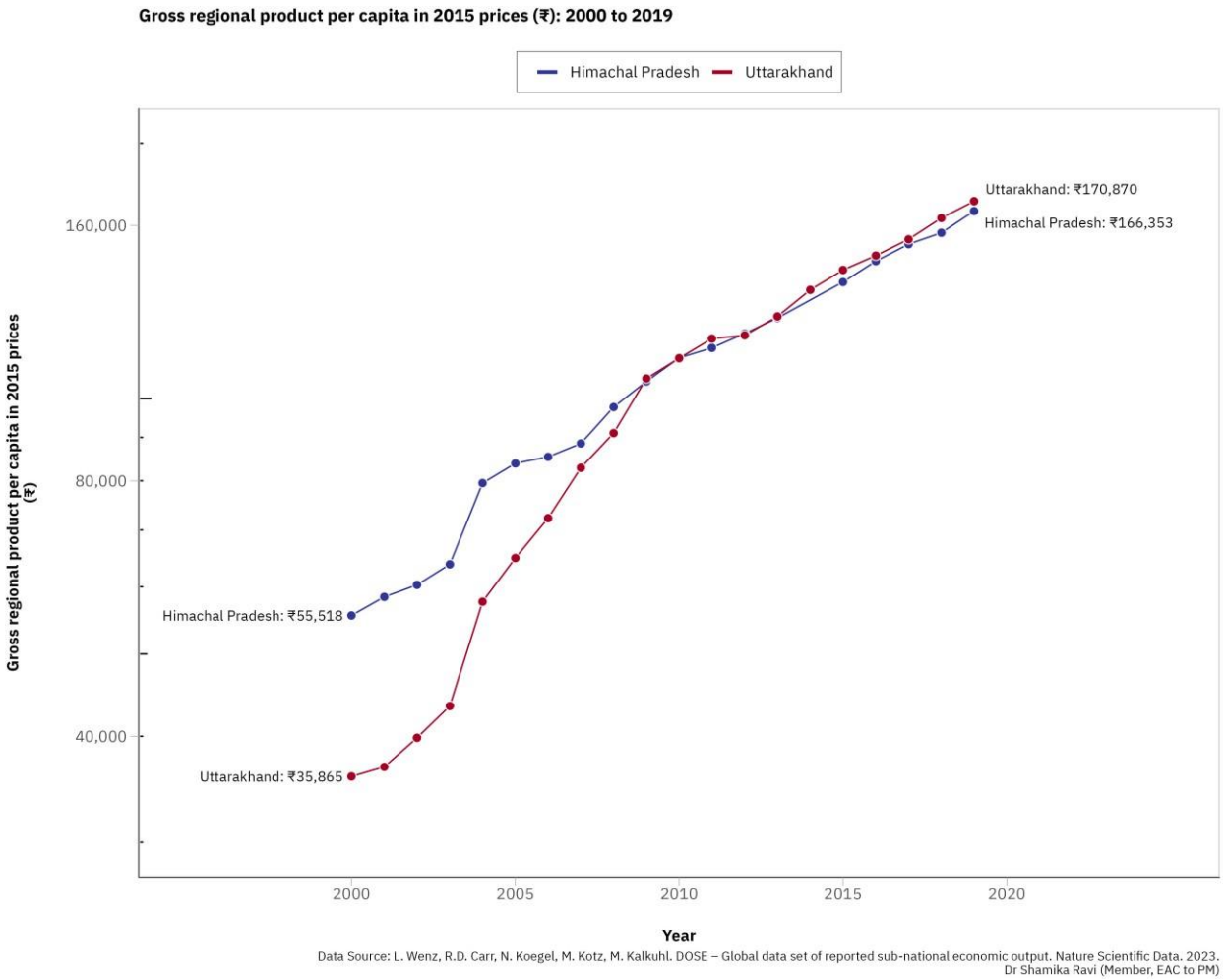
Table 1: Demographic and Economic Attributes

Attribute	Uttarakhand		Himachal Pradesh	
	2011	2001	2011	2001
Area (sq Km)@	53,483		55,673	
Population (million)@	10.09	8.49	6.86	6.07
Urbanization (%)@	30.23%	25.67%	10.03%	9.8%
Literacy (%)@	78.8%	71.6%	82.8%	76.5%
Sex ratio	963	962	972	970
Credit Deposit Ratio(2004-05)#	35.4	21.7	41.6	21.3
% of population below poverty line (2004-05)	11.3%	32.7%*	8.1%	22.9%*

Note: * - % of Population below the poverty line estimate has been calculated for 2004-05 instead of 2001. This calculation is based on the Tendulkar Committee methodology.
- As per Sanction; Source: Report on Trend and Progress of Banking in India, 2003-04, 2012-13
@ - Source: Census 2011 and 2001

Figure 1 presents the remarkable catch up achieved by Uttarakhand, especially during the period 2000-2010. Its per capita GSDP zoomed from 64% in 2000-01 to 102% of the HP level in 2009-10. In this paper, we explore the story behind the convergence and discuss whether this has any lessons for other states. We show that this dramatic catch up is intrinsically tied to the transformation in the industrial sector, particularly in UK.

Figure 1: GSDP per capita in 2015 prices



In the next section we analyze the fiscal concessions that were made available to industries that were setting up manufacturing facility in the two states - during the permissible window allowed by the policy. We also analyze the differences in the policy responses of the two states to the Concessional Industrial Package (CIP) announced by the Government of India. In the third section we analyze multiple datasets (Annual Survey of Industries (ASI) & the GSDP data) which reveal that a large part of the growth story of both these states can be explained by the value addition in their respective industrial sectors in response to CIP. Subsequently, we also present a comparative analysis of the two states on key parameters of outcome over time.

2. Concessional Industrial Package of Government of India (GoI) and Differing State Approaches: Himachal Pradesh Vs. Uttarakhand

When the Government of India extended the Concessional Industrial Package (CIP) for the Hill states to HP and UK in January 2003 offering significant fiscal concessions for industries setting up/ undertaking expansion of manufacturing facilities in these states, both states announced their respective industrial policies. A brief comparison of the industrial policies announced by two states is explained in the Table 2 below. It highlights major exemptions and policy initiatives undertaken by the two states subsequent to the CIP.

Table 2: Comparing the Industrial policies of Uttarakhand and Himachal Pradesh

Attributes	Uttarakhand Industrial Policy 2003 [1]	Himachal Industrial Policy 2004 [2]
Central Excise Duty	100% exemption from payment for 10 years on items other than those mentioned in the negative list.	100% exemption from payment for 10 years on items other than those mentioned in the negative list.
Income Tax	100% exemption for first 5 years and 30% for next 5 years.	100% exemption for first 5 years and 30% for next 5 years.
Central Transport Subsidy	Subsidy is being provided to industrial units @75% of the cost of transportation of their finished goods and for transportation of their raw material from the location of their units to the nearest specified broad gauge rail head.	Subsidy is being provided to industrial units @75% of the cost of transportation of their finished goods and for transportation of their raw material from the location of their units to the nearest specified broad gauge rail head.
Capital Investment Subsidy	Capital investment subsidy @15% of investment in Plant & Machinery with an upper cap of Rs. 30 Lakhs.	Capital investment subsidy @15% of investment in Plant & Machinery subject to a ceiling of Rs. 30 Lakhs.
Single Window Clearance	State Industrial and Investment Promotion Board to be setup under the Chairmanship of the Hon'ble Chief Minister with concerned Ministers and Government officials, Captains of Industry and specialists of National/International repute as its members.	The State Government has already set up a State Level Single Window Clearance and Monitoring Authority under the chairmanship of the Chief Minister to consider and give Government approvals in principle to the medium and large-scale projects.

[1] https://uttarakhandtourism.gov.in/sites/default/files/document/type/Industrial_Policy_2003_English.pdf accessed 29.1.2024

[2] https://www.industrialsubsidy.com/state_subcidy/himachal.pdf; accessed 29.1.2024

Attributes	Uttarakhand Industrial Policy 2003 [1]	Himachal Industrial Policy 2004 [2]
Town Planning and Land Policy	No specific town planning and land policy was implemented in Uttarakhand as part of the Industrial policy in 2003.	Special focus would be laid on creation of Area Specific Statutory Development Agencies *which would be entrusted with the task of managing urban growth in areas* of their jurisdiction and for ensuring creation and *strengthening of planned growth of social, housing, health, commercial and other related infrastructure.* Preference will be given to develop activity specific Industrial Areas throughout the State and *procedure for approval of the State Government under Section 118 of the Himachal Pradesh Land Reforms and Tenancy Act will be simplified* and approval process expedited. Top priority will also be given *to link such existing Industrial Areas and new clusters with 'A' class quality road* to *provide efficient inter-State and intra-State connectivity.*

As is clear from Table 2 above, the policies of the two states were almost identical in terms of the fiscal concessions and the administrative mechanisms for their implementation. *They differed, however, in their approach to town planning and land policy*. When analyzed closely, UK's remarkable economic turnaround can be associated with this one strategic call. While HP took the easier route of permitting industries to buy land directly from farmers, through private negotiation liberally allowing land use conversions and providing support for creating infrastructure around the new industrial clusters (*the classic regulatory approach to industrial development*), UK opted for a planned industrialization in designated Industrial Estates complete with infrastructure facilities provided and financed by the State Government (*the infrastructure led approach to industrial development*). Since UK's policy was to create planned industrial estates, thereby anticipating and catering to the logistical needs of urbanization around the industrial clusters, hence its policy is silent on the need for urban management around growth centres. HP, on the other hand, recognizing the inherent limitation of their approach - made explicit provisions for the need to manage urban infrastructure in and around the newly created industrial clusters.

Admittedly, there was a lot of skepticism regarding the ***capacity of the bureaucracy*** in a fledgling state to execute such a state-led model, especially with a newly created State Infrastructure & Industrial Development Corporation of Uttarakhand Limited (SIIDCUL) to be

able to negotiate the process of land acquisition, financing and execution of the required industrial infrastructure in a very short time frame available because the CIP had stringent sunset clauses. In the first few years, UK appeared to lose out to Himachal as industries initially preferred the HP route – which seemed familiar and more convenient. Potential investors were unsure whether UK state government would be able to deliver on their promises within the required timeframe.

Defying common expectations, within 3 years, the government of UK was able to create an industrial infrastructure from a green field stage over 8000 acres of land, complete with roads, 220kV power stations, drinking water supply system, drainage, sewage and effluent treatment plants, logistic parks, residential & business districts with other related amenities. The state developed three full-fledged industrial townships in a short period of 3 years. Two of the estates were developed through the classical governmental approach; the third estate was developed through Public Private Partnership approach to ensure rapid development unencumbered by the constraints of the limited bandwidth available with SIIDCUL (both finance and HR). Through committed leadership, the entire state bureaucracy was mobilized to achieve the intended targets within dedicated timeframe. There was no comparable development of this scale in neighboring HP.

We now proceed to examine how the varied policy responses resulted in differing outcomes. Admittedly, the outcome differences may be attributed to causes other than the singular factor outlined above; but in our view there is overwhelming evidence in the data presented below that this was **the most important factor** that catalyzed a change in the growth trajectories of the two states, especially in the first decade of the millennium. As we shall see, the growth rates of the two states reverted to the business-as-usual case in the second decade of the millennium, once the fiscal concessions were withdrawn. Also, because UK and HP are so similar in terms of their attributes, who received the simultaneous policy impulse, we believe that it amounted to a natural experiment and that we would not be too far from the truth to draw causal inferences.

3. Outcomes: State Economy and States Finances

A. Impact on the State Economy – GDP, Share of Manufacturing and Employment

i) Gross State Domestic Product (GSDP):

In the last two decades, GSDP for UK and HP has seen a steady divergence; refer to Figure 2 and the corresponding Table 3 in Appendix 1. As can be seen from the table and the graph, both states started almost at the same level and have seen a steady rise in GSDP, but Uttarakhand's growth rate, particularly in the first decade, has been remarkable. From 2000 to 2011**, UK saw a CAGR of 11.05** per cent, while **HP saw a more modest CAGR of 6.91** per cent. In the second decade, the growth rate moderated with UK growing at a CAGR of 4.81 per cent, while HP saw a CAGR of 5.61 per cent. The massive spike in growth rate is also reflected in Figure 3 and the

corresponding Table 4 in Appendix 1. We investigate this further in the following sections, where we decompose the growth in the economy in different sectors; and then we examine the impact on their respective state finances.

Figure 2: Gross State Domestic Product (at Factor Cost, Constant Price)[3]

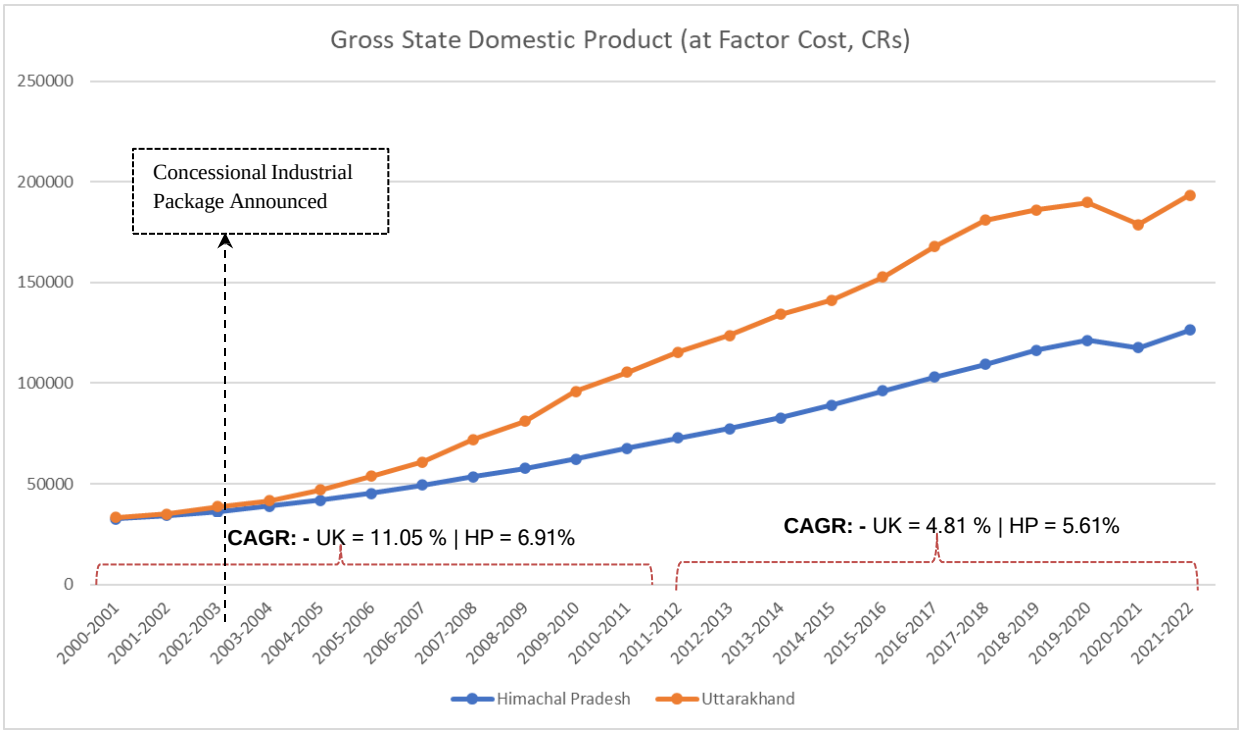
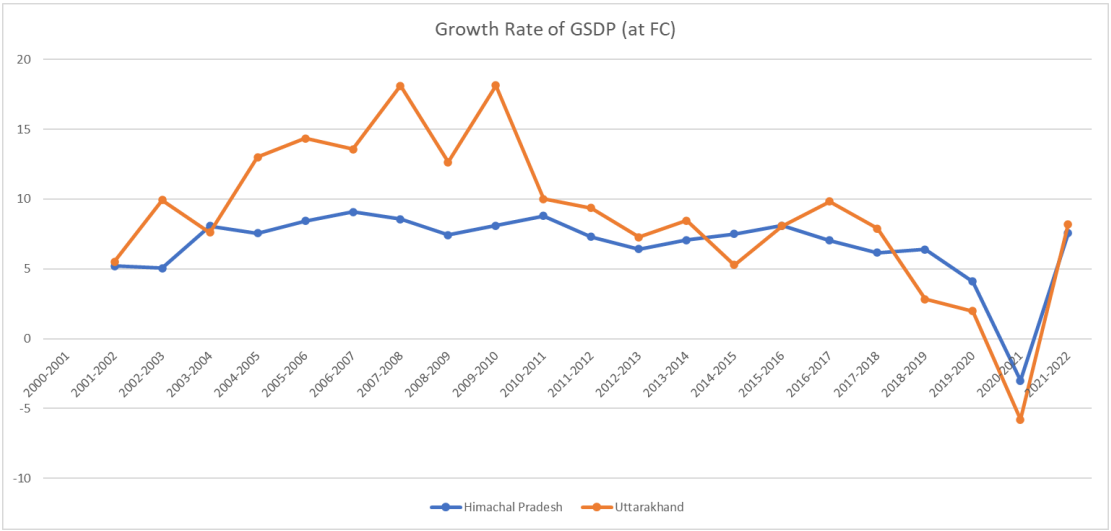


Figure 3: Growth Rate of GSDP (at Factor Cost, Constant Price)[4]

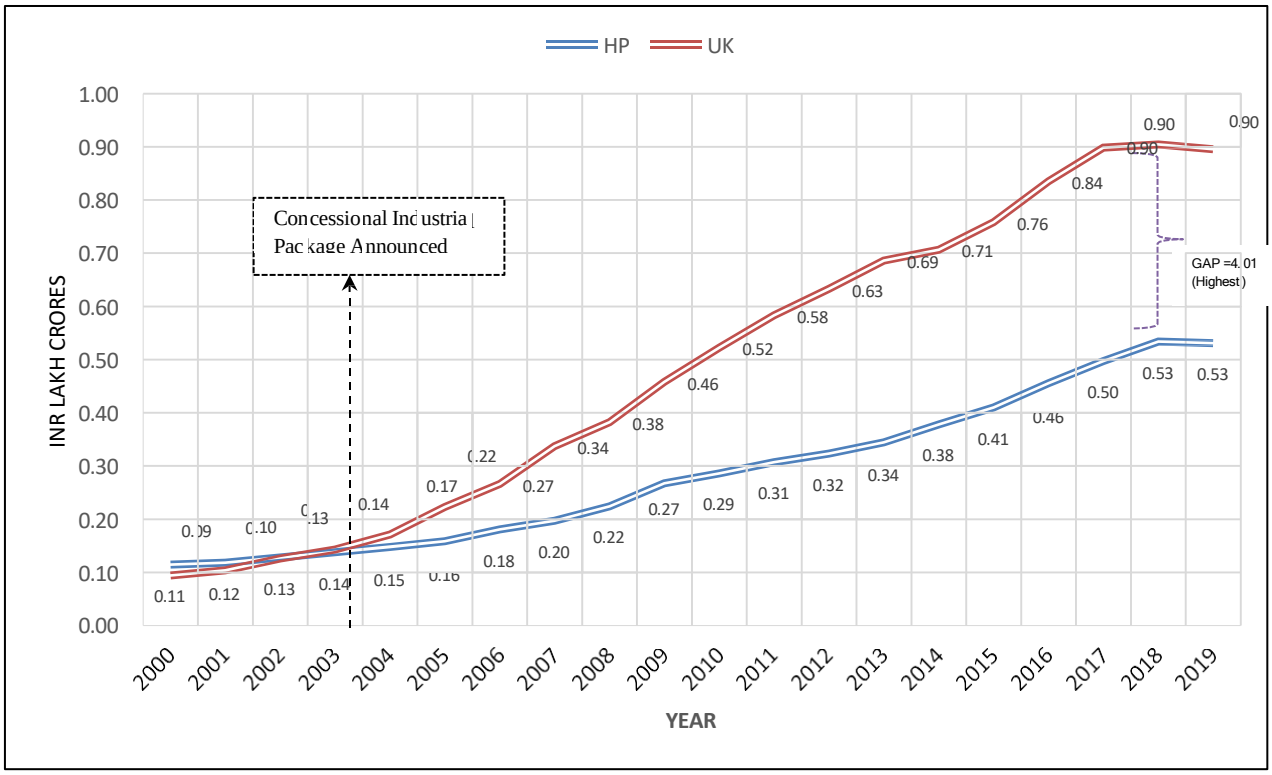


[3] Source: RBI Handbook of Statistics
[4] Source: RBI Handbook of Statistics

ii) **Output of the Industrial Sector:**

The difference between the two states on impact in the gross value added was even more dramatic in the industrial sector, thereby validating the Kaldor's law of a strong positive correlation between the overall economic growth with that of the output of the manufacturing sector[5]. The GSDP of the Industrial sector in UK and HP is depicted in Figure 4 and the corresponding Table 5 in Appendix 1. It would be seen that the size of the industrial economy in the two states has grown 9.5 and 4.6 times in UK and HP respectively relative to their 2000 levels. The size of the industrial economy in UK zoomed from a level of 82% of the size of the HP industrial economy at the beginning of the period (year 2000) to a peak of nearly double its size (199%) in the year 2013 before declining to about 168% at the end of the comparison period (2019).The CAGR of the industries sector in the first decade (2000-2010) has been a scorching 18.67% for UK as compared to 9.58% for HP; whereas the same for the second decade (2010-2019) has been relatively more moderate at 6.17% and 7.12% with HP faring better as compared to UK.

Figure 4: GSDP of Industrial sector (at Factor Cost, Constant 2011-12 prices)[6]



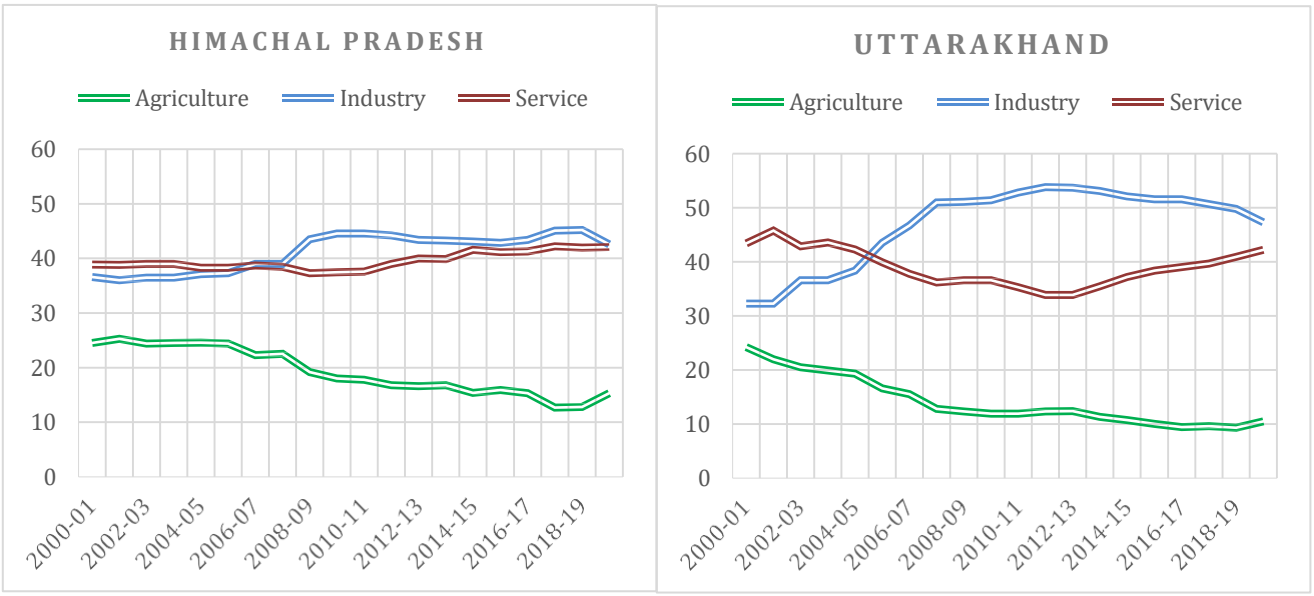
[5] This works through two pathways - one, is the contribution to the economy by the manufacturing sector and secondly, through the increased productivity levels in the new economies of scale achieved through massive investments of new capital.

[6] Source: RBI Handbook of Statistics

iii) Share of industrial sector in the overall economy:

It would be seen that post the implementation of the CIP; both the states saw a rise in the contribution/share of the industrial sector as a percentage of the overall GDP. In UK, the share of the industrial sector increased from a low of 32.3% in 2000-01 to a peak of 53.8% 2011-12 (refer to Table 6 in Appendix 1); but thereafter we see a consistent declining trend in this parameter bottoming out at 47.3% in 2019-20. The share of the industrial sector's contribution to Himachal economy, on the other hand rose from a low of 32.3% in 2000-01 to a peak of 44.6% in 2009-10. However, HP was able to maintain and even increase this level of contribution peaking at 45.2% in 2018-19. Therefore, we can see how the two states – UK more so than HP – were able to dramatically transform their economies especially in the first decade of the millennium. It is also clear from the graph below that the share of the industrial sector grew at the expense of the agriculture and service sectors, thereby validating our hypothesis that the growth story is driven by the impressive changes in the industrial sector.

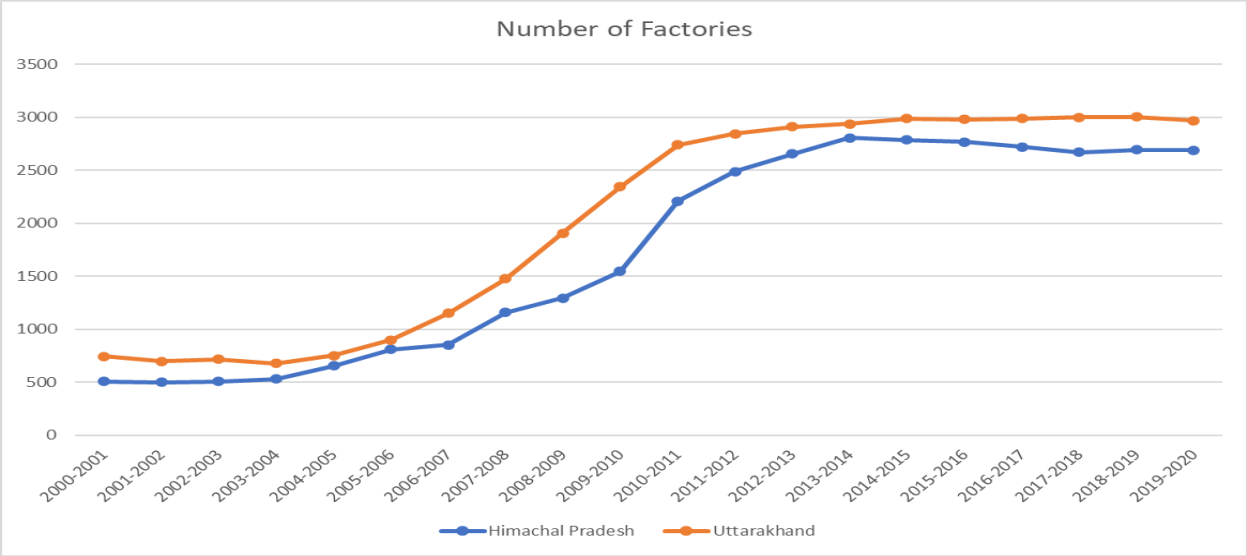
Figure 5: Structure of the Economy: Share of the Agriculture, Industry and Service Sectors[7]



Furthermore, in the last two decades, the UK and HP have seen a similar trend in the number of factories (refer to Figure 6 below and Table 7 in Appendix 1). As can be seen from the table and the graph, both states started almost at the same level and have seen a steady rise in the number of factories. From 2000 to 2010, the UK saw a CAGR of 12.16% and HP saw a CAGR of 11.78%, while from 2010 to 2020, the UK saw a CAGR of 0.8% while HP saw a CAGR of 1.9%.

[7] Source: RBI Handbook of Statistics

Figure 6: Number of Factories[8]



iv) Invested capital:

Gross fixed capital formation (GFCF)[9] is a typically used measure of investment. Here we examine in detail another measure **Invested Capital[10]** (which includes capital assets and also the money deployed in physical working capital) as a more inclusive measure to assess the activity in the manufacturing sector. While we do not find a significant difference between the two states in terms of the growth in the number of factories[11], we do find a significant lead for UK in terms of the quality of investment – as measured by Capital deployed in the factories as well as the Employment Generated in them. We discuss both phenomenon separately in the subsequent sections.

[8] Source: RBI Handbook of Statistics

[9] **GFCF** is defined as the acquisition of produced assets (including purchases of second-hand assets), including the production of such assets by producers for their own use, minus disposals. The relevant assets relate to assets that are intended for use in the production of other goods and services for a period of more than a year. The term "produced assets" means that only those assets that come into existence as a result of a production process are included. It therefore does not include, for example, the purchase of land and natural resources.

[10] **Invested Capital:** Invested capital is the total of fixed capital and physical working capital. (ASI 2002). Invested Capital is a broader concept than GFCF, as the definition above also reflects.

[11] **Factory (as per the Factory Act 1948)**: Factory is one, which is registered under Sections 2m(i) and 2m(ii) of the Factories Act, 1948. The Sections 2m(i) and 2m(ii) refer to any premises including the precinct thereof (i) wherein ten or more workers are working, or were working on any day of the preceding twelve months, and in any part of which a manufacturing process is being carried on with the aid of power, or is ordinarily so carried on, or (ii) wherein twenty or more workers are working, or were working on any day of the preceding twelve months and in any part of which a manufacturing process is being carried on without the aid of power, or is ordinarily so carried on. Closed factories with fixed assets on site are also considered as registered factories till they are de-registered and removed from the live-register maintained by the Chief Inspector of Factories (CIF) in the State. (ASI 2021)

Figure 7: Ratio of Capital Invested in Factories[12]

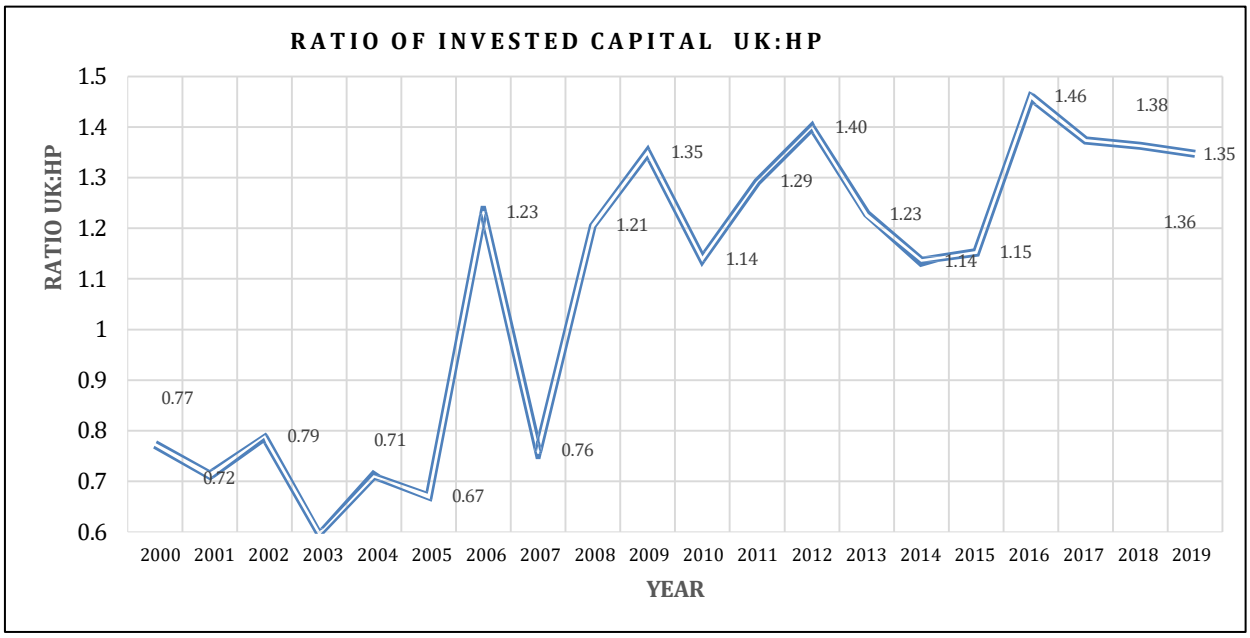
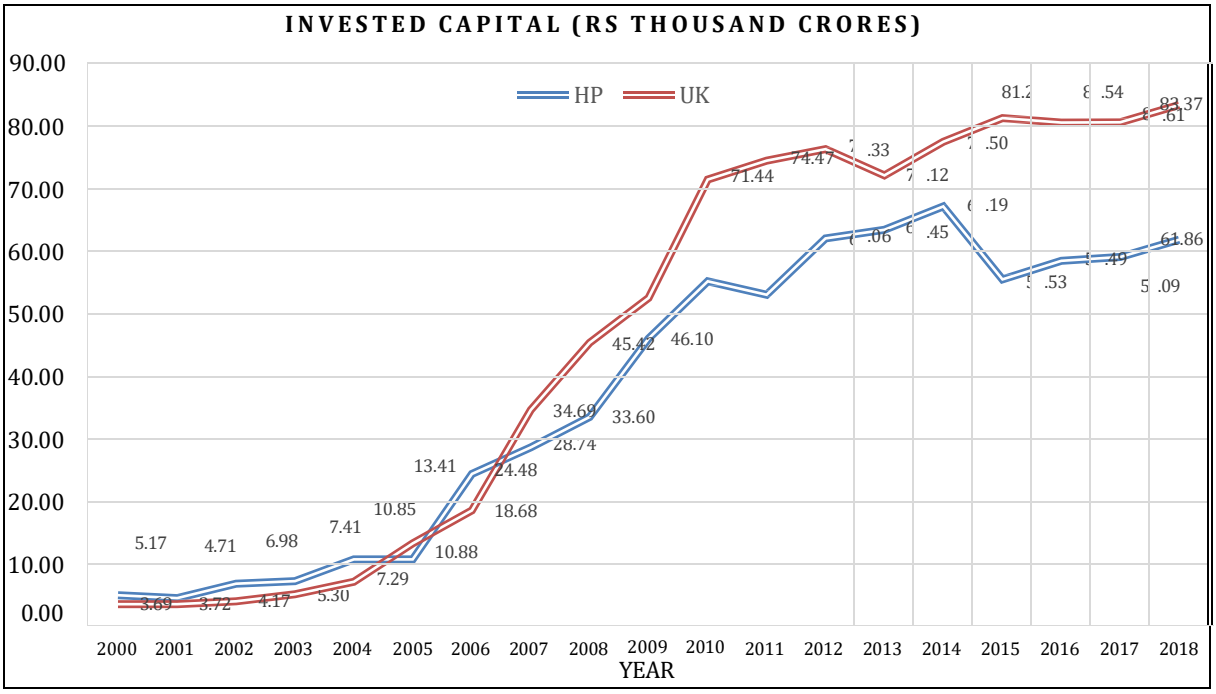


Figure 8: Capital Invested in Factories[13]



[12] Source: RBI Handbook of Statistics
[13] Source: RBI Handbook of Statistics

As we see from Figure 7 and 8 above (and correspondingly Table 8 in Appendix 1), Uttarakhand received significantly higher investments compared to Himachal Pradesh. The ratio of invested capital in factories was only **0.77** at the beginning of the comparison period (indicating that UK had less capital deployed as compared to HP despite having a larger number of factories). This ratio was **1.35** in favor of the UK by the end of the comparison period, indicating that it was able to garner higher levels of capital investments per additional factory that came into operation after 2000-01.

v) Workers[14] Employed:

Similarly, if we analyze the workers employed in the factories (refer to Figures 9 and 10 below and Table 9 in Appendix 1), we observe a steady growth of the employment in the industrial sector, though UK's growth is far more impressive than that of HP. From a base of **28,704** workers engaged in factories in the year 2000, Uttarakhand had **3,43,377** workers employed in industrial units in the year 2019 corresponding to a whopping **12-fold** increase over the period. The corresponding figures for HP are **29,788** and **1,66,750** respectively, which is a **5.6-fold** increase; which is impressive on its own even though it pales in comparison with the near exponential growth seen in UK. The Compound Annual Growth Rate (CAGR) in the number of workers in the decade 2000-2010 works out to **23.35% for UK** and **14.93% for HP**. The CAGR for the two states in the next decade (2010-19) has been relatively more modest at **4.34%** and **3.75%** respectively. Part of the reason for the moderation in growth can be attributed to the base effect, but it also reflects the withdrawal of the concessional fiscal framework which was in operation in the preceding decade.

[14] **Workers** are defined to include all persons employed directly or through any agency whether for wages or not and engaged in any manufacturing process or in cleaning any part of the machinery or premises used for manufacturing process or in any other kind of work incidental to or connected with the manufacturing process or the subject of the manufacturing process. Labour engaged in the repair and maintenance or production of fixed assets for factory's own use or labour employed for generating electricity or producing coal, gas etc. are included. (ASI 2002)

Figure 9: Number of Workers Employed[15]

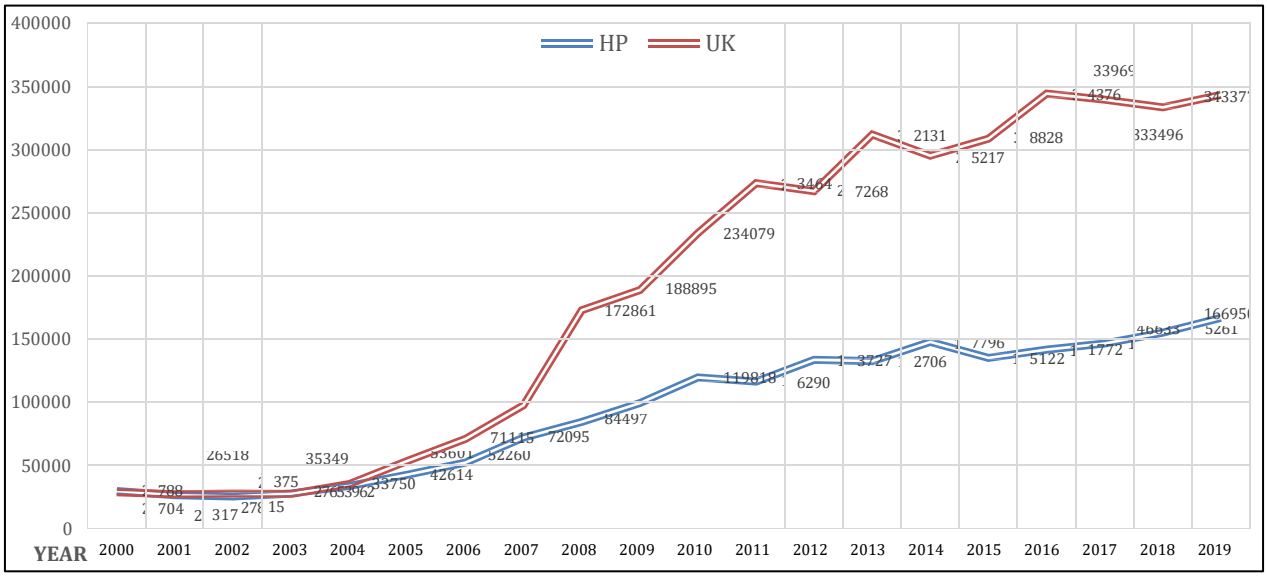
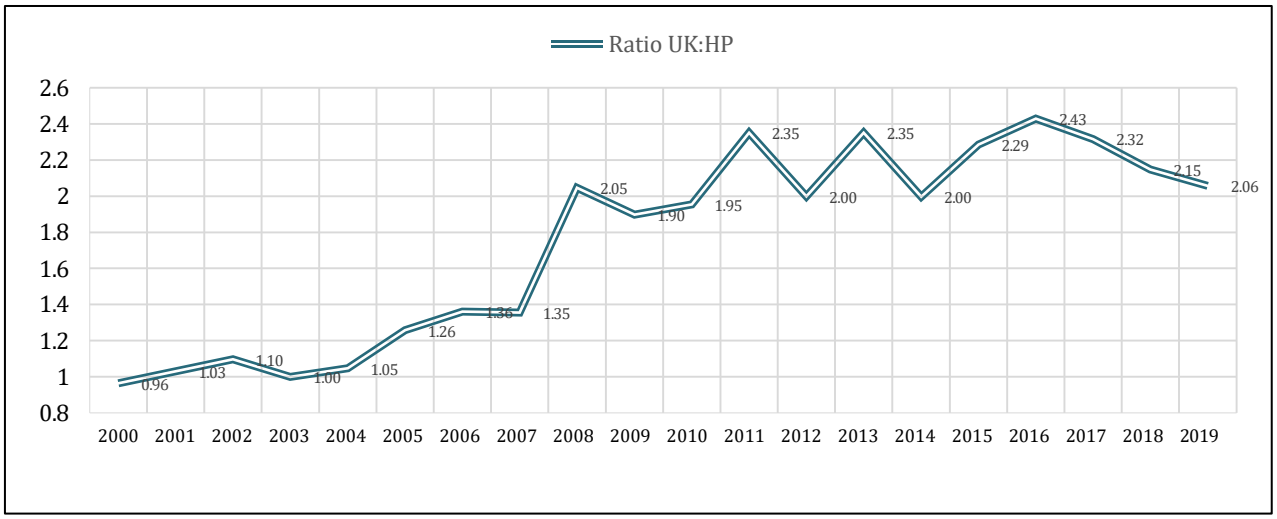


Figure 10: Ratio of Workers



If we look at the ratio of the workers employed in UK and HP (refer to Figure 10 and the last column of Table 9 in Appendix 1) it would be observed that the ratio was hovering around **1.00** in the early years of the new millennium (2000-2004) and then we see a steady rise in this ratio in favor of UK between 2006 and 2011 when it reached a level of **2.35** before declining to a level of around **2.06** in 2019. ***Clearly, the impetus of the industrial growth as a result of the CIP was capitalized better by UK as compared to HP and they were able to garner more employment per factory established.***

[15] Source: RBI Handbook of Statistics

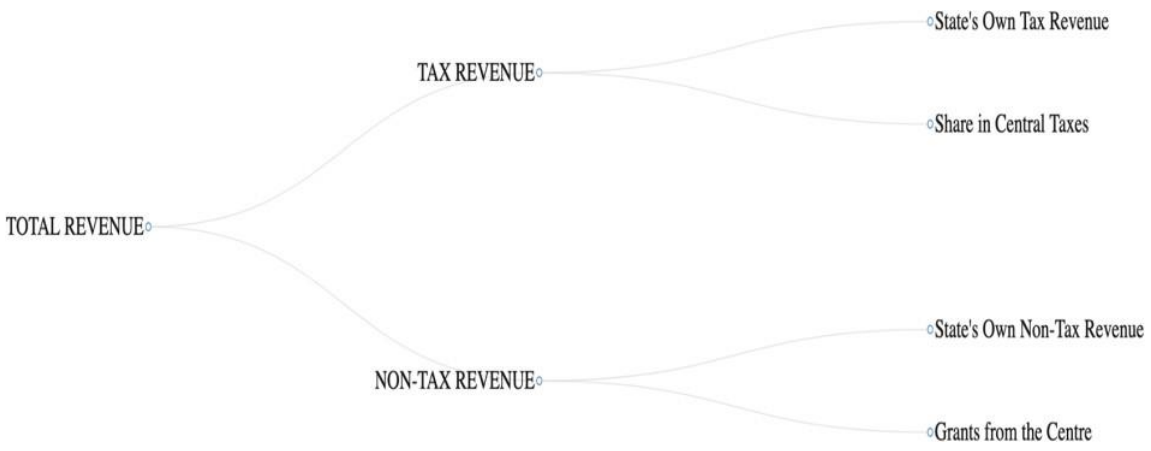
B. Outcome: Impact on the State Finances

Having dealt with outcomes on the wider economy and the industrial sector in particular, we now turn our attention to the impact on the State Finances. Specifically, we analyze how the transformation in the industrial sector impacted the ability of the states to improve its Own Tax Revenue. We also analyze how the additional revenue so garnered was spent. We do this by analyzing the budgets of the states, drawing upon the data provided by the Reserve Bank of India (RBI).

i) Revenue Trends

For analysis purposes, we bifurcate the overall revenue of the states into two components: tax revenue and non-tax revenue, each of which is further bifurcated on the basis of the source – State or Central as per the classification given in Figure 11.

Figure 11: Decomposition of State Revenue[16]



If we look at Figure 12 and the corresponding Table 10 in Appendix 1, we see that UK and HP have seen a steady increase in total revenue over the past two decades. UK was consistently lagging HP, till it caught up in 2012-13. Currently UK's total revenue at (Rs 30,313 Crore) is roughly 11% higher than that of HP (Rs 26,626 Crore). CAGR for Total Revenue from 2000-2010 was **19.58%** and **8.71%** for UK and HP respectively. Whereas CAGR for 2011-2021, it was 7.49% for UK and 5.65% for HP. This growth can be seen from Table 10 which shows the Total Revenue at Constant Prices for both the states.

[16]State budget observational time trends from 1990-to-2020, Shamika Ravi and Mudit Kapoor, Link: https://eacpm.gov.in/wp-content/uploads/2023/07/20-State-Budgets-Observational-Time-Trends-from-1990-to-2020.pdf

Figure 12: Revenue (constant prices, crore)[17]

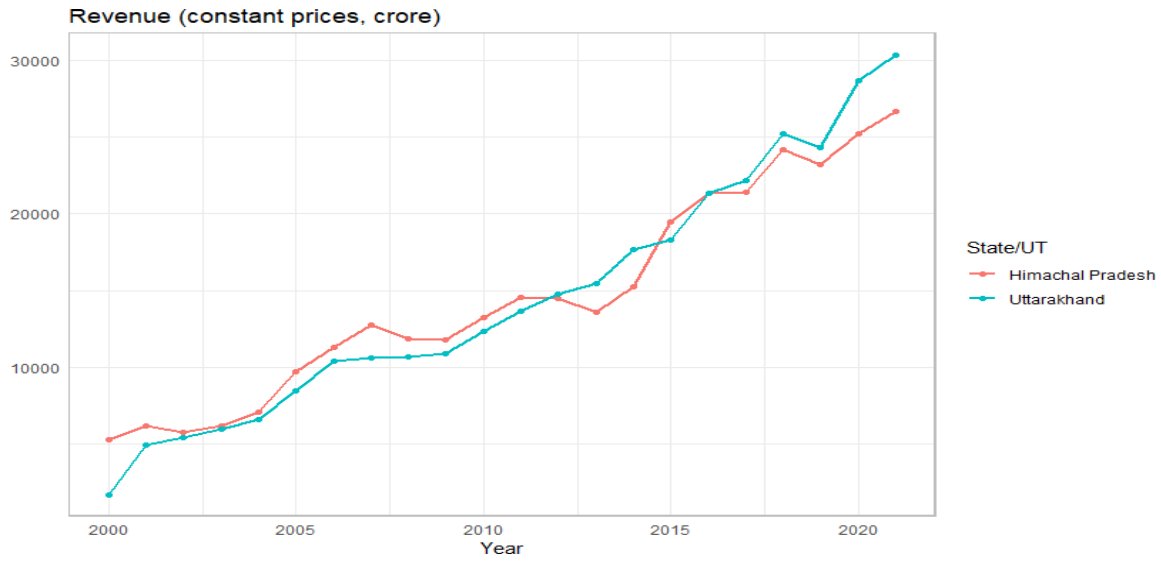
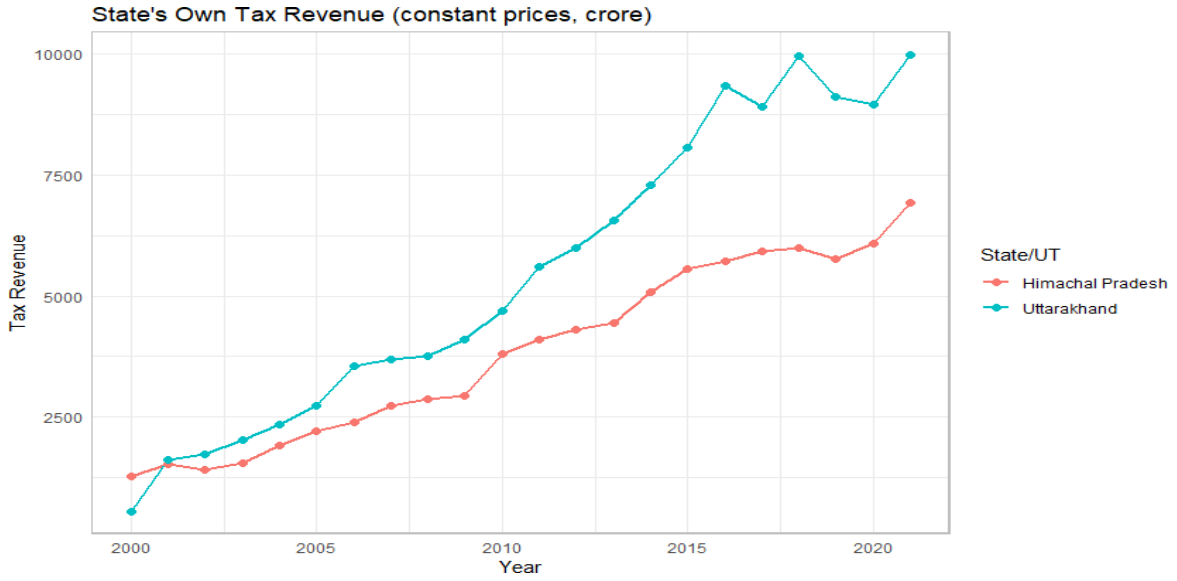


Figure 13: State's Own Tax Revenue (constant price, crore)[18]



But ***the notable success story of UK is in its ability to dramatically increase the State's Own tax revenue (SOTR) base (Figure 13 and the corresponding Table 11 in the Appendix 1). From a relatively lower base of Rs 553 crores it has managed to augment it to a level of Rs 9981 crores. That represents an 18X increase over a period of 22 years, implying that it is approximately doubling its SOTR every five years.*** This is all the more creditable, given that

[17] Source: RBI Handbook of Statistics
[18] Source: RBI Handbook of Statistics

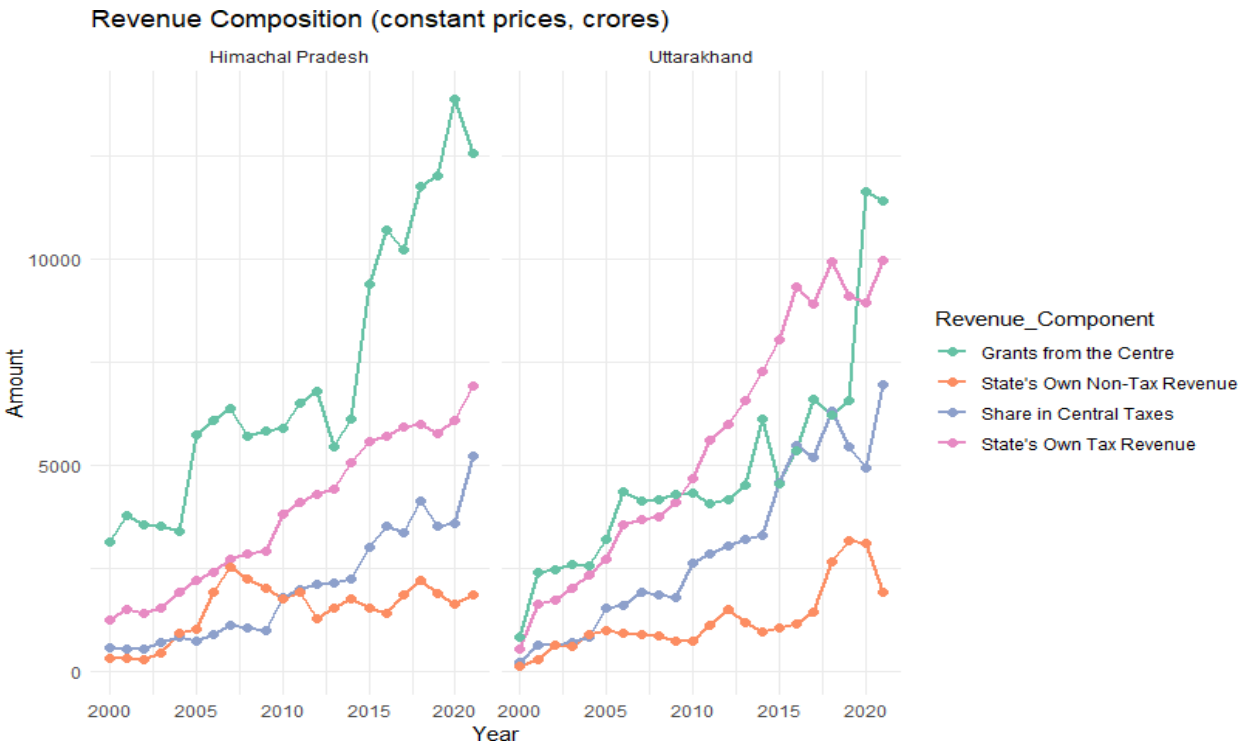
these figures are at constant prices and therefore indicates **14%** annual growth in real terms (that is net of inflation). HP on the other hand has seen a relatively more moderate growth from a level of Rs 1267 crore to Rs 6933 crore over the same period, representing a **5.5X** growth in real terms. It should be a matter of introspection for HP that ever since 2001, when UK overtook HP on this parameter, the gap between them seems to be widening with the elapse of time.

Further, if we consider the fiscal transfers received from the Centre (as their respective shares in the central taxes) by the two states, refer to Table 12 in Appendix 1. In FY 2021-22, UK received Rs 6974 crore whereas HP received Rs 5245 crore in the same fiscal – a gap of over Rs 1729 crore accounting for the Rs 3688 crore gap between the total tax revenues of the two states.

As regards the State's Own Non-Tax Revenue (refer to Table 13 in Appendix 1) is concerned, we find that the two states have similar levels in FY 2021-22 at about (~ Rs 1900 crore). For a brief period of 3 years between 2018-19 to 2020-21, UK was able to gather slightly higher levels of non-tax revenue, but that could not be sustained and it dropped sharply in the year 2021-22.

A more interesting trend is observed in the Grants from the Centre (refer to Table 14 in Appendix 1) (majorly, these are grants from the central government for implementation of the Centrally Sponsored Schemes). On this parameter, ***HP has been able to absorb significantly more funds on a consistent basis relative to UK***. For instance, in the Fiscal year 2020-21, HP was able to utilize Rs 12,584 crore under Central grants as compared to Rs 11,418 crore by UK. In our view ***this is a reflection of the enhanced State capacity of HP relative to UK***, a newly formed state. The details can be found in the fourth column from Table 14 in Appendix 1. This is also underlined by the fact that HP has better Human Development Indicators as compared to UK. ***So, while UK was able to better leverage the CIP owing to a smarter land policy response, it has perhaps not paid enough attention to building state capacity in the first two decades of its existence.*** State capacity is a critical determinant of overall development and growth for states in the long term. Strengthening state capacity ought to emerge as a priority for the State leadership for future economic growth and overall development of its citizens.

Figure 14: Composition of Revenue[19]



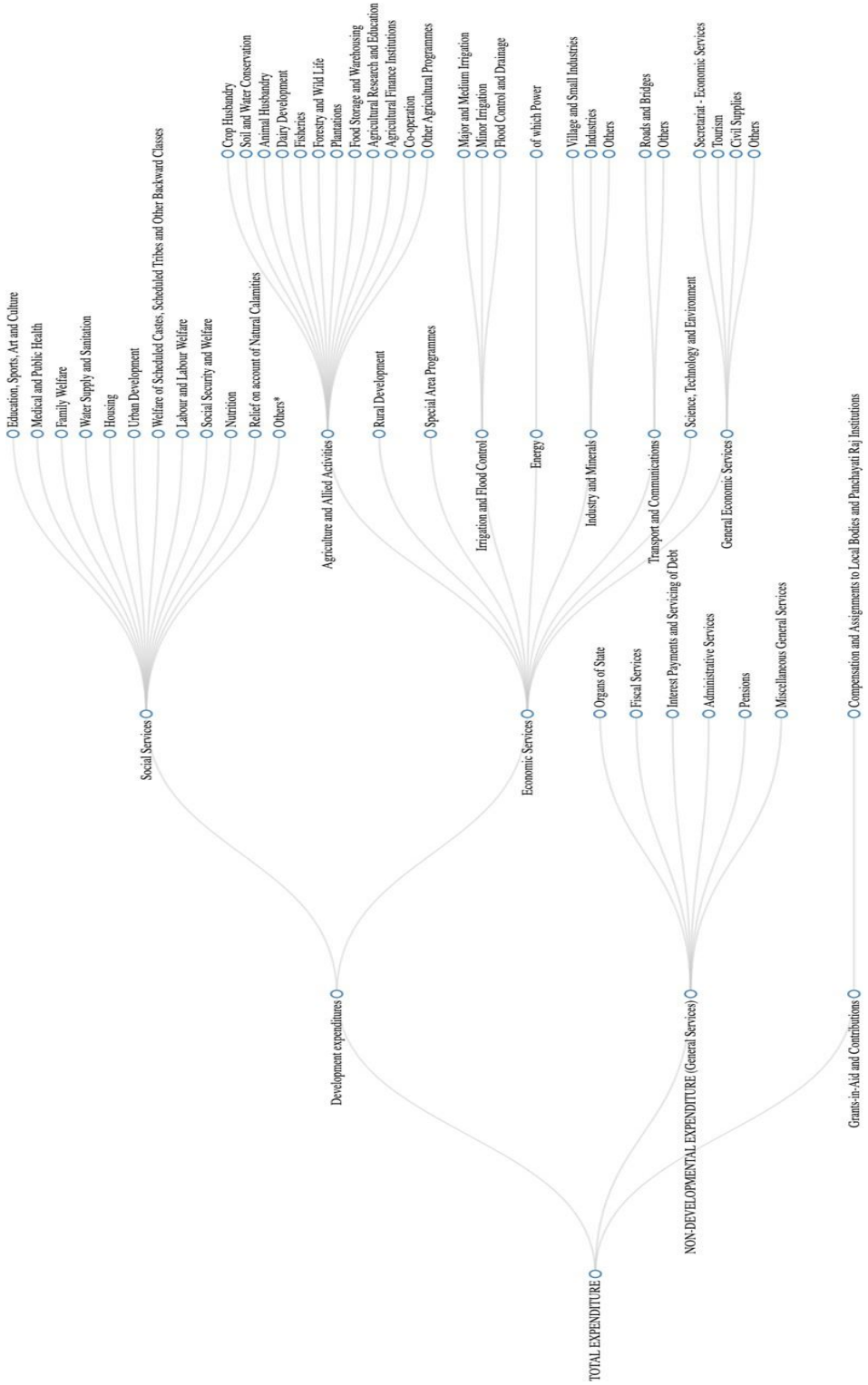
ii) Expenditure Trends

Having looked at the impact on the Revenue side of the State finances, we investigate the expenditure side of the State Finances. In this, our endeavour is to analyze how the two states have deployed the additional tax revenue collected on account of their respective industrialization efforts. In an effort, to understand the structural composition of expenditure priorities of the two states, we use the conceptual framework as seen in Figure 15.

As would be seen, the overall expenditure is divided into three broad heads: (I) Development Expenditure; (II) Non-Development Expenditure; and (III) Grants in Aid to local bodies/ Panchayati Raj Institutions (PRI). Under the head of Development Expenditure, we further dive deeper by analyzing the spending on Social Services and Economic Services under the heads specified above. This is the standard classification that is used in our budgetary documents.

[19] Source: RBI Handbook of Statistics

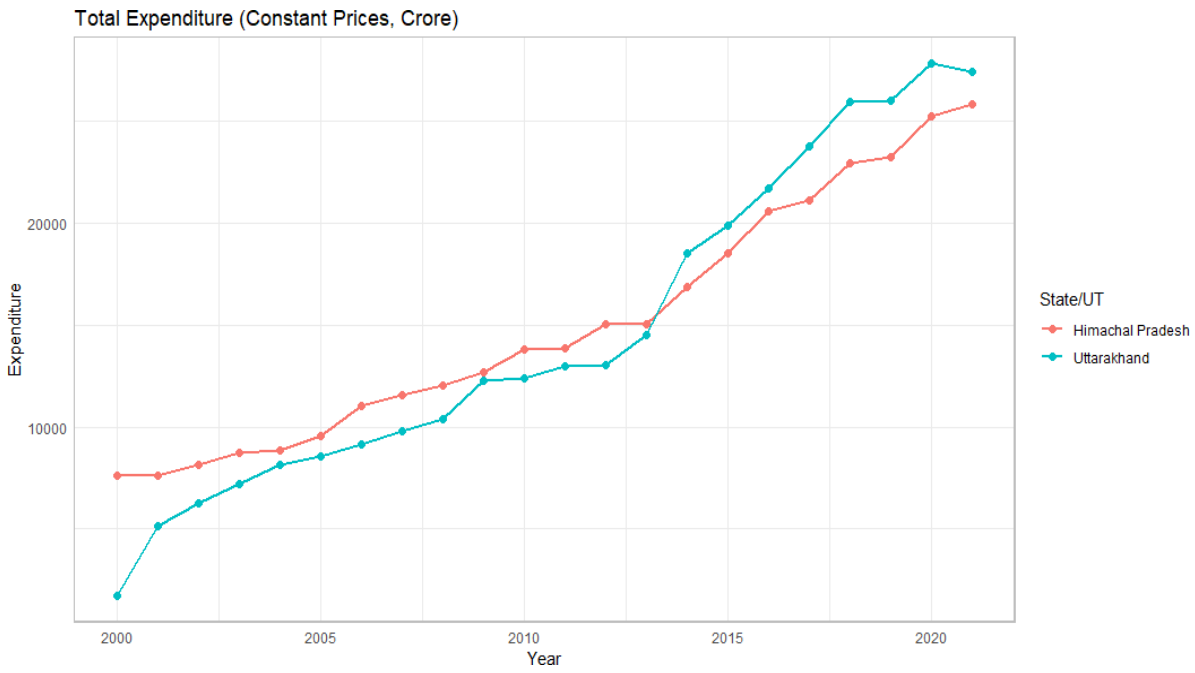
Figure 15: Composition of Expenditure[20]



[20] Source: RBI Handbook of Statistics

(a) Overall Expenditure: Comparing the total expenditure of the two states (refer to Figure 16), it is apparent that owing to higher revenue mobilization due to a relatively more successful industrialization effort, UK has been able to spend more than HP. This was not so in the period 2001 to 2014. However, since that year we see a consistent reversal of trend in this regard. Moreover, if we compare the expenditure of the two states on a per capita basis, HP at Rs 49000 is about 45% higher than UK at Rs 34000 thereby implying that the increase in absolute expenditure has not been sufficiently high in the numerator to cover for the population size in the denominator.

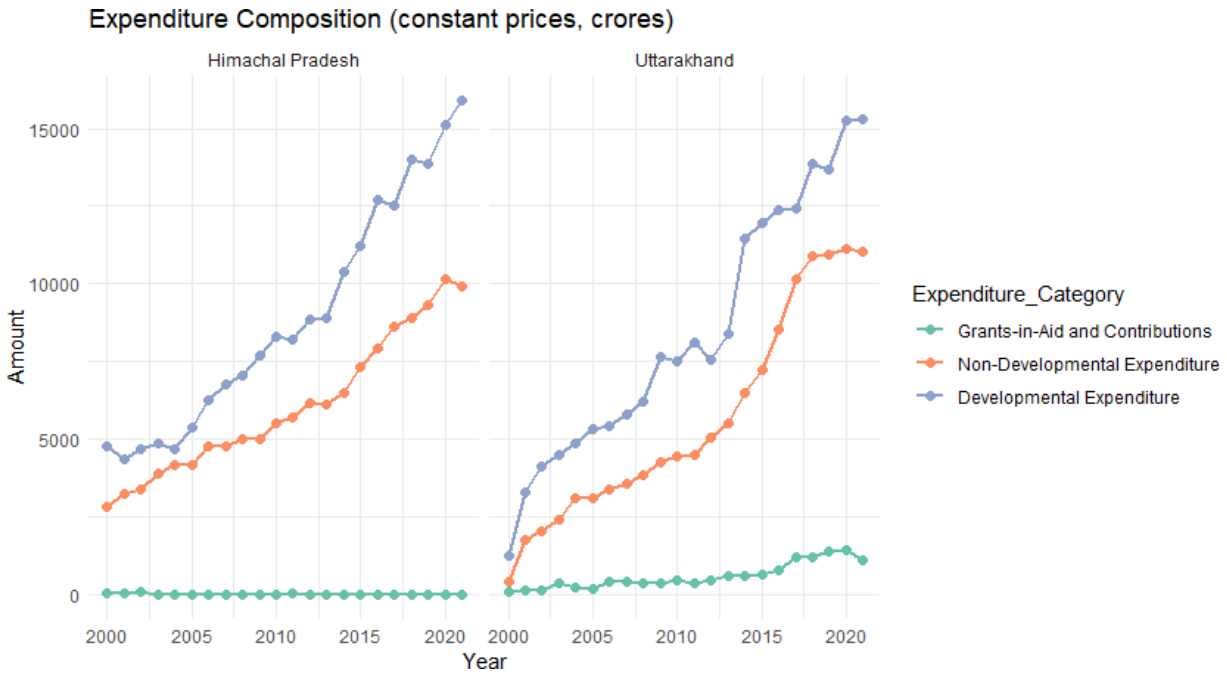
Figure 16: Total Expenditure trend[21]



(b) Expenditure Composition: ***It is heartening to note that in both the states the share of developmental expenditure is significantly higher than the non-developmental expenditure by some margin.*** Moreover, the growth rate for the former category has been higher than the latter (refer to Figure 17).

[21] Source: RBI Handbook of Statistics

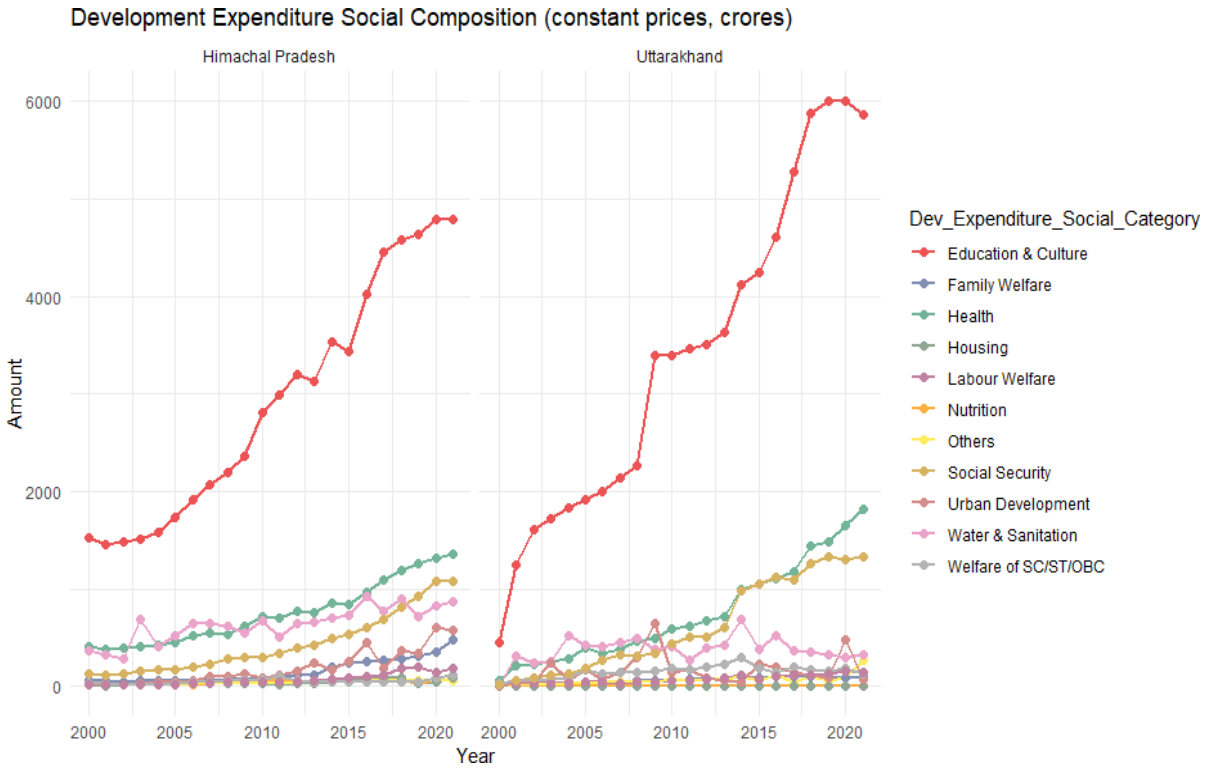
Figure 17: Expenditure Composition[22]



(c) Development Expenditure (Social Services): The overall composition of the development expenditure in the two states is depicted in the graph below (refer to Figure 18). They broadly follow the same pattern in that the three sub-categories that recorded the highest expenditure are Education, Sports, Arts and Culture (henceforth Education Services), followed by Medical and Public Health (henceforth Health Services) and then by Social Security. ***While both states have witnessed very steep growth in expenditure on Education Services, the growth rate in expenditure on other categories are relatively moderate***.

[22] Source: RBI Handbook of Statistics

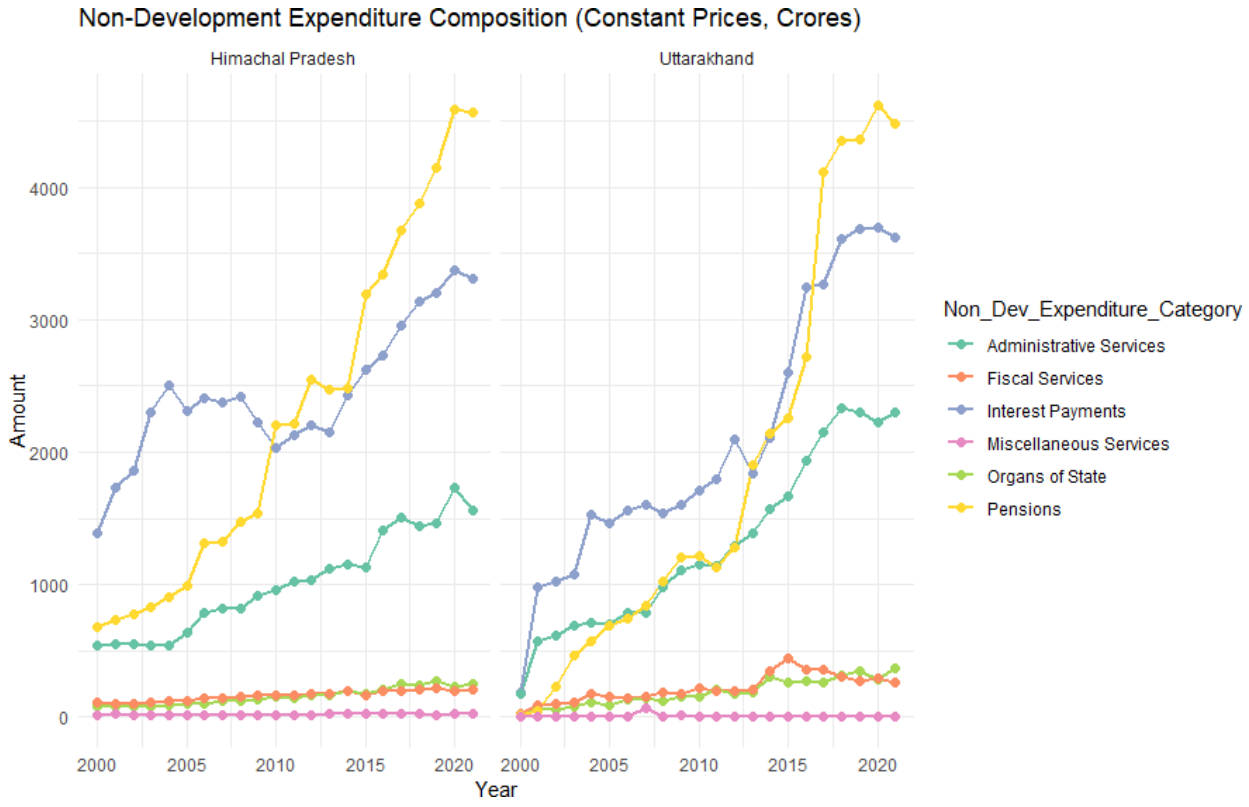
Figure 18: Composition of Developmental Expenditure[23]



(d) Non-Development Expenditure: We see a burgeoning expenditure, mainly under the two heads – Pensions and Interest & Debt servicing payments; more so for UK than for HP. However, as a percentage of the State's revenue, expenditure under these heads is **43%** for UK and **51%** for HP. Expenditure on administrative services has also grown in both the states over the two decades under review, with growth rate being higher in case of UK. This should be a concern for the State administrations, as they tend to crowd out developmental expenditure. Alternatively, the states should persist in pursuance of the path of augmenting their revenue base.

[23] Source: RBI Handbook of Statistics

Figure 19: Non-development Expenditure[24]



4. Conclusion

The comparison of the two states of Uttarakhand and Himachal Pradesh in their differing responses to the Center's Concessional Industrial Package is akin to a natural experiment given the close similarities of the two neighboring states. What makes the analysis even sharper is the fact that both the hilly states announced near identical industrial policies in response to the Central government's offer; except one critical difference – town planning and land policy – where the two states adopted two entirely distinct approaches. This makes the analysis sharp and our assertions of causal inference plausible. While HP took the usual route of permitting industries to buy land directly from farmers, through private negotiation liberally allowing land use conversions and providing support for creating infrastructure around the new industrial clusters, UK opted for a planned industrialization in designated Industrial Estates complete with infrastructure facilities provided and financed by the State Government. Implementing their determined strategy, UK was able to create an industrial infrastructure from a green field stage over 8000 acres of land, complete with roads, 220kV power stations, drinking water supply

[24] Source: RBI Handbook of Statistics

system, drainage, sewage and effluent treatment plants, logistic parks, residential & business districts with other related amenities. The state was able to develop three full-fledged industrial townships within a short period of 3 years. This proved to be the turning point in the long term economic fortunes of the two neighboring states.

Given their respective strategies, UK witnessed growth in its industrial economy by **9.5** times while HP witnessed a modest **4.6** times. This difference is all the more pronounced in the first decade (2000-2010) given that the CAGR of the industrial sector has been **18.67% for UK** as compared to **9.58% for HP,** which clearly shows that the difference in growth rates petered out as the feverish push to create industrial infrastructure in the early part of the decade weakened with time. Moreover, we observe that creation of industrial infrastructure ensured that the quality of investment in Uttarakhand was decidedly better than that of HP. While the change in the number of factories were almost similar in the two states, in terms of invested capital or number of employees or Gross Value Added per unit, UK far outperformed HP over next two decades.

Secondly, the growth in the manufacturing sector had a multiplier effect on the overall economy. The overall growth rate of Uttarakhand was much higher than that of Himachal Pradesh. From 2000 to 2011**, UK GSDP experienced a CAGR of 11.05** per cent, while **HP saw a more modest CAGR of 6.91** per cent and the per capita income difference between the two states was more or less bridged during the period with Uttarakhand playing the catch-up game.

Thirdly, the impact of this industrial transformation was a dramatic increase in the State's Own tax revenue (SOTR) base. Uttarakhand managed to augment its revenue base over **18 times** over a period of 22 years, implying that it is approximately doubling its SOTR every five years. HP on the other hand has seen a relatively more moderate growth over the same period, representing a **5.5 times** growth in real terms. UK also received higher amounts from the Centre as its share in Central Taxes as compared to HP, primarily on account of population as well as income distance parameters. However, HP fared consistently better in mobilizing grants from the Centre, perhaps on account of better state capacity in being able to spend funds on centrally sponsored schemes.

On the expenditure side, HP continues to spend significantly more than UK – both in absolute as well as per capita terms – up till the year 2014. Since 2014, however, UK has registered higher expenditure than HP in absolute terms. In per capita terms, however, UK lags behind because it has a population which is nearly 50% higher than HP and still growing at a speed which is also nearly 50% higher than HP.

******

Appendix 1 (Structure of the Economy)

Table 3: Gross State Domestic Product at Factor Cost (Constant Prices) (Rs crores)[25]

Year	Himachal Pradesh	Uttarakhand
2000-2001	32511	33286
2001-2002	34205	35126
2002-2003	35935	38612
2003-2004	38840	41553
2004-2005	41778	46953
2005-2006	45302	53687
2006-2007	49420	60979
2007-2008	53647	72027
2008-2009	57627	81140
2009-2010	62289	95851
2010-2011	67768	105453
2011-2012	72720	115328
2012-2013	77384	123710
2013-2014	82847	134182
2014-2015	89060	141278
2015-2016	96274	152699
2016-2017	103055	167703
2017-2018	109406	180956
2018-2019	116414	186083
2019-2020	121187	189740
2020-2021	117555	178764
2021-2022	126433	193412

[25] Source: RBI Handbook of Statistics

Table 4: Growth Rate of GSDP[26]

Year	Himachal Pradesh (Change in YoY %)	Uttarakhand (Change in YoY %)
2000-2001	-	-
2001-2002	5.21	5.53
2002-2003	5.06	9.92
2003-2004	8.08	7.62
2004-2005	7.57	12.99
2005-2006	8.43	14.34
2006-2007	9.09	13.58
2007-2008	8.55	18.12
2008-2009	7.42	12.65
2009-2010	8.09	18.13
2010-2011	8.80	10.02
2011-2012	7.31	9.36
2012-2013	6.41	7.27
2013-2014	7.06	8.47
2014-2015	7.50	5.29
2015-2016	8.10	8.08
2016-2017	7.04	9.83
2017-2018	6.16	7.90
2018-2019	6.41	2.83
2019-2020	4.10	1.97
2020-2021	-3.00	-5.79
2021-2022	7.55	8.19

[26] Source: RBI Handbook of Statistics

Table 5: GSDP (GVA at Factor Cost) of Industrial Sector[27]

Year	Total GSDP Industry (Constant Prices, Rs Lakhs)		HP (Change in YoY %)	UK (Change in YoY %)
	HP	UK		
2000	1146439	943536	-	-
2001	1185872	1035670	3.44%	9.76%
2002	1279555	1258899	7.90%	21.55%
2003	1379656	1431066	7.82%	13.68%
2004	1480095	1714910	7.28%	19.83%
2005	1588886	2228430	7.35%	29.94%
2006	1807189	2662539	13.74%	19.48%
2007	1970007	3374590	9.01%	26.74%
2008	2241729	3825248	13.79%	13.35%
2009	2677692	4579210	19.45%	19.71%
2010	2860763	5226253	6.84%	14.13%
2011	3069090	5833064	7.28%	11.61%
2012	3233072	6331676	5.34%	8.55%
2013	3446534	6859969	6.60%	8.34%
2014	3780349	7068342	9.69%	3.04%
2015	4099090	7585688	8.43%	7.32%
2016	4556838	8355894	11.17%	10.15%
2017	4971968	8986257	9.11%	7.54%
2018	5336799	9042513	7.34%	0.63%
2019	5310929	8955223	-0.48%	-0.97%

[27] **Source:** MoS&PI, DES-Uttarakhand, DES-Himachal Pradesh

Table 6: Share of Industrial sector to the GDP (at current prices) [28]

Year	Himachal Pradesh	Uttarakhand
2000-2001	36.6	32.3
2001-2002	36	32.3
2002-2003	36.5	36.6
2003-2004	36.5	36.6
2004-2005	37.1	38.4
2005-2006	37.3	43.5
2006-2007	39	46.7
2007-2008	39	51
2008-2009	43.5	51.1
2009-2010	44.6	51.4
2010-2011	44.6	52.8
2011-2012	44.2	53.8
2012-2013	43.4	53.7
2013-2014	43.3	53.1
2014-2015	43.1	52.1
2015-2016	42.9	51.6
2016-2017	43.4	51.6
2017-2018	45.1	50.7
2018-2019	45.2	49.8
2019-2020	42.6	47.3

[28] Source: DES-Uttarakhand, DES-Himachal Pradesh

Table 7: Number of Factories[29]

Year	Himachal Pradesh	Uttarakhand
2000-2001	507	744
2001-2002	501	698
2002-2003	509	715
2003-2004	530	679
2004-2005	653	752
2005-2006	808	900
2006-2007	851	1150
2007-2008	1160	1475
2008-2009	1294	1907
2009-2010	1545	2344
2010-2011	2210	2739
2011-2012	2489	2843
2012-2013	2654	2911
2013-2014	2806	2936
2014-2015	2784	2987
2015-2016	2767	2978
2016-2017	2721	2987
2017-2018	2671	2998
2018-2019	2691	3002
2019-2020	2687	2969

[29] Source: RBI Handbook of Statistics

Table 8: Invested Capital[30]

Year	Himachal Pradesh (in Rs. Crores)	Uttarakhand (in Rs. Crores)	Ratio (UK:HP)
2000-2001	4576.64	3545.54	0.77
2001-2002	5166.47	3694.11	0.72
2002-2003	4713.73	3722.76	0.79
2003-2004	6979.16	4169.74	0.60
2004-2005	7413.91	5296.00	0.71
2005-2006	10845.40	7287.06	0.67
2006-2007	10875.92	13405.60	1.23
2007-2008	24475.73	18677.32	0.76
2008-2009	28742.52	34692.72	1.21
2009-2010	33598.74	45420.12	1.35
2010-2011	46103.01	52573.20	1.14
2011-2012	55202.47	71440.48	1.29
2012-2013	53099.58	74470.10	1.40
2013-2014	62055.55	76328.58	1.23
2014-2015	63450.52	72121.65	1.14
2015-2016	67193.73	77502.77	1.15
2016-2017	55528.78	81237.50	1.46
2017-2018	58491.13	80540.19	1.38
2018-2019	59090.35	80605.81	1.36
2019-2020	61855.51	83369.81	1.35

[30] Source: RBI Handbook of Statistics

Table 9: Total Workers[31]

Year	Himachal Pradesh	Uttarakhand	Ratio (UK:HP)
2000-2001	29788	28704	0.96
2001-2002	26518	27317	1.03
2002-2003	25375	27815	1.10
2003-2004	27636	27592	1.00
2004-2005	33750	35349	1.05
2005-2006	42614	53601	1.26
2006-2007	52260	71115	1.36
2007-2008	72095	97687	1.35
2008-2009	84497	172861	2.05
2009-2010	99513	188895	1.90
2010-2011	119818	234079	1.95
2011-2012	116290	273464	2.35
2012-2013	133727	267268	2.00
2013-2014	132706	312131	2.35
2014-2015	147796	295217	2.00
2015-2016	135122	308828	2.29
2016-2017	141772	344376	2.43
2017-2018	146633	339694	2.32
2018-2019	155261	333496	2.15
2019-2020	166950	343377	2.06

[31] Source: RBI Handbook of Statistics

Table 10: Total Revenue (Constant Prices)[32]

Year	Revenue (Constant Prices)		Difference (in Rs Crores)
	Himachal Pradesh	Uttarakhand	
2000	5296	1731	3565
2001	6183	4960	1223
2002	5799	5474	325
2003	6222	5962	260
2004	7082	6630	452
2005	9712	8479	1233
2006	11321	10443	878
2007	12754	10650	2104
2008	11875	10683	1192
2009	11774	10930	844
2010	13276	12383	893
2011	14543	13691	852
2012	14494	14736	-242
2013	13607	15476	-1869
2014	15230	17700	-2470
2015	19498	18265	1233
2016	21357	21355	2
2017	21382	22182	-800
2018	24132	25178	-1046
2019	23222	24318	-1096
2020	25204	28650	-3446
2021	26626	30314	-3688

[32] Source: RBI Handbook of Statistics

Table 11: State's Own Tax Revenue[33]

	States Own Tax Revenue (Constant Prices) (in Rs Crores)		Difference (in Rs Crores)
Year	Himachal Pradesh	Uttarakhand	
2000	1267	553	714
2001	1524	1624	-100
2002	1407	1738	-331
2003	1538	2030	-492
2004	1913	2344	-431
2005	2217	2733	-516
2006	2393	3560	-1167
2007	2732	3696	-964
2008	2861	3767	-906
2009	2930	4101	-1171
2010	3804	4700	-896
2011	4108	5616	-1508
2012	4299	6003	-1704
2013	4435	6572	-2137
2014	5070	7290	-2220
2015	5570	8066	-2496
2016	5724	9350	-3626
2017	5932	8904	-2972
2018	5988	9958	-3970
2019	5760	9113	-3353
2020	6093	8952	-2859
2021	6933	9981	-3048

[33] Source: RBI Handbook of Statistics

Table 12: Share in Central Taxes[34]

	Share in Central Taxes (Constant Prices) (in Rs Crores)	
Year	Uttarakhand	Himachal Pradesh
2000	223	574
2001	639	541
2002	632	551
2003	720	703
2004	844	821
2005	1547	730
2006	1603	909
2007	1927	1107
2008	1864	1069
2009	1786	980
2010	2624	1792
2011	2866	1998
2012	3063	2121
2013	3193	2158
2014	3315	2257
2015	4587	3004
2016	5501	3532
2017	5213	3372
2018	6335	4150
2019	5463	3534
2020	4926	3583
2021	6974	5245

[34] Source: RBI Handbook of Statistics

Table 13: State's Own Non-Tax Revenue[35]

	State's Own Non-Tax Revenue (Constant Prices) (in Rs Crores)	
Year	Uttarakhand	Himachal Pradesh
2000	118	308
2001	294	330
2002	638	278
2003	614	456
2004	889	933
2005	996	1021
2006	916	1932
2007	902	2543
2008	865	2241
2009	728	2030
2010	723	1771
2011	1136	1915
2012	1500	1279
2013	1176	1546
2014	971	1777
2015	1049	1528
2016	1155	1396
2017	1448	1847
2018	2670	2207
2019	3165	1890
2020	3128	1650
2021	1940	1864

[35] Source: RBI Handbook of Statistics

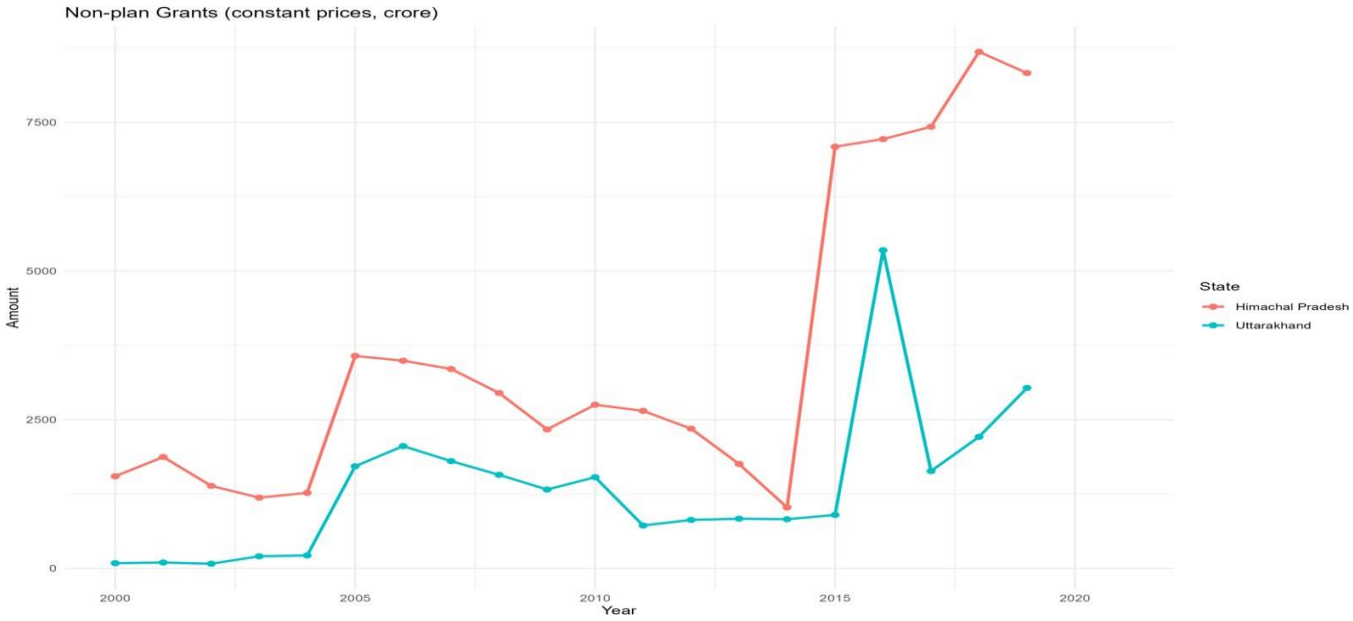
Table 14: Grants from the Centre[36]

	Grants from the Centre (Constant Prices) (in Rs Crores)		
Year	Himachal Pradesh (HP)	Uttarakhand (UK)	HP - UK
2000	3147	837	2310
2001	3789	2403	1368
2002	3563	2467	1096
2003	3525	2598	927
2004	3415	2554	861
2005	5744	3204	2540
2006	6087	4364	1723
2007	6372	4125	2247
2008	5705	4187	1518
2009	5834	4315	1519
2010	5909	4336	1573
2011	6521	4074	2447
2012	6796	4171	2625
2013	5469	4535	934
2014	6126	6124	2
2015	9397	4562	4835
2016	10705	5349	5356
2017	10231	6617	3614
2018	11787	6216	5571
2019	12039	6577	5462
2020	13879	11644	2235
2021	12584	11419	1165

[36] Source: RBI Handbook of Statistics

Appendix 2 (State Finances)

Figure 20: Non-Plan grants[37]



[37] Source: RBI Handbook of Statistics