

Summary

The thesis has engaged with an important area of inquiry in the field of development economics. It poses a very interesting research question on the persistence of regional disparity within democratic structure. Democratic nations are supposed to improve redistribution and ensure the welfare of all sections of society. However, we witness rising regional disparity across countries and within democratic nations. Economists have relied upon various factors like investment in physical capital, adoption of new technology, replication of top-down development policies (Solow, 1956; Aschauer, 1989), the role of innovation (Romer, 1986), and human capital (Lucas, 1988) to explain such disparities. The thesis adopts the lens of institutional economics to provide an alternative explanation for the tendencies that create regional disparities within the democratic structure and further disallow regional convergence.

An increasing volume of works, including those of seven Nobel laureates, rely upon institutions to explain the differences in modern world prosperity. Acemoglu and Robinson (2012) have shown that countries or regions that had adopted inclusive or growth-promoting institutions in the past are prosperous today, while the countries or regions with extractive or growth-constraining institutions are poor. However, the institutional measures used in their analysis (cross-country) are limited to formal institutions like property rights, democracy, governance, and market systems. This research provides a framework to understand the interactions between formal and informal institutions and their implications for the regional disparity in democratic states. For empirical verification, the study uses the case of Odisha, an eastern Indian state. It demonstrates how both formal and informal institutions interact with each other and shape regional development outcomes.

Formal and informal institutions can be inclusive and extractive. Thus, we can have four choices of institutional combinations, and each institutional combination is associated with a development outcome. The research has shown that (i) inclusive formal and inclusive informal institutions would produce inclusive and sustainable development, and (ii) extractive formal and extractive informal institutions would cause extreme inequality, poverty, corruption, and crimes. Two other scenarios can be (iii) inclusive formal and extractive informal institutions and (iv) extractive formal and inclusive informal institutions, where the development outcomes will be conditional on the relative strength of formal and informal institutions. For example, if inclusive formal institutions dominate over extractive informal institutions, society will move towards inclusive growth. However, if informal institutions dominate, society will move towards extreme inequality and poverty.

For empirical verification, the study analyses the regional disparity at district (30) and block level (314) in Odisha between 1994 and 2021 and explains the causes of the perpetual backwardness of specific regions. The district and block-level analysis reveals considerable regional disparity in the state. The disparity between the tribal and non-tribal majority blocks has widened between 1994 and 2021. Tribal majority blocks and districts report low-quality employment, underdevelopment of agriculture, lower literacy rates, fewer economic opportunities, and availability of health and education infrastructure. Using an exploratory factor analysis (EFA), the study explains the contribution of three institutional factors, namely (i) the density of formal institutions, (ii) the quality of formal institutions, and (iii) the dominance of informal institutions in explaining the sustained regional disparity in the state. Using a beta regression, the study found that the dominance of informal institutions has a more significant and negative influence on regional development, followed by a positive influence on the quality and density of formal institutions.