

INDIAN STATES ARE THE FLAGBEARERS OF \$5 TRILLION ECONOMY: MUST MAINTAIN POLICY CONTINUITY

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Indian states have a crucial role in helping the Government achieve the \$5 trillion economy by 2024. They have to transform by undertaking various structural reforms and learn from each other. Since there are wide differences in Indian states, contribution of each in the Government's goal will be different.

For our analysis of how different states stack up in terms of their relative ranks, we decided on a bouquet of state level indicators and juxtaposed the same on a paired basis based on their supposed causation. Subsequently, we constructed a composite indicator using a PCA analysis by using eight variables namely GSDP, population, fiscal deficit, tax revenue collected, national highway length, power availability, unemployment and infant mortality.

The result shows states of Maharashtra, Uttar Pradesh, Tamil Nadu, Karnataka, Gujarat, Rajasthan, West Bengal, Madhya Pradesh, Andhra Pradesh and Telangana are the more promising states and these states together account for around 16.8% of the global GDP (in PPP terms), when compared with countries with approx. same population size. We would strongly recommend that states should maintain policy continuity and such should be political regime agnostic, as there has been regime changes in some of these states. For example, rather than going for short term measures like farm loan waivers which lead to moral hazard problem, impacting the credit culture, measures should be taken to improve the agricultural productivity as in many states agriculture is the mainstay.

Simultaneously, we believe the Government should speed up the much awaited land and labour reforms so that the states can grow to their full potential. For example, as land acquisition is a concurrent subject, many States have come up with their own laws to amend the Central Act. Though States have evolved their own amendments to the Central Act, the Centre should make the National Act on Land Acquisition clear and transparent so as to avoid conflicts due to difference in interpretations.

The following land reforms are long awaited a) Clearly redefine public purpose, (b) Set the consent threshold at no more than 60% for both PPP and private projects; (c) Time taken for acquisition must be set at no more than 12 months (currently, at an egregious 42 months) and (d) Compensation must be reasonable and linked to market value accounting for market imperfections/ annual production value as is the norm internationally with an added clause that 75% of displaced people is gainfully employed in project for which land has been acquired.

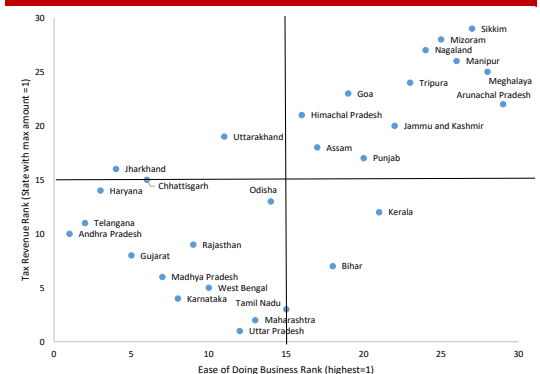
We also believe that the Centre must strongly encourage the concept of Land Leasing and Land Pooling as is being currently practiced in Uttar Pradesh and Haryana. In such arrangements, the landowner lends the land to the Govt. for a steadily-increasing rent, or through an annuity-based system or through land development by a Government agency.

In addition, certain changes are also required in labour laws so as to provide an impetus to manufacturing sector. First, the four codes should be completed urgently as it is being placed in Parliament already for discussion. Further, National Policy for Domestic Workers needs to be brought in at the earliest to recognize their rights and promote better working conditions. In case of unorganised sectors or very small units which do not have any trade union representation, a Government driven mechanism should be devised to ensure that the workers at such set-ups, because of not being fully literate and not having any representation, are not deprived of the basic wages and benefits.

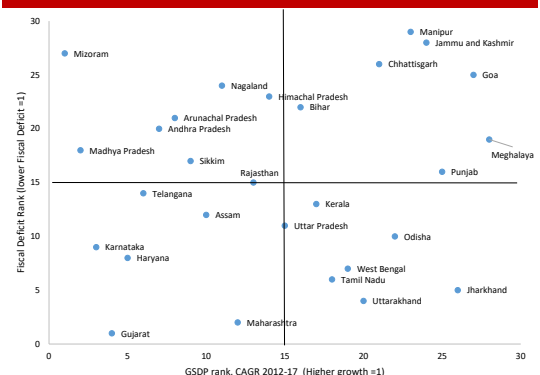
WHICH STATES WILL CONTRIBUTE MORE TOWARDS \$5 TRILLION ECONOMY?

- ◆ The Government is aiming for \$5 trillion economy by 2024 and for achieving this various reforms in the areas of infrastructure development (be it road, railways or water transport), increasing farm income and other agriculture sector developments, land and labour reforms are required.
- ◆ States have a crucial role in helping the Government achieve this agenda. They have to transform by undertaking various structural reforms and learn from each other. Since there are wide differences in Indian states, contribution of each in the Government's goal will be different.
- ◆ We tried to analyze which states will play greater role towards reaching the goal of \$5 trillion economy by looking at various indicators. The first is the ease of doing business. Here we see that the bigger states are at the top. Andhra Pradesh lead in this criteria followed by Telangana, Haryana, Jharkhand and Gujarat.
- ◆ When the ranks of states according to the **tax revenue** collected (with state with maximum revenue ranked#1) are combined with the **ease of doing business** rank of states, we find that South Indian states of Andhra Pradesh, Telangana, Karnataka and even Tamil Nadu lie in the favourable quadrant with higher ease of doing business rank and at the same time collecting higher tax revenues. Even bigger states of Maharashtra, Uttar Pradesh, Madhya Pradesh, Rajasthan, Gujarat and West Bengal belong to this category. However, North Eastern States of Sikkim, Mizoram, Nagaland, Manipur, Meghalaya, Tripura and Arunachal Pradesh lie in the unfavorable quadrant with poor ease of doing business and low tax revenue collections.
- ◆ Next we compare states in terms of their **GSDP growth and fiscal deficit** (as % of GSDP). Here Gujarat, Maharashtra, Haryana, Karnataka have combination of higher growth and lower fiscal deficit. However, Madhya Pradesh, Andhra Pradesh, Rajasthan and North Eastern states have higher growth financed by higher Government spending. Meanwhile, Manipur, Jammu & Kashmir, Chhattisgarh and Goa lie in the most unfavorable quadrant with lower growth and higher fiscal deficit.

States Rank: Ease of Doing Business & Tax Revenue



States Rank: Growth & Fiscal Deficit



Source: RBI, SBI Research

- ◆ Next we have urban unemployment and decadal population growth. Here we see South Indian states of Andhra Pradesh, Karnataka and Tamil Nadu, Maharashtra, Himachal Pradesh, Punjab and even Odisha lie in 1st quadrant, implying these states have lower unemployment rate as well as lower population growth rate.
- ◆ However the states in 3rd quadrant, North-eastern States (Arunachal Pradesh, Manipur and Mizoram), Jharkhand, Bihar and Jammu & Kashmir are the most vulnerable with higher unemployment and higher population growth. These states are prone to social instability unless some reforms are undertaken to handle the situation.
- ◆ Lastly, we look at infrastructure development in terms of national highway length and availability of power in the states. When the states are ranked as per these indicators, South Indian states of Karnataka, Andhra Pradesh, Tamil Nadu and Telangana alongwith Rajasthan, Maharashtra, Chhattisgarh, Gujarat and Punjab lie in the most favourable quadrant with more length of national highways and higher availability of power.
- ◆ Meanwhile, North Eastern states (Manipur, Nagaland, Mizoram, Meghalaya, Arunachal Pradesh, Tripura, Sikkim), Jharkhand, West Bengal and Kerala have poor availability of power and less length of national highways.

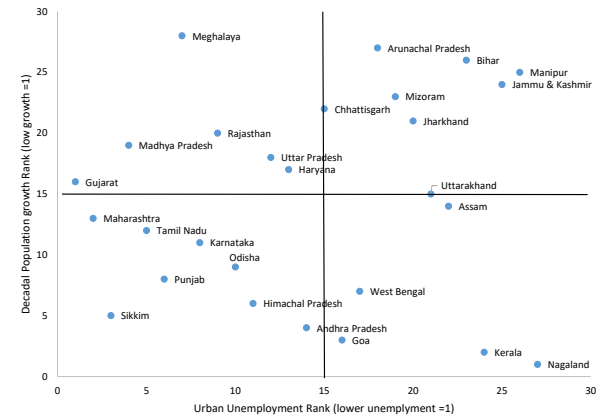
OVERALL COMPOSITE ANALYSIS

- ◆ After looking at the various indicators separately, we did a PCA analysis using the actual state data of eight variables namely GSDP, population, fiscal deficit, tax revenue collected, national highway length, power availability, unemployment and infant mortality.
- ◆ The average score on the basis of the first PCA components shows states of Maharashtra, Uttar Pradesh, Tamil Nadu, Karnataka, Gujarat, Rajasthan, West Bengal, Madhya Pradesh, Andhra Pradesh and Telangana are the top ten states with favourable overall condition.
- ◆ **Interestingly, when these states are compared with the countries with approximate same population it is found that those countries together account for around 16.8% of the global GDP (in PPP terms). Thus Indian states which are countries in themselves also have the potential to add to the growth momentum once proper reforms are institutionalized.**

LAND AND LABOUR REFORMS– NEED OF THE HOUR

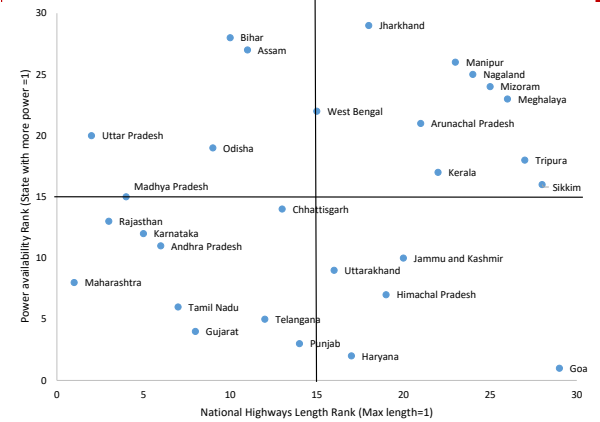
- ◆ To tackle the ongoing slowdown that the country is facing, the Government has already announced a slew of measures to pump prime the economy. Next line of reforms required for India to become \$5 trillion economy are the much awaited land and labour reforms. The effect of lowering of the corporate tax will be magnified when land acquisition and labour reforms are modified and simplified.
- ◆ As land acquisition is a concurrent subject, many States have come up with their own laws to amend the Central Act. Interestingly, the states have started acquiring land under land pooling schemes as well, besides the normal course. States in general have exempted certain categories of projects from social impact assessment (SIA) and consent.
- ◆ Karnataka has been the newest state which passed the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Karnataka Amendment Bill, 2019 and has brought changes to certain provisions.
- ◆ Though States have evolved their own amendments to the Central Act, the Centre should make the National Act on Land Acquisition clear and transparent so as to avoid conflicts due to difference in interpretations.
- ◆ The following reforms are long awaited a) Clearly redefine public purpose, (b) Set the consent threshold at no more than 60% for both PPP and private projects; (c) Time taken for acquisition must be set at no more than 12 months (currently, at an egregious 42 months) and (d) Compensation must be reasonable and linked to market value accounting for market imperfections/ annual production value as is norm internationally with an added clause that 75% of displaced people is gainfully employed in project for which land has been acquired.
- ◆ We also believe that the Centre must strongly encourage the concept of Land Leasing and Land Pooling as is being currently practiced in Uttar Pradesh and Haryana. In such arrangements, the landowner lends the land to the Government for a steadily-increasing rent, or through an annuity-based system or through land development by a Government agency.

States Rank: Unemployment and Population Growth



Source: RBI, SBI Research

States Rank: National Highway length & Power availability



Source: RBI, SBI Research

Indian States and Countries with approx same population size

State	Country	Share in global GDP (in PPP terms)
Maharashtra	Japan	4.1
Uttar Pradesh	Brazil	2.5
Tamil Nadu	Turkey	1.7
Karnataka	France	2.2
Gujarat	Italy	1.8
Rajasthan	United Kingdom	2.2
West Bengal	Vietnam	0.5
Madhya Pradesh	Thailand	1.0
Andhra Pradesh	Colombia	0.6
Telangana	Morocco	0.2
Total contribution to global growth		16.8

Source: SBI Research

LABOUR REFORMS

- ◆ Industry has been clamouring for core labour law reforms for the past several years. As per the latest comparable figures available with ILO, the mandays lost in India were a staggering 23.34 lakh as compared with 1.7 lakh in UK and 7.4 lakh in US with Russia at a low of only 10,000.
- ◆ The Labour Ministry has taken steps for codification of existing Central labour laws into 4 Codes: Labour Code on Wages, Labour Code on Industrial Relations, Labour Code on Social Security & Welfare and Labour Code on Occupational Safety, Health & Working Conditions.
- ◆ However, certain changes are required in labour laws so as to provide an impetus to manufacturing sector. First, the four codes should be completed urgently. Further, National Policy for Domestic Workers needs to be brought in at the earliest to recognize their rights and promote better working conditions.
- ◆ Also, the companies on their own should lay down Statement of Purpose (SOP) for all segments of business. It should be ensured that hiring and firing should always lie within the laid down SOPs and should not be exercised outside ambit.
- ◆ The companies should also maintain reasonable pay parity between the superior and subordinates.
- ◆ In case of unorganised sectors or very small units which do not have any trade union representation, a Government driven mechanism should be devised to ensure that the workers at such set-ups, because of not being fully literate and not having any representation, are not deprived of the basic wages and benefits.

FARM DEBT WAIVER IN INDIA

- ◆ In the last decade, a number of Agri. debt waiver schemes have been launched across States and also at Pan-India level. Since, 2017, more than Rs 2 lakh crore of farm debt has already been announced to waive off by State Government.
- ◆ Though Loan waivers may impact the credit culture of a State by incentivising the defaulters, even if they are in a position to repay the loan, and thus, create the moral hazard by discouraging those borrowers who have been regular in repaying their loans, but it has become a pre-poll instrument to woo a large section of voters.
- ◆ Even some analyst argue that, "If haircuts for corporate loans are possible, why not farm-loan waivers". We believe, the write-off of corporate bad loans lead to economic growth whereas farm loan waivers lead to moral hazard.
- ◆ Bank wise NPA data shows, since Mar'18, Agriculture NPA has gone up among major Public sector bank who have large exposure to agriculture.

CONCLUSION

- ◆ Based on our study it can be inferred that South Indian states of Andhra Pradesh, Karnataka, Tamil Nadu, Telangana as well as Maharashtra, Rajasthan, Gujarat, Madhya Pradesh, West Bengal and Uttar Pradesh are the states which are likely to contribute more towards Government's goal of reaching \$5 trillion economy.
- ◆ Meanwhile, certain other states particularly the North Eastern States lag behind in almost all the criteria. These States require special attention of the Government so that their contribution to national output also increases.
- ◆ However, the Government should ensure that land and labour reforms are expedited and the international best practices are adopted in case of both land and labour laws so that the states can grow to their full potential.
- ◆ Also, as farm loan waivers lead to moral hazard problem, thereby impacting the credit culture should not be resorted to by states, instead measures should be taken to improve the agricultural productivity.

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Land Pooling and Readjustment Mechanisms in India

State	Policy/Act	Year
Andhra Pradesh	Andhra Pradesh Capital Region Development Authority Act, 2014. Section 52 defines the Land Pooling Scheme. The Andhra Pradesh Capital City (Formulation and Implementation Rules, 2015)	2014
Greater Mohali	The Punjab Regional And Town Planning and Development Act, 1995. 5.70 Provides for Formulation of Town Planning Schemes. Land Pooling Policy for the State Of Punjab issued on 19th Nov 2013 provides for Land Pooling as a scheme to boost the urban development	1995
Haryana	Haryana Land Pooling Scheme notified on the 14th of August 2012 as an extension of the 'Land Acquisition and R&R Policy' issued on the 9th November, 2010	2012
Delhi	The Delhi Development Authority under Sections 7-11 of the Delhi Development Act 1957 issued the Master Plan Delhi 2021 on Feb 2007. The Land Pooling Policy Regulations notified on 5th September 2013, under the plan provide for the legislative backing for the development scheme	2013
Rajasthan	The Rajasthan Land Pooling Schemes Act, Generic Land Pooling Policy	2016

Cross Country Comparison Labour Regulations Related to Consultations and Notifications Prior to collective dismissal

Country	Prior consultations with trade unions required	Notification to Public Administration Required	Notification to the workers' Representative Required	Approval by public administration or judicial bodies required	Consent of workers' representatives	Employers obligations to consider alternatives to dismissal
ASIA						
Bangladesh	No	Yes	Yes	No	No	No
China	Yes	Yes	Yes	No	No	Yes
India	Yes	Yes	Yes	Yes	Yes	Yes
Indonesia	Yes	No	Yes	No	No	Yes
Philippines	No	Yes	No	No	No	No
Malaysia	No	Yes	No	No	No	No
Sri Lanka	No	Yes	No	Yes	No	No
Thailand	No	Yes	No	No	No	No
Vietnam	Yes	Yes	Yes	No	Yes	Yes
EUROPE						
France	Yes	Yes	Yes	No	No	Yes
Germany	Yes	Yes	Yes	No	No	Yes
Russia	Yes	Yes	Yes	No	No	Yes
UK	Yes	Yes	Yes	No	No	Yes
LATIN AMERICA						
Brazil	-	-	-	-	-	-
NORTH AMERICA						
USA	No	Yes	Yes	No	No	No
AFRICA						
South Africa	Yes	No	Yes	No	No	Yes
Tanzania	Yes	No	Yes	No	No	Yes
Uganda	No	Yes	Yes	No	No	No

Source: ILO, SBI Research

Farm Loan Waiver Schemes Chronology

Year	State	Amount Announced (Rs crore)
2008	Pan-India	60000
2012	Karnataka	3500
2012	Uttar Pradesh	1650
2014	Andhra Pradesh	24000
	Telangana	17000
2015	Chhattisgarh	130
2016	Tamil Nadu	6095
2017	Maharashtra	34500
	Uttar Pradesh	36000
	Punjab	10000
	Rajasthan	8160
2018	Karnataka	8165
	Jammu & Kashmir	244
	Rajasthan	18000
	Karnataka	44000
	Chattisgarh	6100
2018	Madhya Pradesh	36000
	Assam	600
Total		314144

Source: RBI, PIB, State Budgets, SBI Research

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