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# Why Some Indian States Will Descend in Their Economic Rankings

BY DR MUKUL ASHER 7 JANUARY 2021 4 MIN READ



These states have made some common public policy choices which portend significant decline for them. Source: [www.news.in](http://www.news.in)

As the year 2021 begins, there are strong indications that some of the states in India will exhibit significant relative decline in their economic rankings. To prevent this from happening, they must swiftly and energetically reverse their current revealed public policy choices and sustain the reversal. For the benefit of the people living in these states and of the country as a whole, I very much hope that such a reversal occurs.

Among the States falling in the above category are, in alphabetical order, Kerala, Maharashtra, Punjab, and West Bengal.

In a [tweet](#), Professor Shamika Ravi has noted that Punjab has been missing out on the rapid economic growth that's been happening across India, and its economy needs basic structural reforms. For years, it has been the richest state in the country, but now significantly lags behind Haryana, Gujarat, Karnataka, Tamil Nadu, Himachal Pradesh, and Maharashtra, all poorer in comparison 20 years back.

Certainly, there are context-specific reasons for the decline, and they vary from State to State. For example, Kerala has been severely affected by the impacts of the Covid-19 pandemic on migration remittances, particularly from the Gulf Region. However, these states have also made some common public policy choices which portend significant decline for them.

Poor public policy choices are likely to cause adverse effects on the flow of new investments which often embody newer technologies and management concepts, and new talent. The two are vital ingredients for future growth, and hence can get adversely affected too.

*All four States have given priority to catering to their core vote base and to subsidising for them electricity, water, and other utilities. Through budgetary allocations, these states have encouraged rent-seeking, which increases costs of doing business and prevents better reconfiguration of the existing way of doing things. This choice of policy priorities has also meant that growth-inducing allocation of public expenditure has not been occurring.*

For example, an Expert Group formed by the Punjab Government in April 2020 has urged the State Government in its Report (not in public domain as of 1 January 2021) to move away from the policy of free electricity for agriculture. This policy alone costs Punjab INR 6500 crores each year.

The report states three damaging consequences of the free electricity policy: first, an unsustainable burden on the start budget and limits on the government to incur other essential expenditure; second, environmental degradation as it promotes water-intensive paddy cultivation and hence excessive abstraction of groundwater; and third, only big farmers benefit from the scheme. The report also urges Punjab to reduce the area under paddy by about 25 lakh acres (out of total 76 lakh acre under paddy) over the next 6-7 years and, like Haryana, incentivise farmers in overexploited blocks to diversify cropping patterns. This would reduce electricity consumption and bring big savings on the subsidy front.

However, by instigating the so-called agitation against the new farm laws, the leadership of Punjab is moving in the opposite direction to what the Report has suggested. This is causing huge losses to the country as well as solidifying current unsustainable agricultural practices in the State, leading to its further relative economic decline.

Flow of investments and talent is highly contingent on trust in the functioning of the State. Poor record on public safety and order, and in managing the Covid-19 Pandemic are likely to have eroded trust in these States. Trust, once eroded, is difficult to restore, and the adverse economic effects of this erosion will be felt over time.

As of 1 January 2021, official data suggest that Maharashtra and Kerala together account for about 47% of total Covid-19 cases, and Maharashtra alone accounts for about 33% of the total deaths from Covid-19 in the country.

In the case of Maharashtra, it is also the government's decision to shift the Mumbai Metro car shed away from Arrey Colony (stayed by High Court), an issue which the expert groups had strong consensus on. This decision will not only significantly increase the cost of the Mumbai Metro project, but also delay it, further inconveniencing the commuters, and contributing to erosion of trust in the functioning of the State.

Another factor is disregarding the spirit of cooperative federalism with constructive competition among states. India is a Union of States; both the Centre and the states need to cooperate, and States need to cooperate with each other for solid foundations of future growth.

The West Bengal Government's refusal to join Ayushman Bharat, India's own health insurance scheme covering nearly 500 million people – one of the largest globally – is detrimental to the people of West Bengal. The WB government has made another poor public policy choice of not joining the PM-KISAN scheme, started in 2018, which provides marginal farmers an income support of INR 6000 per year. Thus, marginal farmers of West Bengal are deprived of income support whose costs are borne fully by the Central government, strongly suggesting skewed priorities of the State's public policies.

Governments of Kerala and West Bengal have also not been cooperating with the Central government in the 2021 census, a routine but much-needed task for better governance and planning. At the time when the potential of data analytics is immense, and the world is increasingly practising empirical evidence-based public policies, such opposition can only emanate from poor public policy priorities. Such acts also erode trust.

Moreover, states such as Uttar Pradesh, Karnataka, Madhya Pradesh, Assam, and Gujarat, have exhibited determination to improve their state's rankings by laying foundations for future growth, embracing technology, and cultivating trust within stakeholders. Kerala, Maharashtra, Punjab, and West Bengal need to recognize that there is competition from such States to strengthen their economic base and attract talent.

Only if they pursue positive sum policies and embrace changes appropriate for the 21<sup>st</sup> century India can they provide ease of living and quality of life to their citizens.

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## Dr Mukul Asher

Dr Mukul Asher retired as Professorial Fellow at Lee Kuan Yew School of Public Policy, National University of Singapore, in June 2018. He specialises in public financial management, pension reforms, and application of economic reasoning to public policy, especially in India.

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