Vol : 10, No : 1 Journal of Economic Policy and Research October 2014 – March 2015

IPE

This Journal is Indexed in
Cabell's Directory
EBSCO Database
Jawaharlal Nehru University
(New Delhi)
ProQuest
Ulrichsweb

# Journal of Economic Policy and Research

( ISSN 0975 - 8577 )

Vol : 10 October 2014 – March 2015 No : 1

Journal of Economic Policy and Research

Vol : 10 October 2014 – March 2015 No : 1

Contents

## Research Papers

Journal of Economic Policy and Research, Oct. 14 – March 2015, Vol. 10, No. 1


# Do Central Government Fund Transfers Matter for Bihar's Growth?

***Raj Rajesh****

*Recent accelerated growth of Bihar has engaged a lot of academic and policy discourse. In the last couple of years, while Bihar remained one of the fastest growing states, it also remained one of the highest recipients of central government fund transfers amongst the non-special category states. Against this backdrop, we explore if enhanced financial transfers from the centre, inter alia, contributed to recent high growth of Bihar. We found significant relationship between real current transfers from centre and the state's growth. We also ascertain that higher developmental capital outlay and increased bank credit have played a key role in accelerating Bihar's growth. These findings have obvious policy implications.*

Keywords : Growth, Bihar, Government Grants, Capital Outlay, Bank Credit.

## Introduction

Bihar has been regarded as a 'BIMARU'[1] state as it lagged behind other states on various socio-economic indicators. Besides economic backwardness, social unrest in the state in the eighties and nineties had vitiated the investment climate. This had taken a severe toll on the state's economy. Commenting upon the gloomy state of affairs of Bihar of the eighties and early nineties, Das (1992) had observed :

> *"There are two possibilities regarding the shape the emergent (Bihar) can take. It can degenerate into a brutal, xenophobic monster, governed only by the rule of its internal jungle. Or it can develop into a civilized, popular, social formation, based on republican values. A self-conscious republic of Bihar, premised on equity and progress, can in fact transform India into a prosperous commonwealth of equal republics."*

In the following decade, Bihar's economy shrank further as Jharkhand was carved out and reorganised as a separate state in November 2000. Bihar lost a rich repository of mineral wealth and a well-developed industrial base to Jharkhand. Post-bifurcation, Bihar essentially remains an agro-based economy, which faces recurrent natural vagaries: floods and droughts. Notwithstanding such adversities, since 2006-07 Bihar's economy has posted one of the highest growths amongst the Indian states.

* *Raj Rajesh, Assistant Adviser, Department of Economic and Policy Research, Reserve Bank of India, Mumbai.*

Views and errors/omissions are those of author's alone and not of the institution.

*Journal of Economic Policy and Research, Oct. 14 – March 2015, Vol. 10, No. 1*


# Fiscal Prudence and Development Spending : A Dynamic Efficiency Model of Indian States

***Ram Pratap Sinha***

*The paper evaluates the performance of sixteen non-special category Indian states for the period 2007-08 to 2011-12 regarding their fiscal operations using DEA. The study selected two important output indicators for the purpose of benchmarking – own tax revenue (an indicator of fiscal prudence) and development expenditure (an indicator of social commitment). The analysis has been carried forward in a dynamic setting linking the discrete time periods through an undesirable link variable-fiscal deficit. This enables us to rank the states on the basis of their performance for the observed period.*

Keywords : Fiscal Prudence, Development Expenditure, Dynamic Efficiency Model, Slacks Based Measure.

## Introduction

While India has a federal structure of administration, Indian states enjoy relatively much less administrative and financial power compared to their peer groups in many other developed and developing countries. Consequently, the Centre-State financial relations as it stands today and the direction of future reforms are topics of interest for the researchers in the area of public finance and public policy. The basic motivation for the present paper, however comes, from a different source- the unevenness in financial performance of Indian states. While it is generally agreed upon that the states require more authority in the matter of mobilization of financial resources and perhaps, more generous attitude of the central government regarding transfer of funds from the centre to the states, of analysis the internal strength and weaknesses of the states is also quite significant (if not equally important). In the past one decade, the central government also linked its assistance to the state governments with the accomplishment of institutional reforms in the area of fiscal operations. Against this backdrop, the present paper benchmarks the performance of non-special category states for the period 2007-08 to 2011-12 in terms of a dynamic non-parametric model. In the dynamic setting the performance

* *Dr.Ram Pratap Sinha, Associate Professor of Economics, Government College of Engineering and Leather Technology, LB Block, Salt Lake, Sector-III, Kolkata-700098.*

Journal of Economic Policy and Research, Oct. 14 – March 2015, Vol. 10, No. 1


# The EU-India Bilateral Trade and Investment Agreement in the Making : High Hopes for India?

***Debashis Chakraborty* & Animesh Kumar*****

*The volume of Indo-EU trade and investment linkage is on the rise over the last decade. To deepen its association with the EU member states, India has entered into negotiations for a Bilateral Trade and Investment Agreement (BTIA) since 2007. The proposed EU-India BTIA is going to be the biggest trade agreement involving India, surpassing its earlier RTA with the ASEAN countries. However, despite the possibilities for collaboration, there exist several areas of potential conflict of interest as well, e.g., EU provision of farm subsidies to local producers, imposition of anti-dumping measures on several Indian export categories in EU markets, barriers on movement of professionals, EU interest in inclusion of several WTO-Plus provisions in the agreement etc. Through an analysis of trade data and the negotiating dynamics, the present analysis attempts to identify the challenges and opportunities for India from the proposed BTIA. The paper concludes that the BTIA is not expected to offer unmixed blessing for Indian players.*

Keywords : Trade Policy, International Trade Organizations, Economic Integration.

## Introduction

Given the slow progress of the WTO Doha Round negotiations, the last decade has witnessed an unprecedented increase in the number of Regional Trade Agreements (RTAs). India and European Union (EU) are no exception to this trend, as both aspire to enhance their market access through the RTAs. It has been argued that an RTA between India, a labour-abundant economy rising up the value chain and the EU, a bloc consisting of both developed and emerging economies, is likely to benefit both (CARIS & CUTS, 2007). The diplomatic, economic and technological relationship between the two sides started with the EU extending Generalized System of Preferences (GSP) to India in July 1971. The relationship further deepened through Indo-EC Commercial Cooperation Agreement (1974) and Indo-EC Commercial and

* *Debashis Chakraborty, Assistant Professor of Economics, Indian Institute of Foreign Trade, New Delhi.*

** *Animesh Kumar, Research Scholar, Centre for Economics Studies and Planning, Jawaharlal Nehru University, New Delhi.*

The views expressed by the authors are personal and do not necessarily represent the views of their organisations.

*Journal of Economic Policy and Research, Oct. 14 – March 2015, Vol. 10, No. 1*


# Determinants of Private Corporate Investment in India during the Post-Reform Period

***Vignesh Sridhar Athreya* & G.Raghavender Raju*****

*Private investment is a powerful catalyst for economic growth. During the post-reform period, the Indian economy has seen a substantial growth in the gross capital formation, specifically the private corporate sector's capital formation. There is a need for policy makers as well as firms to understand 'what ticks private corporate investment'. This study analyzes the investment behavior of the private corporate sector in India for the post-reform period. There has been a significant leap in the investment rate. The study also identifies the determinants of private corporate in terms of economic growth, lending rates, inflation rates, private savings, crowding in/out effects done by public investment, bank credit, exchange rates, and market capitalization using the applied econometric methodology of modern type series as well as the method of OLS estimation. It was found that, variables such as GDP and exchange rate are the most significant variables which would influence investment. The other variables such as non-food bank credit and private savings are also significant. Public investment and market capitalization are not so significant. The results are keeping with the prevailing economic literature and theory relevant to a developing country, in this case India.*

Keywords : Private Corporate Investment, Economic Growth, Econometric Modelling.

## Introduction

It is said, "Aid chases need; investment chases opportunity". If industries are considered as engines of growth, the fuel that runs these engines is investment. In other words, investment can be considered as the pulse of the economy; as it provides an indicator of growth and success. The purpose of investment in any sector is to generate capital in the form of infrastructure, improvement in quality of natural resources and assets, and creation of productive assets. Investment in any sector comes from two sources *viz*. public and private. While public investment is

* *Vignesh Sridhar Athreya & Dr.G.Raghavender Raju, Department of Economics, Sri.Sathya Sai Institute of Higher Learning, Prasanthi Nilayam-515134.*

*Journal of Economic Policy and Research, Oct. 14 – March 2015, Vol. 10, No. 1*


# Environmental Performance of ASEAN Countries : A Data Envelopment Analysis Approach

***Rossazana Ab-Rahim****

*As far as this study is concerned, there are no existing studies which had measured the aggregate index of ASEAN environmental performance. The assessment of environmental performance is important as it provides sound information to the policy makers to improve the design of their environmental policies at upholding long-term sustainability of a nation. Employing data envelopment analysis (DEA) method, the results of this study reveal that smaller economies such as Laos, Cambodia and Brunei are found to be environmentally efficient. With respect to economic efficiency, larger economies such as Malaysia, Indonesia, the Philippines and Singapore are found to be more efficient than the smaller countries (except Brunei).*

Keywords : Environmental Efficiency, ASEAN, Data Envelopment Analysis.

## Introduction

Economic production consists of inputs or factors of production, desired outputs and undesired outputs. While desired outputs refers to end products, undesired outputs refers to the emissions to the environment. It has been suggested that the resource use can be halved despite doubling the wealth of a nation by improving the eco-efficiency or resource productivity by a factor of 4 (von Weizsacker et al., 1998); a factor of 10 (Alt, 1997) and by a factor of five (von Weizsacker et al., 2009).[1] Eco-efficiency denotes the ability of firms, industries, or economies to produce goods and services with less impacts on the environment and less consumption of natural resources, bridging over economic and ecological issue. On this note, eco-efficiency refers to the combination concept of economic and ecological efficiency. Economic efficiency is defined as the proportion of the maximum output that can be attained by using the best production techniques to produce the actual output or the capacity of the firms to produce the maximum output that is possible with the available technology while ecological

* *Rossazana Ab-Rahim, Faculty of Economics & Business, UNIMAS, Sarawak, Malaysia.*

Financial support from the Universiti Malaysia Sarawak (UNIMAS) and Fundamental Research Grant Scheme [FRGS/05(36)/844/2012(84)] are gratefully acknowledged. All remaining flaws are the responsibilities of the author.

Journal of Economic Policy and Research, Oct. 14 – March 2015, Vol. 10, No. 1


# Wage Determinants in India's Manufacturing Sector during Post-Reforms Scenario

**Hansa Jain***

*The conventional theories have considered labour productivity to be the important factor for determining the wage rate. With the advent of trade liberalization, alongwith the labour productivity, the other factors like market flexibility, increase in competition, technological advancements, decline of trade unions, weakening of the collective bargaining system, etc. have also gained importance. A pertinent question is: whether labour productivity is still the determinant of wage rate? How far high investments, technological advancements and increased competition is responsible for declining wages and widening wage disparities? The paper addresses these issues by taking the case of organized manufacturing industries. With the help of industry level data collected from Annual Survey of Industries the study examines the structural changes in the manufacturing industries after the trade reforms, links the productivity with wages, finds the industry-wise differences in productivity and wage and determines the wage disparity in organized manufacturing industries. An econometric model is constructed to determine the variations in wage share in net value added, average wage and wage disparity. The paper finds that trade liberalization is not the cause of decrease in wage share and wage rate and increase in wage disparity. Rather the policy of deregulation has enabled the manufacturing industries to adopt efficiency driven and profit-making strategies through labour displacement and wage cuts. As a result, the desired gains have not yet been realized. The paper considers the role of education, training and skill development for getting a decent job in the manufacturing industries. The paper also emphasizes on revisiting the wage policy that should incorporate labour productivity as well as technological advancement.*

Keywords : Trade Liberalization, Manufacturing Industries, Organized Sector, Wages, Employment, Regression, Growth Rate.

Wage rate acts as a motivating factor for the improvement in worker's efficiency. Improvement in efficiency, i.e., productivity is the chief determinant for the expansion of production activities and thus economic growth (Sidhu, 2008). Wage rate is the factor that binds the worker with a particular economic activity and also strengthens the employer-employee relationship. Wage rate along with social security benefits

* *Dr.Hansa Jain, Associate Professor, Sardar Patel Institute of Economic and Social Research, Ahmedabad-380054 (Gujarat).*

*Journal of Economic Policy and Research, Oct. 14 – March 2015, Vol. 10, No. 1*


# Weak Form Efficiency of Gold ETF Markets : An Empirical Note from India

***T.G. Saji****

*This paper investigates the weak-form market efficiency of Indian gold ETF market for the period 2009-2013. Daily returns for the premier gold ETF assets are examined for random walks using both parametric and non-parametric forms of market efficiency tests. The results, irrespective of the approaches pursued, suggest that the gold ETF market in India has been exhibiting weak form market efficiency from the beginning itself. The overwhelming support for weak form efficiency implies random walk behavior of gold ETF returns in emerging markets, which rules out the validity of technical trading strategies in prediction of asset returns in gold markets.*

Keywords : Exchange Traded Funds, Random Walk, Market Efficiency.

## Introduction

Assessing random walk properties has long been the focal point in prediction of asset returns for the last few decades. A market following a random walk shows weak form efficiency and assumes consistent pricing of assets at its equilibrium level, whereas the absence of a random walk presupposes mispricing of capital and risk in markets. In other sense, if the asset prices do not follow random walk, the investor psychometrics lead the return generating process so that the historical sequence can predict the future returns (Worthington & Higgs, 2006). Theoretically, if a market is efficient, at least at its weak form level, with respect to a particular set of information, trading decisions based on that information cannot produce abnormal profits.

Gold Exchange-Traded Funds (ETF) has emerged as the most successful financial innovation in emerging world, especially after the global financial crisis of 2007. The stock market volatility lead by macroeconomic uncertainties and the resultant liquidity crunch increased the demand for gold hedge. Then investors find gold ETF as a convenient mode to intervene in the gold market. Investment in small denominations, hedging convenience and better holding of ETFs compared to physical gold holdings as the prime reasons why gold ETFs consider as the best way to invest in the gold (Fisher, 2008). From the beginning itself gold ETF has been gaining significant

* *Dr. T.G.Saji, Post-Graduate Department of Commerce and Management Studies, Government College, Thrissur, Kerala, India-680014.*

*Journal of Economic Policy and Research, Oct. 14 – March 2015, Vol. 10, No. 1*


# Economic Growth and Structural Changes in Uttarakhand in Post-Reforms Period in India

***Amit K.Giri* & S.P. Singh*****

*This paper is the first attempt at examining the growth performances and structural changes during the pre and the post statehood period of Uttarakhand vis-a-vis some select states of India. The period 1993 to 2012 of this study also coincides with the era of economic reforms in India. Compared to the very slow economic growth and deindustrialisation in the pre-statehood period, this state witnessed one of the highest economic growths among all the states of India with rapid industrialisation after attaining statehood in 2000. Not only the share of its primary sector has declined at a faster pace, but this state was also among the very few states in India whose share of industry in the state's final output increased after 2000. The structural shift of the workforce of this state mirrored other states trends until 2005. But since then the structural shift of its workforce away from agriculture to the manufacturing and the services has occurred at a faster rate relative to overall India.*

Keywords : India, Uttarakhand, Structural Change, Labour Force, Workforce, Distress Employment, Economic Reforms, Special Category State.

## Introduction and Literature Review

As an economy experiences relatively faster economic growth over a considerable period of time the sectoral composition of its gross domestic product undergoes change: the share of the primary sector[1] declines and the share of the secondary and tertiary sectors increases. Along with the shift in the industrial structure, the sectoral workforce composition also undergoes change. The surplus workers of the agriculture sector shift to the manufacturing and the services sectors. Economic literatures recognize this sort of development in an economy as 'structural changes', thanks to the seminal works of Lewis (1954), Chenery (1960), Rostow (1960), Kuznets (1971) and Fei and Ranis (1975).

For significant structural changes to take place in any economy, concomitant transformations in attitudes, institutions and ideologies are often necessary (Lewellen, 1995). It also becomes

* *Amit K.Giri, Research Scholar, Department of Humanities and Social Sciences, Indian Institute of Technology, Roorkee, Uttarakhand, India.*

** *S.P. Singh, Professor, Department of Humanities and Social Sciences, Indian Institute of Technology, Roorkee, Uttarakhand, India.*