

APPENDIX III

Mapping of Variables with Economic Freedom of the World

EFW Categorisation

Variables at the State Level for India

AREA 1: Size of government—expenditures, taxes and enterprises

a) General government consumption spending as a percentage of total consumption	1.	Government revenue expenditure/gross state domestic product (GSDP)
	2.	Administrative GSDP/ total GSDP
b) Transfers and subsidies as percentage of GDP	3.	Subsidy on power for domestic consumers/ population
c) Government enterprises and investment as a percentage of GDP	4.	Govt. employment/total organised employment
	5.	Percentage of state level public sector enterprises (SLPEs) in which Disinvestment completed or initiated
d) Top marginal tax rate (and income threshold to which it applies)	6.	State taxes on income/GDP
	7.	State taxes on property and capital transaction/GDP
	8.	Taxes on commodities and services/GSDP
	9.	Stamp duty rate
i. Top marginal tax rate (excluding applicable payroll taxes)	Data not available—also many different types of state income taxes	
ii. Top marginal tax rate (including applicable payroll taxes)		

AREA 2: Legal structure and security of property rights

	10.	Total Value of property recovered/total value of property reported stolen
	11.	Vacant posts in judiciary as a ratio of total posts sanctioned
a) Judicial independence—the judiciary is independent and not subject to interference by the government or parties in disputes	Not Applicable	
b) Impartial court—a trusted legal framework exists for private businesses to challenge the legality of government actions or regulation		
c) Protection of intellectual property		
d) Military interference in the rule of law and the political process		
e) Integrity of the legal system	12.	Cases under economic offences/total cases
	13.	Per cent cases where trials were completed by courts
	14.	Per cent cases where investigations were completed by police
	15.	Violent crimes

AREA 3: Access to sound money

a) Average annual growth rate of money supply in the last 5 years minus average annual growth of real GDP in the last 10 years	Not applicable	
b) Standard inflation variability in the last 5 years		
c) Recent inflation rate	Inflation rate calculated on basis of GDP deflator	
d) Freedom to own foreign currency bank accounts domestically and abroad	Not applicable	

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<i>EFW Categorisation</i>	<i>Variables at the State Level for India</i>
AREA 5: Regulation of labour and business	
a Credit market regulations	Financial sector overseen by Central government, no state level differences
i) Ownership of banks—percentage of deposits held in privately owned banks	
ii) Competition—domestic banks face competition from foreign banks	
iii) Extension of credit—percentage of credit extended to private sector	
iv) Avoidance of interest rate controls and regulations that lead to negative real interest rates	
v) Interest rate controls—Interest rate controls on bank deposits and/or loans are freely determined by the market	
b Labour market regulations	
i) Impact of minimum wage—Minimum wage set by law has little impact on wage because it is too low or not obeyed	16. Average wage of unskilled workers/ minimum wages
ii) Hiring and firing practices—Hiring and firing practices of companies are determined by private contract	17. Man-days lost in strikes and lockouts/ Total number of industrial workers
iii) Share of labour force whose wages are set by centralised collective bargaining	18. Unorganised labour force as a ratio of organised labour force
iv) Unemployment benefits—the unemployment benefits system preserves the incentive to work	Not applicable
v) Use of conscripts to obtain military personnel	
c) Business regulations	
i) Price controls—extent to which businesses are free to set their own prices	
ii) Administrative controls and new business administrative procedures are an important obstacle to starting a new business	19. Number of special economic zones (no subsidies are given to units in SEZs, but tax breaks are given, regulations are also fewer and less intrusive in SEZs)
	20. Minimum Licence fee for traders
	21. Market fees charged by government run/ regulated market boards on commodities as per cent of estimated value of commodities
iii) Time with government bureaucracy—senior management spends a substantial amount of time dealing with government bureaucracy	22. Implementation rate of Industrial Entrepreneurs Memorandum (IEM denotes the intention to invest, but when there are bureaucratic or other delays the rate of implementation is lower)
iv) Starting a new business—starting a new business is generally easy	23. Power shortage as a percentage of total demand (power shortage exists either due to low investment on the part of the government or due to low levels of private sector generation)
v) Irregular payments—irregular, payments connected with import and export permits, business licences, exchange controls, tax assessments, police protection or loan applications are very rare	24. Cases pending investigation from the previous year of cases registered under prevention of corruption and related acts as a share of total cases registered under the same acts
	25. Persons arrested as a share of total cases being investigated under prevention of corruption and related acts