

APPENDIX III

Mapping of Variables with Economic Freedom of the World

<i>EFW Categorisation</i>	<i>Variables at the State Level for India</i>
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 a 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 transactions/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 values 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

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<i>EFW Categorisation</i>	<i>Variables at the state level for India</i>	
b) Standard inflation variability in the last 5 years		Inflation rate calculated on basis of GDP deflator
c) Recent inflation rate		
d) Freedom to own foreign currency bank accounts domestically and abroad		Not Applicable
Area 5: Regulation of credit, 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 leads 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 wages 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 labor force whose wages are set by centralized 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 conditions and new businesses: administrative procedures are an important obstacle to starting a new business	19.	Minimum license fee for traders
iii. Time with govt. bureaucracy: senior management spends a substantial amount of time dealing with government bureaucracy	20.	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	21.	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 licenses, exchange controls, tax assessments, police protection or loan applications are very rare.	22.	Cases pending investigation from previous year of cases registered under prevention of corruption and related acts as a share of total cases registered under the same acts
	23.	Persons arrested as a share of total cases being investigated under prevention of corruption and related acts