

Does the Imbalance in Growth-Job Pattern Influence Fiscal Health? Experience of the Major Indian States

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Paper Abstract: Based on the data compiled from the unit-level information in respect of 50th, 55th, 61st and 68th Rounds of NSSO on absolute workforce engaged in eight major economic activities (separately for rural and urban regions) among 17 major Indian states, this paper aims at (i) estimating employment elasticities in different economic activities (so as to get a broad picture on the differentials in workforce intensities among the states); (ii) constructing a quantitative measure of structural imbalance in each of the states; and (iii) studying nexus, if any, between the measure of structural imbalance and fiscal deficit among the states. Using the composition of different economic activities in employment and income, values of the index ξ of structural imbalance (due to Sethi and Raikhy, 2001; Sethi, 2003) were computed at different points in time, separately for rural and urban regions, as also for the overall economy. The analysis has revealed that the extent of disharmony was, in general, larger in rural regions *vis-à-vis* the urban regions. Through step-down multiple linear regression analysis (with both fixed and random effects modelling under panel data frame-work), an attempt was then made to study the nexus between fiscal deficit and the index ξ , so as to probe whether the index could be used as a significant determinant of fiscal deficit or not. As per the findings, the measure ξ happened to be a significant determinant (along with certain other pre-identified concomitants) of fiscal deficit. Thus, besides other things, fiscal health of the Indian states would get adversely affected by way of disharmonious pattern of development in the states. Suitable policy implications have been drawn from the paper accordingly.