Economic Development of Punjab: A Strategy for Making Punjab's Economy Dynamic

Lakhwinder S. Gill & Baldev S. Shergill
Thapar School of Liberal Arts and Sciences & Punjabi University Regional Campus, Talwandi Sabo, Bathinda

The development pace of the Punjab economy has moved from a fast growing to a slow growing economy. This has generated a concern for investigating the long-term dynamics of the Punjab economy. In this paper an attempt is made to examine these long-term dynamics of the Punjab economy with the perspective of tracing the historical and current factors responsible for generating constraints that limit the growth processes. A political economy approach is adopted to understand the dynamics of Punjab's economic development and attempt is made to identify policy lessons to elevate the constraints for an inclusive and sustainable economic development of Punjab economy.

1. Introduction

Punjab economy over a long period of time has been performing below its potential (Singh, Singh and Singh, 2024). Punjab at the turn of the century (2000) was ranked number one, in terms of per capita income. During the last two decades, it has lagged far behind to tenth rank among the major states of India. As per the latest estimates of human development index and multidimensional poverty index, Punjab among the major Indian states is ranked third and fifth respectively. The Punjab economy between the period 2015-16 and 2022-23 has recorded 4.7 per cent growth rate of Gross State Domestic Product (GSDP) (GoP, 2023). This implies that Punjab economy has been growing at a slow pace compared with other dynamic states of India. Consequently, the per capita income of Punjab is progressing more slowly than the national average. As per the estimates of Punjab government, in the year 2022-23, the per capita income of Punjab was Rs. 1, 73, 873 at current prices. In the same year per capita income of the country (India) was Rs. 1,70,620 (GoP, 2023). The rate of growth of population in Punjab in the last decade was 1.4 per cent per annum, whereas the rate of growth of all India population was 1.8 per cent (Census of India, 2019). Despite slow rate of growth of population, the per capita income is converging at all India level amply shows that Punjab economy is steadily falling behind even with all India levels.

This gloomy economic progress scenario of Punjab has generated an employment famine. As per the government of Punjab estimates, the young workforce of the order of 2, 23, 207 were registered in the employment Bureau in 2022. Out of them, 31 per cent were skilled and the rest of them were educated but unskilled. The high unemployment rates among the educated workforce and high dissatisfaction of the employed youth in Punjab are the major reasons for the workforce of the region to seek employment opportunities elsewhere. Those who can move to foreign lands even sell their immovable property and go abroad by hock and crock. The consequence is that illegal migrants are deported by the USA with chains and handcuffs (TNS, 2025). Those who cannot, either fall in the trap of growing illicit business of drugs or remains disguisedly unemployed. This is the army of people readily available for anti-social activities such as gang formations and for them the value of human life is diminished to zero. Hopelessness dehumanizes and absolute hopelessness dehumanizes absolutely explains the ground reality of Punjab. Therefore, there is a continuous threat to the peaceful situation in Punjab. The long period slow pace of economic development that could not satisfy the aspirations of the younger generations of Punjab made Punjab state a basket case, where neither the central government nor the political leadership of Punjab makes any serious efforts to resurrect/rejuvenate it. The conscious people of Punjab living anywhere in the world are a worried lot and often ask the question why Punjab's economy has reached where it is now and what can be done to regain the past glory of Punjab. In this chapter an attempt is made to examine Punjab's economy to identify the major factors responsible for making the Punjab economy a basket case and what can be done to make Punjab a dynamic and vibrant economy so that it can transition from hopelessness to hopefulness. To provide viable solutions, the evolutionary perspective can clarify what went wrong, and lessons learnt can be employed for future course correction.

The article is organized into four sections. Apart from the introductory section, a half-century of development experience is examined in section two. In section three, the public policy is outlined for rejuvenation of Punjab economy. The final section presents the major conclusions and policy thoughts.

2. The rise and fall of Punjab Economy: A half century experience

In the post partitioned Punjab, the government of Punjab has taken steps to rehabilitate people which came empty handed from West Punjab. A swift allocation of productive agriculture land for cultivation and providing loans for construction of houses both in the villages and towns of East Punjab. Punjab government has also undertaken several new initiatives such as land reforms, abolition of intermediaries between the state and the actual cultivators, consolidation of land holdings, imposition of ceilings on land holdings, fixing and regulating rent on tenanted land, and property rights to occupancy tenants for providing security to tenants. These policy measures were undertaken to generate adequate capability for building a production base in the agriculture sector of the economy. It was supported by new institutional arrangements, for instance heavy investments in developing irrigation systems via canal network and rural electrification, agriculture credit, regulated grain market system, agriculture research and extension system, and rural road networks. Punjab state policy has succeeded in enacting and developing a network of institutional arrangements during the 1950s and early years of the 1960s that played central role in providing enabling environment for the establishment and flourishing of the modern agriculture development. For a balanced growth of Punjab economy, the industrial townships were also established, and necessary training institutes were also established to supply adequate skilled workforce to industrial establishments. The expediency and sufficiency of social services were also ensured. Educational and health care systems were also established for attaining the upward mobility of the population.

When East Punjab was further sub-divided in 1966, it coincided with the food crisis of the country and the Punjab government readily accepted the challenge and made the country's food self-sufficient within a very short span of time. The green revolution has not only provided food security to the country but made several economic, social, and political changes in the state. The rising agriculture productivity in two crops, that is, wheat and rice, on the one hand increased employment, income and savings and on the other hand converted agriculture from a diversified to monocropping (specialized). The specialization perpetuated for a long period of time and Punjab state turned out to be a bulk producer of wheat and rice for the central pool. However, agricultural development has impacted other sectors of the economy and boosted both industrial development and the service sector of the economy. It has reduced the poverty to the lowest level among the Indian states. The rise of income levels and spread of education have opened not only the opportunities outside agriculture but generated the process of upward mobility and substantially reduced the social segregation and more importantly empowered people of Punjab. This has a far-reaching implication in the political processes in the state, where peasantry has started dominating the political scene of Punjab.

The structural change of the economy has always been an interesting field of research to examine the direction and sector-wise share composition of the economy which represents the temporal and spatial variation over time. The Table 1 provides sector-wise analysis of the Gross State Domestic Product (GSDP) composition in Punjab over a half-century from 1970-71 to 2022-23, categorized into three distinct sectors: Primary, Secondary, and Tertiary.

Table 1: Sector-wise Composition of GSDP for Punjab at Constant Prices (2011-12)

Years/Decade	Primary Sector	Secondary Sector	Tertiary Sector
1970-71	55.05	18.69	26.25
1980-81	49.13	20.01	30.86
1990-91	41.58	20.97	37.45
2000-01	40.03	23.67	36.30
2010-11	33.19	23.42	43.39
2020-21	30.40	25.51	44.09
2022-23	27.01	27.43	45.56

Source: https://epwrfits.in/SDPTreeViewData.aspx, indiastat.com and Statistical Abstract of Punjab, various issues

Table 1 detailing the sector-wise composition of Gross State Domestic Product (GSDP) from 1970-71 to 2022-23 reveals noteworthy inter-sector structural changes in the state. The primary sector, predominantly agriculture, has seen a marked decline from 55.05 percent in 1970-71 to 30.40 percent in 2020-21 which reflects a broader trend of agricultural stagnation and the challenges faced by the agrarian economy. The primary sector has remained a fast-moving but declining sector of the region over time. Conversely, the secondary sector, which includes manufacturing and construction, has experienced modest growth, increasing from 18.69 percent to 27.43 percent over the same period, indicating a slow industrialization process in the state. Most notably, the tertiary sector has surged from 26.25 percent to 45.56 percent, highlighting a significant shift towards a service-oriented economy, which is consistent with global economic trends where the service sector increasingly dominates in the contribution of Gross Domestic Product. It is noted that from 1990-91, there is a slight decline in the sector in the share of GSDP and improved its position during the next decade, 2000-01 to 2010-11. But 2010-11 onwards, the service sector has been a slow-moving contributor. This transition underscores the need for policy frameworks that support diversification and innovation in Punjab's economy, particularly in enhancing productivity in the primary sector while fostering. Overall, the analysis illustrates Punjab's evolving economic landscape, characterized by a declining agrarian base, a burgeoning industrial sector, and a robust expansion of services, aligning with the broader narrative of economic development in India (Singh, 1994 and CDEIS, 2012).

The first phase of the green revolution also made structural changes in the Punjab economy. The share of agriculture in the GSDP of Punjab increased from 52.85 per cent in 1966-67 to 55.05 per cent in 1970-71. As agriculture sector productivity gains started reaching plateau towards the end of 1970s, the share of both agriculture in GSDP (49.13 per cent in 1980-81) and employment (58 per cent in 1981) started declining (Singh and Singh, 2002). The empowered peasantry has started reflecting the fatigue of agriculture and non-availability of aspirational employment outside agriculture due to stunted growth of the economy by lacking strong backward and forward linkages between sectors. Most of the social movements that were left-leaning sent danger signals to the dominant political parties and instead attending to the emerging problems from the model of economic development, they started twisting economic issues and converting it into religious issues. Political movement laced with religious issues well suited to the dominant political parties both regional and national alike. Consequently, turmoil of the 1980s devastated the well-functioning institutions and derailed the development agenda of Punjab. A decade of dominance of bureaucracy and governor rule in Punjab resulted in shifting the emphasis of the state from development to security and peace concerns. However, the momentum of development continued in the 1980s, but the pace of economic development decelerated.

Table 2 illustrates the decade-wise growth rates of three economic sectors and various sub-sectors in Punjab over the half century period (1970-71 to 2023-24), providing insights into economic trends over time.

Table 2: Decade-wise trend growth rates of across sectors in Punjab (1970-71/2023-24) at 2011-12 Prices

Sectors/Segments	1970-71/1979-80	1980-81/ 1989-90	1990-91/1999-00	2000-01/2009-10	2010-11/2019-20	Overall Period 1970-71/2023-24	Pre-Reform period p1970-71/1991-92	Pre-Reform period 1980-81/91-92	Post Reform Period 1992-93/2023-24
Agriculture and allied	4.19	5.02	2.58	2.18	2.12	2.91	4.58	4.75	1.87
Agriculture	3.82	4.78	1.53	2.43	0.53	2.41	4.17	4.32	1.31
Forestry and Logging	8.83	4.78	1.53	2.43	1.37	1.99	4.30	-0.02	1.72
Fishing	4.38	12.80	18.79	5.64	5.58	11.47	10.19	16.30	7.66
Mining	-7.39	15.19	-13.03	21.93	2.69	6.20	10.46	12.08	7.40
Primary Sector	**4.25**	**4.96**	**2.72**	**2.19**	**2.12**	**2.98**	**4.58**	**4.70**	**1.95**
Manufacturing	9.42	9.14	8.66	10.02	5.17	7.89	8.83	8.66	7.32
Electricity, Gas and Water Supply	9.83	10.31	5.59	6.19	8.56	6.71	9.67	9.18	5.62
Construction	2.92	0.78	5.13	12.56	2.66	4.49	0.39	0.75	6.68
Secondary Sector	**6.89**	**7.48**	**7.75**	**10.14**	**4.88**	**6.95**	**6.57**	**7.14**	**6.95**
Trade, Hotels and Restaurants	8.35	3.20	4.12	5.23	7.41	4.93	5.15	2.93	5.74
Transport Storage and Communication	6.65	7.34	10.43	10.33	6.77	8.75	6.88	7.04	9.08
Banking and Insurance	9.83	12.33	10.37	12.79	5.66	10.25	10.50	10.73	10.42
Real Estate, Ownership of Dwellings and Business Services	1.00	2.96	1.63	4.01	6.61	3.41	3.41	2.54	4.40
Public Administration	5.43	6.86	7.71	5.47	6.83	7.45	8.73	7.90	6.77
Other Services	5.47	2.52	2.51	5.73	9.21	4.53	3.47	2.48	6.56
Tertiary Sector	**6.29**	**4.72**	**5.90**	**6.91**	**7.31**	**6.16**	**5.54**	**4.53**	**7.09**

Source: Statistical Abstract of Punjab, Various Issues, GoP.

Observations reveal significant fluctuations in agricultural growth rates, peaked at 4.19 percent during the decade (1970-71 to 1979-80) but declined sharply to 2.12 percent in the most recent decade. This trend could indicate challenges within the agricultural sector, possibly due to factors like declining public investment, rising input prices, unviable land holding, and policy bias. The agriculture and allied segment of the sector demonstrated high growth rate in the decade 1980-1990 and lowest growth rate during the decade of 2010-2020. The fishing sector, however, shows a remarkable rise with an extraordinary 18.79 percent growth during the 1990-91 to 1999-00 period, suggesting a flourishing industry. Comparing Pre-Reform with Post-Reform period, the performance of all segments of the sector declined.

In the secondary sector, manufacturing growth has shown resilience, remaining consistently above 5 percent in most decades except for a notable dip to 5.17 percent from 2010-11 to 2019-20. The construction segment experienced exceptionally a significant boom in the 2000-01 to 2009-10 period and post-reform period reflecting an increasing focus on infrastructure development. The performance of secondary sector except construction has been low in post-reform period as compared to Pre-reform period. The data reveals the fact that the secondary sector demonstrated high growth as compared to primary sector which repudiate the prevailed economic development narrative of the state.

For the tertiary sector, two segments for instance services such as banking & insurance and transport, storage & communication gained prominence with highlight robust growth as compared to other segments indicating a thriving economy with burgeoning financial, transport and communication services. The growth of some segments for instance Trade, hotels & restaurants, transport, real estate and other services remained high during the post reform period while the performance of banking & insurance and public administration services was high in the pre-reform period.

The growth rate of secondary sector was higher than the service sector and primary sector from 1970-71 to 2009-10. The secondary sector endured the dominant sector with high growth rate followed by the tertiary sector and primary sector up to 2000-2010. During pre-reform period, the secondary sector remained dominant followed by the tertiary sector and primary sector. Conversely, the tertiary sector demonstrated the higher growth than the secondary sector while the decline in the growth of primary sector observed during the 1990s. At the aggregate level, the secondary sector dominated approximately more than twenty years during the Pre-Reform period i.e. 1970-71 to 1991-92. Conversely, the tertiary sector demonstrated high growth for more than thirty years during the post-reform period i.e. 1992-93 to 2023-24. However, when the data has been disaggregated at decade-wise, the secondary sector demonstrated the higher growth rate for four decades from 1970-71 to 2019-20.

Overall, the data reflects patchy structural transformation of Punjab's economy, with service and manufacturing sectors potentially taking precedence over agriculture, raising considerations for policymakers on how to balance these shifts while fostering sustainable growth across all sectors.

When the Indian government shifted public policy in 1991 to liberalization, privatization and globalization, Punjab state was struggling to attain peace. Peace and democratic processes were restored in the 1990s with a new incarnation of the political leadership to sink its policies with the nation. Punjab political leadership has turned quite innovative and developed a gridlock with bureaucracy and continued with the policy of 'business as usual'. Instead of restoring the functionality of institutional structure right from the State Planning Board down to the local level, they have started reducing the expenditure on health and education that further crippled the capability and competency building of the younger generation. The ruined governance system turned out to be quite handy to further the interest of political leadership. During this period, the political leadership in power turned from pure-simple statesmen to business entrepreneurs and as the income of the lay public started either declining or increasing at a slow pace, the wealth and income of the political leaders skyrocketed. It is noted that LPG policy came as a boon for the bureaucracy and political leadership, but it has doom both for the economy and the people of Punjab. The rent seeking behaviour of the administration generated a multidimensional crisis in the Punjab. This resulted in a drain of industrial capital and most of the new industrial investment from Punjab took place in other parts of the country. The corporate industrial investment and foreign direct investment have also not preferred Punjab as a manufacturing and assembly destination for their investment. Along with this, the dismantling of freight equalization policy by the union government has severely affected industrial units in the two industrial towns (Batala and Mandi Gobindgarh) of Punjab and the collapse of the steel and foundry industry (TNS, 2010; Khanna, 2019). Jalandhar and Amritsar industrial townships have also contracted due to industrial competition and required support could not come to save the industry. The terms of trade turned against agriculture over the decades and small agriculture-based farming came under substantial crisis. The substitution of credit for declining income due to rising input cost and efficacy of the inputs that resulted in high degree of indebtedness. Consequently, the farmers, otherwise a very sturdy community, had started committing suicides. The tendency of suicides continued even till today shows that crisis of agriculture is neck deep and acquired multidimensionality.

The new opportunities like the information technology revolution were also bypassed Punjab. It was mainly due to non-availability of skilled manpower, incentives to entrepreneurs and congenial business environment. So, the service sector of Punjab has remained quite a traditional one and tradable modern services continued to remain absent. The rent-seeking behaviour in the formal services sector created friction in the economy that sucked essential surpluses of the economy and disincentivized the overall investment scenario in Punjab. According to Sanyal and Singh (2022), Punjab's lack of economic diversification is a plausible explanation for its lagging economic performance. From the last four decades, Punjab economy has developed deficiency of investment. The evidence of 14 per cent gross fixed capital formation (GFCF), as reported in the 2022-23 Economic Survey of Punjab, amply shows why Punjab economy is lagging in the development process, whereas all India gross fixed capital formation is around 29 per cent. The drain of both capital and humans has dried up the growth prospects of Punjab. Thus, Punjab has fallen into the multidimensional trap of slow growth-low investment-high indebtedness.

3. Public Policy Lessons for Rejuvenation of Punjab Economy

Now a question arises can the economy be resurrect/rejuvenate/rebuild. The answer is in the affirmative. For this, one is expected to identify the major constraints or roadblocks faced by the Punjab economy.

The first and foremost constraint is accumulated debt of the order of Rs. 3.05 lakh crore in the end March 2022 (Table 3). Based on the latest three-year average, Punjab government has borrowed Rs. 35,201.87 crore annually. But to service accumulated debt, it pays (interest payments Rs. 18209.8 crore + repayment of principal Rs. 14257.98 crore) Rs. 32467.78 crores. The net availability of the borrowed funds turned out to be Rs. 2734.09 crore, which is just 7.8 per cent of the total borrowings. This clearly brings out the fact that 92.2 per cent of the borrowed funds were used to service the debt. It gives a fair idea about the vicious circle of debt in which the Punjab economy has fallen. This evidence clearly shows that the Punjab government is neck deep in debt and this debt trap is a drag on the revival of economic development process of the state. Several observers have alluded to the potential risk that large debts may discourage capital accumulation and reduce economic growth. It is stated that the budget management capabilities of the state have had a decisive impact on the rise in govt. borrowing and on economic growth. Moreover, according to Das (2016) there has been a marked deterioration in the fiscal health of all states in India since the early 1990s, which reached a peak in the mid-2000s in almost every state in India.

Can the Punjab government overcome the debt traps? When we investigate the revenue raising capacity of the state government, the empirical evidence shows that Punjab government is consistently incurring revenue deficit of the order of more than two per cent of the GSDP. The revenue deficit-GSDP ratio was 2.56 per cent in 2018-19 and increased to 3.23 per cent in 2020-21. In the ongoing year (2022-23), the revenue realization so far is 63 per cent of the target. This evidence clearly brings out the fact that Punjab state is expected to increase the revenue deficit to GSDP and will add further to the accumulation of debt. The fiscal policy is under siege and revival of it is most important for the revival of Punjab economy. Several studies conducted on the impact of monetary policy on the states of India clearly brings out the fact that Punjab economy has been adversely affected due to predominance of small-scale production structure of the economy. This is also reflected in the RBI's statistics on the credit-deposit ratio, which for a long period of time could not fulfill the statutory minimum ratio and currently this ratio is 55 per cent in the year 2021-22. This is due to the unitary banking system. Despite the high rate of savings, Punjab could not be able to convert it into productive investment. Therefore, it has resulted in investment deficiency in the Punjab economy. In this context, Kumar and Woo

(2010) argued that this adverse effect largely reflects a slowdown in labour productivity growth mainly due to reduced investment and slower growth of the capital stock per worker. The increasing centralization of both monetary and fiscal policies has initiated the process of crowding out investment from Punjab, which has adversely affected the economic growth process of the economy of the Punjab state. According to Tales, Hammond and Takash (2021), maintaining a healthy relationship between revenues and spending is always important as a basic matter of democratic accountability, and wasteful spending not well calibrated to serving important public goals is always to be decried.

Table 3: Rising Outstanding Debt of Punjab

Year	Outstanding Debt (Rs Crore)	Yearly Increase (Rs. Crore)	% increase	Outstanding Debt as %age of:			
				GSDP	OTR	ORR	TRR
1980-81	1009			20.08	289.23	228.58	177.75
1990-91	7102	609.3 (per year)	21.55(CAGR)	37.61	549.94	459.28	359.47
2000-01	29099	2199.7(Per Year)	15.15(CAGR)	38.97	594.11	371.48	310.33
2001-02	34063	4964	17.06	42.79	706.33	437.66	381.5
2004-05	47548	4207	9.70	49.1	684.67	386.49	344.36
2005-06	51510	3962	8.33	47.41	573.01	380.83	303.6
2006-07	51155	-355	0.69	40.24	567.3	305.19	248.72
2007-08	55982	4827	9.44	36.77	565.52	369.44	291
2008-09	61850	5868	10.48	35.54	554.7	365.24	298.61
2009-10	67971	6121	9.90	34.42	564.57	384.19	306.78
2010-11	74777	6806	10.01	33.06	444.36	337.47	270.85
2011-12	83099	8322	11.13	31.17	441.05	410.55	316.74
2012-13	92281	9182	11.05	30.99	408.55	365.95	287.92
2013-14	102235	9954	10.79	30.78	424.58	374.89	291.24
2014-15	105366	3131	3.06	31.64	412.07	370.36	270.01
2015-16	129441	24075	22.85	32.83	484.88	441.09	311.73
2016-17	182258	52817	40.8	42.09	656.86	542.28	379.82
2017-18	195458	13200	7.24	41.51	642.46	562.6	368.72
2018-19	211896	16438	8.41	40.61	671.10	541.15	340.29
2019-20	229354	17458	8.24	39.83	764.48	625.70	372.44
2020-21	258032	28678	12.50	48.71	858.60	754.37	373.70
2021-22	283757	25725	9.97	49.46	760.19	671.07	362.20
2022-23	305361	21605	7.61	48.48	669.83	588.47	320.16

Source: RBI State Finances: A Study of Budgets (Various Years) and OTR- Own Tax Revenue, TRR- Total Revenue Receipt. Note: During 2006-07, Term loan of Rs.3772 crore waived-off by Govt. of India.

The table (4) presents the annual growth rate of Revenue Receipts and Revenue Expenditure as a percentage of Gross State Domestic Product (GSDP) over different periods

Table 4: CAGR of Revenue Receipts and Revenue Expenditure as percent of GSDP

Period	**RR/GSDP**	**RE/GSDP**	**GSDP**
Pre-reform Period (1980-81/1991-92)	0.26	3.06	14.52
Post-reform Period (1992-93/2021-2022)	-0.37	-0.51	11.72
Overall (1980-81/2021-22)	-0.01	0.51	12.75

Source: State Finances, RBI.

The data indicates that during pre-reform time, revenue receipts as a percentage of GSDP were positive at 0.26 percent, while annual growth of revenue expenditure significantly outpaced receipts at 3.06 percent. This indicates a fiscal environment where the state had been spending heavily compared to its revenue generation. On the contrary, the trend shifts dramatically with revenue receipts decreased to -0.37 percent and revenue expenditure dropped to -0.51 percent during the post reform period. This implies that the state has faced declining revenue and expenditure growth in relation to GSDP, suggesting potential fiscal challenges**.** Over the entire span, revenue receipts averaged out to -0.01 percent while revenue expenditure was at 0.51 percent. The data indicates that, on average, while expenditures have seen some growth, receipts have stagnated or declined, highlighting a long-term fiscal imbalance. Moreover, the GSDP growth rate was high in the Pre-reform period as compared to post-reform period and the whole study period which indicates the comparative low economic performance in post-reform period.

The table highlights significant changes in the fiscal dynamics of the state across different periods. The pre-reform era showed a growth in revenue receipts, indicating a robust revenue generation mechanism. However, the post-reform period reveals worrying trend of negative growth in both revenue receipts and expenditure relative to GSDP. This decline raises worrying concerns about the macroeconomic stability, sustainability of fiscal policies and deteriorating economic performance.

The below table presents data on Punjab's debt as a percentage of various economic indicators during 1980-81 to 2021-22. The indicators include Gross State Domestic Product (GSDP), Revenue Receipts (RR), Revenue Expenditure (RE), and Aggregate Expenditure (AE).

Table 5: Debt as percentage of GSDP, RR, RE and AE

Period	GSDP	RR	RE	AE
Pre-reform Period (1980-81/1991-1992)	26.37	223.52	211.89	140.18
Post-reform Period (1992-93/2021-22)	39.28	324.62	264.07	215.68
Total Period (1980-81/2021-22)	35.59	295.74	249.16	194.11

Source: State Finances, RBI.

The table reveals the fact that during the pre-reform period, the debt as a percentage of GSDP was relatively low at 26.37 percent, indicating a rise in debt burden compared to the state's economic output. There is a marked increase in debt as a percentage of GSDP to 39.28 percent, suggesting a growing indebtedness with respect to the state's economy in post-reform period. In the context of debt to revenue receipts, the percentage shows a substantial increase from 223.52 percent in pre-reform period as compared to 324.62 percent in post-reform period, suggests a much heavier debt burden relative to the state's revenues. In the case of Debt as a percentage of Revenue Expenditure (RE) also rose significantly from 211.89 percent in the earlier period to 270.00 percent and 219.75 percent in subsequent period, indicated that a significant portion of revenue is required to service debt. The Debt-to-Aggregate Expenditure (AE) ratios follow a similar trend, highlighting the increasing financial pressure on the state's budget.

The data reveals an escalating trend in Punjab's debt levels, particularly post-1992, with debt ratios suggesting that the state has been increasingly reliant on borrowing to finance expenditures over the decades. The high debt-GSDP ratio relative to revenue and expenditures indicate potential challenges in fiscal sustainability. The analysis suggests that state has failed to co-integration between debt and key fiscal indicators. Overall, the financial health of Punjab may be a concern, as rising debt levels could limit future investment and lead to austerity measures if not addressed. It may be necessary for the Punjab government to implement strategies focused on revenue enhancement and expenditure rationalization to improve fiscal stability.

The second important factor that is a drag on the faster progress of Punjab economy is its production and employment structure. In a net shell, Punjab economy has overstayed in agriculture and industrial sector remained both a minor sector and low-productivity-low wage rate. The employment in the industrial sector cannot satisfy the aspirations of the local labour. However, the transformation of the Punjab economy is required to be transitioned from predominantly agrarian to industrialized one. Twenty first century is called knowledge economy and is also witnessing the fourth industrial revolution. Punjab state urgently needs to harness the new technologies. This requires a new strategy to shift industry from traditional to modern to green industrialization. The Punjab government should establish a new head in the budget called Research and Development (R&D) for a green industrial push. Moreover, the stand-alone sectors do not generate economies of scale. Therefore, it is suggested that a new initiative should take care of the interdependence of the economy. The service sector should be reoriented in a manner to serve the productive sectors of the Punjab economy.

The third constraint is the skill base of the workforce. It is well known that Punjabis are considered superior in entrepreneurial and leadership qualities. This advantage has been undermined by the long-term slow progress of the economy and dysfunctionality of educational and health institutions. Wholesale privatization in both education and health has not achieved the goal of generating superior capabilities of the workforce. Therefore, the revamping of the educational and health infrastructure is the need of the hour. Public policy can only allocate required resources in the education and health sectors for their reorientation if the government able to liberate its fiscal policy and make appropriate use of monetary policy to generate not only enough revenue but also investment.

Fourth, the relationship between institutions and economic development has remained the focus of attention in the realm of public policy. Institutions set the rules of the game that govern the behaviour of the economic agents of production and their participation in economic activities. This reaffirms faith in institutions and brings back focus on the issue of why some countries/regions develop and others lag. Punjab's development story is a perfect fit as it shows its superior economic performance in the past and decline in recent times. Punjab has been a pioneer in economic development. It was mainly due to good governance, well-functioning institutions, land reforms, huge investment in infrastructure and a good network of irrigation system. It had industrial policies for generating the right kind of incentives for small-scale industries to thrive. The service sector provided efficient results and ensured peoples' involvement in the development process. The awakened political leadership, a committed bureaucracy and an efficient law-and-order machinery used the state power to deliver development. The planning process acted as a coordinating agent to link all sectors and restore the right balance between state intervention and the market. This resulted in a high capital formation in comparison to other states and helped Punjab's economy record high growth rate as compared to the national growth rate and that of other states. The superior institutions led to Punjab being one of the highest per capita income states as well as an economic development model, acclaimed worldwide for reducing poverty. While providing food security, Punjab also helped the nation protect its borders.

However, the social turmoil from the early eighties to the mid-nineties spoiled the well-functioning state apparatus and derailed the development process in Punjab. During these terrible years, the first to get affected and become dysfunctional was the fiscal policy of the state government. Human and physical capital started shifting to other states, adversely impacting the industrial sector and economy. The state government started borrowing funds for paying employees' salaries and capital formation started depleting due to lack of new investments and capital flight.

Despite the subsequent revival of the democratic process as elected governments survived their full terms over the last three decades, they have failed to revive the growth momentum. Fiscal policy and policymaking institutions have turned non-functional. Their consequences include a very high level of debt burden on the state and the use of borrowings for unproductive purposes. This was because the institutions that generated incentives and disincentives for economic progress were usurped by various interest groups. These interest groups thrived by not allowing new institutions to be formed and give a freshness to the policymaking process. Hence, the economic growth decelerated. That's how Punjab turned from a leader to a laggard state in economic development.

Fifth, public policy, implementation and evaluative institutions have played an important role in the process of development in the early stages of economic development of Punjab but turned dysfunctional since the 1980s and occupied by the bureaucracy. This has blocked the feedback system in public policy making and failures are not punished, and successes are not rewarded that has lowered moral of the efficient public servants. Until the three wings of policy, that is, policy making, implementation and policy evaluation are not made independent, the public policy process will not deliver the results. To make Punjab economy dynamic, this step of functionality of public policy institutions needs to be activated.

Last but not the least, Punjab has been reeling under predominance of the agrarian culture. The hot cultural temperament and exploitation of religion for political purposes generated communal tension and consequent insecurity of life and property has been proving a great hindrance to invest in Punjab. The culture of rent seeking both political leadership and bureaucracy has made Punjab unfriendly for industrial investment of the diaspora and private corporate sector alike. These factors combined together have played an important role in discouraging industrialization in Punjab, despite having created all possible favorable conditions based on high productivity agriculture generated enough investible surpluses.

On the whole, Punjab and even neighboring states (Himachal Pradesh, Haryana and Jammu and Kashmir) will benefit if international border is softened, and land route trade is opened up to Pakistan and other countries. The political leadership of Punjab should seek cooperation from other states to convince the Union Government to release this constraint of fear from the minds of investors.

4. Conclusions and Policy Thoughts

The Punjab state did not keep pace with the rapid increase in per capita income overtime due to declining share of primary sector in the GSDP. The high proportion of the workforce in Agriculture indicates that Punjab economy has overstayed in the agriculture sector. The secondary sector has recorded sluggish growth, and the public policy has perpetuated the trap of the low-productivity-low-wage in the industrial economy. There is no incentive system that can trigger change. The tertiary sector has experienced the highest growth during the post-reform period. The Punjab state has failed to develop modern productive and high value-added services sector. The modern service sector has not been able to take firm root, nor have the services progressed enough for export services. Moreover, the service sector is predominantly informal in nature. Thus, the low-quality employment has pushed educated youth to seek employment opportunities in other parts of the country or abroad. The migration from Punjab is driven by both distress and opportunity. It is the main cause of human and financial capital drain from Punjab.

Punjab is a typical case of a state not changing its institutional arrangements for more than three decades. This has constrained its production system and the bandage approach to public policy has only allowed the existing system to prolong and die a slow death. Now, the question is whether there is a window of opportunity for Punjab to make its economy dynamic. It is still possible to revive the growth momentums of Punjab economy provided there is a will to change social, economic and institutional setup. It is high time that the Punjab Government should rise from slumber and make right kind of choices in policy making and dismantle the inhibitive institutions arrangements. The right approach would be to set up an autonomous commission, whose job would be to suggest a holistic policy for coordinating all the sectors of the economy in order to generate inter-sectoral linkages and realise the economies of scale and scope. Punjab needs to make its production system dynamic while incurring a one-time ‘switching cost’.

The current state government was given a huge mandate and had a massive responsibility to make Punjab’s economy, society and polity dynamic. However, it has got locked into the vicious circle of bureaucracy, which is not conducive to taking corrective measures for developing a new system of institutions that could deliver results.

Punjab Government should involve all stakeholders and apprise them of the current realities as well as the future agenda for a progressive Punjab. Consensus should be built around new institutions that will make Punjab dynamic and vibrant again and reduce the mass migration of the younger generations. In this context, the diaspora and their experience in various foreign lands can be a handy tool to learn and introduce the right kind of institutional changes for making Punjab a developed state.

For an inclusive and sustainable development, Punjab government is expected to rise on the occasion and overcome the long-standing constraints on the economy. A strategy of collective action can be pressed into service for making Punjab economy not only to push aside constraints but making Punjab a 21st century model of economic development.

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