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## The State of Economic Freedom in India

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This report is the latest in our series of reports measuring economic freedom in different states of India. *Economic Freedom of the States of India* (EFSI), 2012, uses data relating mainly to 2011. Economic freedom isn't the only kind of freedom: political liberties and civil rights are also notions of freedom. Freedom House ranks countries in the world on the basis of such liberties and rights.<sup>1</sup> However, we seek to measure economic freedom alone, drawing on the methodology already established in *Economic Freedom of the World* (EFW), an annual publication of The Fraser Institute (co-published in the United States by the Cato Institute), that has been brought out since 1996. Some of the parameters measured in EFW, such as sound money or international trade, have meaning only at the national level: all state governments are bound by New Delhi's monetary and international trade policies. So, while taking a lead from the methodology of EFW, we have adapted it in our own report, EFSI 2012. The full details of the methodology are given in the appendix.

Table 1.1 shows how India scores in the 2012 EFW ratings, with data up to 2010. This shows that economic freedom rose from a index score of just 5.15 in 1980 to a peak of 6.72 in 2005, but has since declined a bit to 6.26 in 2010. Only in respect of international trade has freedom increased continuously. It has decreased between 2005 and 2010 for the other four parameters of EFW: size of government, legal system and property rights, sound money, and regulation. India ranks only 111<sup>st</sup> out of 144 countries in the EFW list, having slipped from 76<sup>th</sup> position in 2005. Clearly its government has attached a low priority to improving economic freedom.

**TABLE 1.1***India's Scores in Economic Freedom of the World*

	1980	1985	1990	1995	2000	2005	2009	2010
Summary rating	5.15	4.83	4.89	5.76	6.32	6.72	6.31	6.26
Size of government	5.00	4.50	4.88	6.26	6.83	7.42	6.33	6.37
Legal structure & security of property rights	5.78	4.92	4.39	5.87	5.99	6.51	5.78	5.55
Access to sound money	6.29	6.61	6.63	6.50	6.88	6.84	6.55	6.42
Freedom to trade internationally	3.00	2.40	2.67	4.50	5.51	6.07	6.20	6.28
Regulation of credit, labour & business	5.68	5.70	5.87	5.66	6.40	6.74	6.68	6.70

Source: *Economic Freedom of the World 2012* (unadjusted series, p.88).

The good news is that economic freedom in the states of India has improved even though it has slipped at the national level. In other words, state capitals have been doing more to improve economic freedom than New Delhi. The median value of our economic freedom index is up from 0.38 in 2005 to 0.41 in 2011. Gujarat has shown a remarkable increase from 0.46 to 0.64, and has moved up from 5<sup>th</sup> position in 2005 to become India's top state in economic freedom today. However some other states have slipped back, the worst performer being Jharkhand, from 0.40 to 0.31 (see Table 1.2). Bihar has improved significantly from 0.25 to 0.29, but remains last in the table.

**TABLE 1.2***Overall Economic Freedom Ratings 2011*

States	2005		2009		2011	
	Overall	Rank	Overall	Rank	Overall	Rank
Gujarat	0.46	5	0.57	2	0.64	1
Tamil Nadu	0.57	1	0.59	1	0.57	2
Madhya Pradesh	0.49	2	0.42	6	0.56	3
Haryana	0.47	4	0.47	4	0.55	4
Himachal Pradesh	0.48	3	0.43	5	0.52	5
Andhra Pradesh	0.40	7	0.51	3	0.51	6
Jammu & Kashmir	0.34	15	0.38	8	0.46	7
Rajasthan	0.37	12	0.40	7	0.43	8
Karnataka	0.36	13	0.34	13	0.42	9
Kerala	0.38	10	0.36	10	0.42	10
Chhattisgarh	0.33	16	0.33	15	0.41	11
Punjab	0.41	6	0.35	12	0.39	12
Maharashtra	0.40	9	0.36	10	0.39	13
Uttaranchal	0.33	17	0.26	19	0.38	14
Assam	0.30	19	0.29	18	0.36	15
Uttar Pradesh	0.35	14	0.34	13	0.35	16
Orissa	0.37	11	0.31	17	0.34	17
West Bengal	0.31	18	0.33	15	0.32	18
Jharkhand	0.40	8	0.38	8	0.31	19
Bihar	0.25	20	0.23	20	0.29	20

Our economic freedom index is constructed drawing on EFW's methodology, and thus ensures that the economic freedom rating for Indian states has measures that are somewhat comparable with those of other countries. However, given Indian conditions and the sharing of responsibilities between the states and the central government, only three of the five areas are found to be appropriate where the state governments have powers to directly impact conditions and institutions (see Table 1.3). These are:

- Size of government: expenditures, taxes and enterprises.
- Legal structure and security of property rights.
- Regulation of labour and business.

**TABLE 1.3***Areas under Central and State Government Control*

<i>Under State Control</i>	<i>Under Central Control</i>	<i>Under Common Control</i>
Law, order, justice and local governance	Administrative functions such as defence, foreign affairs	Interstate interactions
Public health and environment	Labour, quality standards	Labour issues
Land and water	Railways, shipping, ports, airports, post & telegraph	Education
Some types of taxes	Income tax, customs and excise	Environment
Infrastructure except national highways	Deals with the RBI, public debt	Power
Some aspects related to commerce & industry	Natural resources	Shipping and inland waterways

The index of economic freedom however is calculated for each of these categories, and then aggregated. Each category is important for indicating a specific aspect of economic freedom.

While the categories have been included in the index on the lines of the *Economic Freedom of the World* reports, the variables from the EFW could not be replicated at the subnational level in India. So proxies have been taken wherever possible that are more meaningful at the state level. Often data were unavailable, in which case those indicators had to be eliminated from the study. A detailed table that correlates the indicators used in EFW and those included in the study is presented in the appendix. We give below the methodology in brief: a fuller, more detailed account can be found in the appendix.

### Methodology in Brief

Since data needs to be comparable across time and geography, credible and robust, and highly reflective of the conditions in different

states the following criteria have been identified in the selection of variables.

1. The data should be objective: that is, it should not be based on perceptions but on hard facts such that it is not sensitive to perceptions of elite groups or the masses but should reflect conditions as they actually are
2. The data should be available from highly respected, public and ideally government or semi-government sources: this would ensure that the ensuing discussion and debate should focus on the resultant performance of the states and not on the quality and credibility of the data
3. The data should be available periodically and should be available from the same source for different states: this would ensure the credibility of the data and the continuity of the ratings

Each of the variables that are constructed is normalised to correct for the differences in the size of the states. Hence normalisation is done by dividing by population, area, a ratio or using it as a percentage of some aggregate so that it is neutral to the size of the state. Moreover, each data source needs to be available for a large enough number of states so that missing data points are minimised.

In line with the previous ratings for the Indian states, the range equalisation with equal weights has been chosen as the appropriate method. This is a multi-stage process. First, range equalisation is conducted on each variable across all states—this requires the subtraction of the minimum value from the value for each state and dividing the resultant with the difference of the maximum and minimum values. Range equalisation ensures that all variables lie between 0 and 1. Each of the new 'range equalised' variables is then aggregated with others using equal weights to create an index for each of the areas under consideration. Next the indices of each of the three areas are aggregated to obtain a composite index using equal weights. Thus, four indices are generated on which basis each of the states is ranked.

### **Area 1: Size of Government: Expenditures, Taxes and Enterprises**

Interference of the government in the functioning of the economy or a large role of the government as a producer and provider of services and goods or of redistribution of resources reduces the level of economic freedom. Government revenue expenditure, administrative GDP and a large

employment in the public sector are therefore indicators of size of the government. Taxes on income, commodities and services, property and capital transactions, and other duties are indicative of the extensive role played by the government in the economy.

1) *Inverse of government revenue expenditure as a share of gross state domestic product (GSDP)*

Higher revenue expenditure by the government is indicative of a large size of the government and thus an indicator of lower economic freedom. Therefore, inverse of this ratio has been considered.

2) *Inverse of administrative GSDP as a ratio of total GSDP*

Administrative GDP is the contribution of government services to the national product. The lower this ratio, the better is the level of economic freedom as the government's role is lower; therefore the inverse of this ratio is used.

3) *Inverse of share of government in organised employment*

This is the ratio of employment with the government and quasi-government institutions to total organised sector employment. This ratio is a direct indicator of the size of the government. Inverse of the ratio is considered.

4) *Inverse of state level taxes on income as a ratio of GDP*

This is the ratio of income tax collected by the state to the GDP. The lower the state taxes on income, higher will be the economic freedom. So, the inverse of this ratio has been incorporated in the analysis.

5) *Inverse of ratio of state level taxes on property and capital transactions to state GDP*

This is the ratio of taxes on property and capital transactions to state GDP. High transaction costs and taxes tend to restrict the trade activities. Therefore, economic freedom is considered to be inversely related to level of taxation and the inverse of the variable has been taken.

6) *Inverse of state level taxes on commodities and services to GDP*

This is the ratio of taxes collected on commodities and services i.e., sales tax, service tax, excise, etc. to the GDP. Lower taxes on commodities would result in a higher freedom index; therefore the inverse of this ratio has been used.

### 7) *Inverse of Stamp duty rate*

Stamp duty is defined as tax collected by the state by requiring a stamp to be purchased and attached on the commodity. Higher duties impose higher constraints on trade and economic activities and curb the economic freedom of agents. The inverse of this variable is taken to ensure that higher level of economic freedom is reflected by a higher ratio.

States	2005		2009		2011	
	Area 1	Rank	Area 1	Rank	Area 1	Rank
Haryana	0.50	7	0.63	3	0.75	1
Gujarat	0.56	2	0.69	1	0.74	2
Maharashtra	0.52	5	0.53	6	0.68	3
Assam	0.41	11	0.51	7	0.63	4
Jammu & Kashmir	0.31	20	0.43	14	0.63	5
Punjab	0.49	8	0.54	5	0.61	6
West Bengal	0.52	4	0.58	4	0.61	7
Andhra Pradesh	0.39	12	0.49	8	0.58	8
Tamil Nadu	0.46	9	0.47	11	0.57	9
Himachal Pradesh	0.58	1	0.48	10	0.56	10
Bihar	0.38	16	0.44	12	0.54	11
Kerala	0.51	6	0.49	8	0.54	12
Chhattisgarh	0.37	17	0.32	19	0.53	13
Jharkhand	0.56	3	0.67	2	0.50	14
Rajasthan	0.34	18	0.44	12	0.50	15
Karnataka	0.38	15	0.36	16	0.48	16
Uttaranchal	0.39	13	0.25	20	0.45	17
Orissa	0.32	19	0.38	15	0.44	18
Madhya Pradesh	0.39	14	0.35	17	0.42	19
Uttar Pradesh	0.45	10	0.33	18	0.40	20

Haryana has been the most rapidly growing state of India and has also attracted large investments. The state is attracting significant investments in the services sector and in manufacturing. Proximity to Delhi, one of India's fastest growing economic centres would have helped, but Haryana has been able to leverage it without too much increase in government (see Table 1.4).

Gujarat's is a well-known success story through much of the 2000s. Moreover it has had major successes in agriculture, social welfare programmes, water resource management. All of this is being achieved without an inordinate increase in the size of the government.

Maharashtra is another state that is among the better performers in this area; the size of the government has not increased as much as economic growth in recent years. Assam's index values and rankings show that there has been significant improvement but here as well, the data shows many year-on-year variations—largely due to an economy that is highly dependent upon agriculture. Jammu & Kashmir is now among the best performers in this area with a low size of government and relatively high economic growth. But it should be noted that the policing functions and manpower are not adequately captured in state-level data since there is a large element of central force deployment in the state. The index values of 2005 and 2009 show that the state was amongst the poorest performers.

But Jharkhand is another story. The declining index values and relative ranking of Jharkhand in this area only confirm the much stated worsening condition in recent years. Its human development indicators are among the poorest in the country (*India Today*, "State of the States Rankings", various years). And it is currently at the centre of a large leftist violent movement. Uttar Pradesh is the worst performer in this area owing to a larger increase in taxation in comparison with slower economic growth.

Tamil Nadu and Bihar have shown steady improvement in their index values and relative ranking—each has benefitted from economic growth without commensurate increase in the size of their government.

Overall there has been some improvement in this category in the period 2005 to 2011, with the average values increasing from 0.39 in 2005 to 0.47 in 2009 and to 0.56 in 2011.

## Area 2: Legal Structure and Security of Property Rights

The efficiency of the government in protecting human life and property is measured by this category. The quality of the justice mechanism is measured by the availability of judges, by the completion rate of cases by courts and investigations by the police. The level of safety in the region is measured by the recovery rate of stolen property and by the rate of violent and economic crimes.

### 8) *Ratio of total value of property recovered to total value of property stolen*

One of the key ingredients of economic freedom is protection of property. This is the ratio of total value of property recovered to the total value of property stolen. A higher value of this variable denotes efficiency

of law enforcing agencies in protecting property rights and would therefore signify greater economic freedom.

*9) Inverse of violent crimes as a share of total crimes*

This is the ratio of violent crimes, including murder, attempt to murder, etc., to total crimes under the Indian Penal Code (IPC). The inverse of this ratio is considered, relating higher economic freedom to lower incidence of violent crimes.

*10) Inverse of cases under economic offences as a share of total cases registered*

This is the ratio of economic offences (criminal breach of trust and cheating) to the total crimes reported under the IPC. Inverse of this ratio is considered, as lower incidence of economic offences is indicative of better protection of property rights and therefore higher economic freedom.

*11) Inverse of vacant posts of judges in the judiciary as a ratio of total sanctioned posts of judges*

This is the ratio of total vacant posts of judges in district/subordinate courts to total posts sanctioned. A high value of the ratio indicates that adequate infrastructure for getting justice is not in place. Therefore, the inverse of this ratio is considered.

*12) Percentage cases where investigations were completed by police*

This is the ratio of total cases where investigations were completed by the police to total cases registered for investigation by them. A higher value of this ratio indicates higher economic freedom as it indicates lower pendency of investigations.

*13) Percentage cases where trials were completed by courts*

This is the ratio of total trials completed by the courts to total cases awaiting or undergoing trial by courts. A higher value indicates higher economic freedom as it indicates lower pendency of cases.

Madhya Pradesh is one of the best governed states and this is reflected in its index value that is far ahead of all others (see Table 1.5). Better police investigations as well as a lower share of economic offences to the total incidences of crime resulted in significant improvement over time in the state. On the other hand, significant decline is noticed in the index values of Tamil Nadu. The state is at a distant second.



TABLE 1.5

*Legal Structure and Security: State Ratings and Rankings*

States	2005		2009		2011	
	Area 2	Rank	Area 2	Rank	Area 2	Rank
Madhya Pradesh	0.63	2	0.62	2	0.83	1
Tamil Nadu	0.80	1	0.90	1	0.64	2
Rajasthan	0.49	5	0.54	4	0.53	3
Gujarat	0.35	12	0.54	4	0.52	4
Andhra Pradesh	0.48	7	0.56	3	0.49	5
Kerala	0.35	13	0.34	10	0.45	6
Chhattisgarh	0.48	6	0.52	6	0.43	7
Haryana	0.58	3	0.45	7	0.42	8
Himachal Pradesh	0.51	4	0.42	8	0.41	9
Uttar Pradesh	0.41	10	0.39	9	0.38	10
Punjab	0.42	9	0.34	10	0.38	11
Karnataka	0.45	8	0.34	10	0.36	12
Uttaranchal	0.28	15	0.29	14	0.31	13
Jammu & Kashmir	0.35	14	0.32	13	0.29	14
Orissa	0.37	11	0.23	16	0.26	15
Jharkhand	0.19	18	0.24	15	0.17	16
Assam	0.14	19	0.17	18	0.17	17
West Bengal	0.2	17	0.15	19	0.16	18
Maharashtra	0.26	16	0.19	17	0.15	19
Bihar	0.12	20	0.11	20	0.08	20

Rajasthan's ratings show an improvement since 2005. The value of property recovered out of property stolen and decline in the proportion of violent crime are some of the factors leading to its improvement. However, in the period 2009 to 2011, there has been a marginal decline in the state's rating. Kerala's improvement has been quite marked largely because of improvement in terms of reduced vacancy of judges. Also, there has been a significant decline in the cases under economic offence.

However many states have shown a fall in overall ratings in this area since 2009—Tamil Nadu, Chhattisgarh, Andhra Pradesh, Jharkhand, Maharashtra and Haryana, all show significant declines in index values. This is worrisome as some of these states like Jharkhand and Maharashtra were among the poor performers in 2009 as well.

The ratings reflect that as Gujarat leaves behind its sordid past of communal violence and destruction, other states are unable to improve security of life and property in the manner required. This puts a serious question mark on the sustainability of high economic growth in such states.

### Area 3: Regulation of Labour and Business

An entrepreneur needs to take many decisions that cannot cater to the sentiments of all the workers and management that his firm employs. Decisions such as rationalisation of employee strength are an essential component of efficient use of scarce resources. Constraints on exiting seriously hamper an entrepreneur's freedom. Labour laws for many decades have favoured the rights of the workers in the country. The number of strikes and industrial disputes that take place in the economy portray the amount of economic freedom in terms of the control that an entrepreneur has over his own business. Other areas where an entrepreneur may lack control over his own business is in terms of lack of adequate infrastructure and raw material. Such limitations severely constrain the entrepreneur's ability to enforce decisions that may be beneficial for his business. High transaction costs are well known deterrents of trade and economic activity. They also contribute to black market transactions. The higher the costs in terms of licenses, the more constraints they impose on carrying out trade and economic activity and therefore serve as restraints on economic freedom of agents. Corruption also translates into higher transactions costs.

#### *14) Ratio of average wage of unskilled workers (males) to minimum wages*

This is the ratio of yearly average of daily wages for harvesting to minimum agricultural wages in the state. A higher than one ratio in a state indicates that the wages received by workers are higher than the specified minimum implying greater economic freedom both for the entrepreneur and labour.

#### *15) Ratio of average wage of unskilled workers (females) to minimum wages*

This is the ratio of yearly average of daily female wages for harvesting to minimum agricultural wages in the state. A higher than one ratio in a state indicates that the wages received by workers is higher than the specified minimum implying greater economic freedom both for the entrepreneur and labour. This ratio is taken separately from that for males as many times the market determined wages for unskilled female workers are said to be biased against them.

#### *16) Inverse of man-days lost in strikes and lockouts/total number of industrial workers*

This is the ratio of man-days lost due to disputes (strikes and lockouts) to the total number of workers. A large number of man-days lost

indicates the breakdown in arbitration and other consensus mechanisms. The fewer the man-days lost, the better is economic freedom. Therefore, the inverse of this variable is considered.

### *17) Implementation rate of industrial entrepreneurs memorandum (IEM)*

IEM denotes the intention to invest in an industry. However, when there are bureaucratic or other delays, the rate of implementation is low. This indicator is the ratio of total amount invested to total amount proposed for investment in the shape of IEMs. A higher ratio implies larger economic freedom and thus depicting lower interference of government.

### *18) Inverse of minimum license fee for traders*

Traders are required to pay a minimum amount of fees for obtaining a license from the government to indulge in market activities. Therefore, the higher the license fees, the more restricted traders are while trading in the market. The inverse of the variable is taken to denote higher levels of economic freedom.

### *19) Inverse of power shortage as a percentage of total demand*

This is the ratio of power shortage to the total demand for power. Power shortage exists either due to low investment on the part of the government or due to low levels of private sector generation. A higher power shortage will tend to slow down the production process and thus would relate directly to inability of an entrepreneur to control his business. Again, the inverse of the ratio is taken.

### *20) Inverse of pendency rate of cases registered under corruption and related acts*

This is the ratio of cases pending investigation from the previous year of cases registered under the Prevention of Corruption Act and other related acts as a share of total cases registered under the same acts. Economic freedom is higher when justice is served promptly and therefore the inverse of the pendency rate is used.

Gujarat has seen significant improvement in its index values and retains its pre-eminent position (see Table 1.6). Himachal Pradesh has seen the most significant improvement in this measure. This position of Himachal Pradesh is contributed by better performance on a range of variables—yearly market wages to minimum notified wages for unskilled workers, strikes and lock outs, and total cases registered in the prevention of corruption act improved.

**TABLE 1.6**  
*Regulation of Labour and Business: State Ratings and Rankings*

States	2005		2009		2011	
	Area 5	Rank	Area 5	Rank	Area 5	Rank
Gujarat	0.47	1	0.49	1	0.67	1
Himachal Pradesh	0.36	7	0.38	5	0.63	2
Tamil Nadu	0.46	2	0.41	3	0.51	3
Jammu & Kashmir	0.35	8	0.39	4	0.48	4
Haryana	0.32	11	0.34	7	0.47	5
Andhra Pradesh	0.33	10	0.48	2	0.45	6
Madhya Pradesh	0.46	3	0.27	11	0.44	7
Karnataka	0.24	17	0.32	8	0.43	8
Uttaranchal	0.31	12	0.24	14	0.40	9
Maharashtra	0.41	6	0.35	6	0.36	10
Orissa	0.43	5	0.31	9	0.33	11
Assam	0.34	9	0.19	17	0.28	12
Uttar Pradesh	0.18	19	0.3	10	0.28	13
Chhattisgarh	0.14	20	0.14	20	0.28	14
Kerala	0.28	15	0.25	12	0.27	15
Rajasthan	0.28	14	0.22	16	0.25	16
Bihar	0.26	16	0.15	19	0.24	17
Jharkhand	0.45	4	0.24	14	0.24	18
West Bengal	0.2	18	0.25	12	0.24	19
Punjab	0.3	13	0.18	18	0.22	20

Madhya Pradesh, Tamil Nadu and Uttaranchal had a major decline in the period 2005 to 2009. In each of these states significant recovery is noticed in 2011. This has been on the back of better performance in a range of variables—yearly wage to minimum notified wages, actual investment to investment proposed and total cases registered in the Prevention of Corruption Act, have all improved. Assam has also improved in this measure. The state's performance on ratio of industrial workers to strikes and lock outs has enabled it to substantially improve upon its low ranking in 2009.

Uttar Pradesh had a low ranking in 2005 (at 19) and has improved upon it in 2009. One of the factors behind this is better performance in the variable registration of cases under Prevention of Corruption Act. However, in 2011 there had been a reversal in the performance of the state.

Jharkhand has performed poorly in 2011 and has declined in its rank, but its poor performance has been in a range of areas—yearly wages to minimum notified wages, total industrial workers to strikes and lock outs, total cases registered in the Prevention of Corruption Act, all

have declined. West Bengal and Punjab are the other two states that have shown significant declines in their ranks since 2009. A range of factors account for the decline in their performance, the most important of which is the decline in the proportion of cases registered under the Prevention of Corruption Act.

In the regulation of labour and business category, the average state value had decreased in the first two time points i.e., 0.39 in 2005 to 0.30 in 2009. In 2011, the average state value increased to 0.35. With an exception of Andhra Pradesh, Uttar Pradesh and West Bengal, all the other states have improved in this measure since 2009.

### Overall Ratings

The overall ratings are a simple equal weighted average of the three ratings and the top three states are Gujarat, Tamil Nadu and Madhya Pradesh (see Table 1.7). These are followed by Haryana and Himachal Pradesh. Gujarat has significantly improved in its rating from 0.47 in 2005 to 0.64 in 2011, mainly driven by better legal and regulatory performance. Tamil Nadu has been a consistent performer—it was at the top in 2005 as well as 2009 but has declined to second rank in 2011. In the case of Madhya Pradesh as well the improvement from 0.42 in 2009 to 0.56 has enabled it to achieve a rank of 3. The improvement in Madhya Pradesh largely stems from the legal structure. Among the top 5, while Haryana retains its 4<sup>th</sup> position Andhra Pradesh has slipped from 3<sup>rd</sup> to 6<sup>th</sup> position in rankings.

As many as eight states have seen a fall in their economic freedom rankings since 2005. The worst performers in 2011 are Jharkhand, West Bengal and Maharashtra. Jharkhand is one state that has performed poorly, its rating has fallen by 0.09 since 2005. The other states with declining index values since 2005 are Orissa, Maharashtra and Punjab. On the other end, Bihar has not been able to break out of the bottom position it has held for so many years, despite an improvement in its ratings. If the same improvement momentum continues it is expected to finally break out of its laggard position the time the next ratings are conducted.

Overall, the median value for economic freedom of the states of India decreased from 0.38 in 2005 to 0.36 in 2009 but improved thereafter to 0.41 in 2011. The increase in the overall index values is the consequence of improvement in all the three measures, i.e., size of the government, legal structure and property rights, and regulation of labour and business. In other words, the evidence is that economic freedom in India has improved since 2009.

**TABLE 1.7**  
*Overall Economic Freedom Ratings, 2011*

States	2005		2009		2011	
	Overall	Rank	Overall	Rank	Overall	Rank
Gujarat	0.46	5	0.57	2	0.64	1
Tamil Nadu	0.57	1	0.59	1	0.57	2
Madhya Pradesh	0.49	2	0.42	6	0.56	3
Haryana	0.47	4	0.47	4	0.55	4
Himachal Pradesh	0.48	3	0.43	5	0.52	5
Andhra Pradesh	0.4	7	0.51	3	0.51	6
Jammu & Kashmir	0.34	15	0.38	8	0.46	7
Rajasthan	0.37	12	0.4	7	0.43	8
Karnataka	0.36	13	0.34	13	0.42	9
Kerala	0.38	10	0.36	10	0.42	10
Chhattisgarh	0.33	16	0.33	15	0.41	11
Punjab	0.41	6	0.35	12	0.39	12
Maharashtra	0.4	9	0.36	10	0.39	13
Uttarakhand	0.33	17	0.26	19	0.38	14
Assam	0.3	19	0.29	18	0.36	15
Uttar Pradesh	0.35	14	0.34	13	0.35	16
Orissa	0.37	11	0.31	17	0.34	17
West Bengal	0.31	18	0.33	15	0.32	18
Jharkhand	0.4	8	0.38	8	0.31	19
Bihar	0.25	20	0.23	20	0.29	20

As India opens its national markets to international investment and commodity flows, it cannot afford to constrain its own entrepreneurs from benefitting from the great opportunities that lie ahead. For this, economic freedom needs to be improved at the national, state and local levels.

### **A Discussion of Economic Freedom in the States of India**

Overall the states of Jharkhand and Orissa have had a significant fall in their economic freedom ratings. Others such as Punjab, Maharashtra and Tamil Nadu have had a moderate fall in their ratings (reduction of between 0 to 0.02 points). While Gujarat, Jammu & Kashmir and Andhra Pradesh have seen a significant improvement (improvement from 0.11 to 0.18 points); Chhattisgarh, Haryana, Madhya Pradesh, Karnataka, Assam, Rajasthan, Uttarakhand, Himachal Pradesh, Bihar, Kerala, West Bengal and Uttar Pradesh have seen a moderate improvement (0 to 0.08 points).

But the states that have improved the most have seen improvements on a whole range of indicators. This suggests that improvements in

economic freedom can be most dramatic when they are comprehensive and not driven by excellent performance in just one or two areas.

There is a link between economic freedom and economic growth, although the correlations are not as high as in our reports for previous years. The states that have worsened most saw an average annual GDP growth between 2004-05 and 2009-10 of 7 per cent. At the same time, the states that improved the most grew at 9.3 per cent on the average.

Table 1.8 shows the link between growth and freedom; apart from the moderate fall states (all of which showed a high ranking in the past) improved economic freedom is linked with higher growth rates in the

States	GSDP at 2004-05 Price (Rs. '000 crore) in 2004-05	GSDP at 2004-05 Price (Rs. '000 crore) in 2010-11	Annual % Growth	Index Values of 2005	Rank in 2005	Index Values in 2011	Rank in 2011	Change in EFI (2005 to 2011)	Change in Rank (2005 to 2011)	Position in 2005
Jharkhand	60	78	4.60	0.40	8	0.31	19	-0.09	-11	High
Orissa	77	127	8.80	0.37	11	0.34	17	-0.03	-6	Low
<b>States with Large Decline</b>	<b>136</b>	<b>205</b>	<b>7.00</b>							
Punjab	97	150	7.60	0.41	6	0.40	12	-0.02	-6	High
Maharashtra	414	775	11.00	0.40	9	0.40	13	-0.01	-4	High
Tamil Nadu	219	391	10.20	0.57	1	0.57	2	0.00	-1	High
<b>States with Moderate Decline</b>	<b>633</b>	<b>1,166</b>	<b>10.70</b>							
Uttar Pradesh	261	397	7.30	0.35	14	0.36	16	0	-2	Low
West Bengal	209	314	7.00	0.31	18	0.33	18	0.01	0	Low
Kerala	119	197	8.70	0.38	10	0.42	10	0.04	-1	Low
Bihar	78	142	10.60	0.25	20	0.29	20	0.04	0	Low
Himachal Pradesh	24	39	8.40	0.48	3	0.53	5	0.04	-2	High
Uttaranchal	25	52	13.20	0.33	17	0.38	14	0.05	3	Low
Rajasthan	128	196	7.40	0.37	12	0.43	8	0.06	3	Low
Assam	53	75	5.80	0.30	19	0.36	15	0.06	4	Low
Karnataka	166	271	8.50	0.36	13	0.43	9	0.06	3	Low
Madhya Pradesh	113	170	7.10	0.49	2	0.56	3	0.07	-1	High
Haryana	95	165	9.60	0.47	4	0.55	4	0.08	0	High
Chhattisgarh	48	85	10.00	0.33	16	0.41	11	0.08	4	Low
<b>States with Moderate Rise</b>	<b>474</b>	<b>776</b>	<b>8.60</b>							
Andhra Pradesh	225	372	8.80	0.40	7	0.51	6	0.11	1	High
Jammu & Kashmir	27	38	5.80	0.34	15	0.46	7	0.12	8	Low
Gujarat	203	364	10.20	0.46	5	0.64	1	0.18	4	High
<b>States with Large Rise</b>	<b>455</b>	<b>775</b>	<b>9.30</b>					-		

aggregate. The outlier, the moderate fall states, also indicates that higher economic freedom generates a momentum growth that has a long term positive impact. It also suggests that our freedom indicators are unable to capture some of the gains made in states like Bihar, where Chief Minister Nitish Kumar dramatically improved the business climate through mass arrests of mafia gangsters.

### **End Note**

1. <http://www.freedomhouse.org>.