

## Executive Summary

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The *Economic Freedom of the States of India 2011* ranks economic freedom in the 20 biggest Indian states, using a methodology adapted from the Fraser Institute's *Economic Freedom of the World* annual reports. The main highlights of this study are as follows.

The top three states in economic freedom in 2009 were Tamil Nadu, Gujarat and Andhra Pradesh, in that order. This is significantly different from 2005, when Tamil Nadu was still on top but Madhya Pradesh came 2<sup>nd</sup>, Himachal Pradesh 3<sup>rd</sup>, Haryana 4<sup>th</sup>, and Gujarat 5<sup>th</sup>.

The bottom three states in 2009, in reverse order, were Bihar, Uttarakhand and Assam. Back in 2005, Bihar was still last (20<sup>th</sup>), Assam was 19<sup>th</sup> and West Bengal was 18<sup>th</sup>.

The state with the fastest improvement in economic freedom was Andhra Pradesh, moving up from 7<sup>th</sup> position in 2005 to 3<sup>rd</sup> position in 2009. Its index score went up from 0.40 to 0.51 on a scale from 0 (no freedom) to 1 (high freedom), an improvement of 27.25 per cent. The second fastest improver was Gujarat, moving up from 5<sup>th</sup> to 2<sup>nd</sup> position.

Even as some states improved in economic freedom, others worsened, showing that there is no uniform all-India trend. Only two states registered large increases in economic freedom: Andhra Pradesh and Gujarat. Haryana, Tamil Nadu, West Bengal, Rajasthan and Jammu & Kashmir registered moderate increases in economic freedom.

The states with the largest decreases in economic freedom were Madhya Pradesh, Orissa, Uttarakhand, Punjab and Himachal Pradesh. Punjab, once among the best performers, slipped from 6<sup>th</sup> position in 2005 to 12<sup>th</sup> position in 2009. It has been riding too long on its earlier successes, and its present track record on governance, broadly defined, is anything but satisfactory.

Maharashtra, Kerala, Bihar, Jharkhand, Karnataka, Uttar Pradesh, Assam and Chhattisgarh showed moderate declines in economic freedom.

**TABLE**

*Overall Economic Freedom Ratings: 2009*

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

States with higher levels of economic freedom tended to perform better across a range of economic variables. They also had higher levels of in-migration, while states with the least economic freedom had higher levels of out-migration.

Andhra Pradesh reduced waste and corruption and implemented innovative reforms such as contract teachers to supplement regular teachers, social audit of employment schemes, and private sector participation in infrastructure projects which had earlier been government monopolies.

Three factors—buoyant agriculture, rural infrastructure, and the elimination of Maoism—boosted employment and attracted in-migration from other states.

A number of independent studies and indicators support our analysis of Andhra Pradesh. The World Bank/IFC report *Doing Business 2010* ranks India a lowly 133<sup>rd</sup> out of 183. Some Indian cities have worse business conditions than others. *Doing Business in India 2009* ranks Hyderabad as the second easiest place to do business among 17 top cities.

For the convenience of the international readers, whenever in the Report we have a figure in rupees, it is followed immediately by the corresponding figure in US dollars. For the sake of simplicity, we have taken the exchange rate for conversion to be Rs.50 to the dollar, which was the rate for much of 2009.