



Executive Summary

The *Economic Freedom of the States of India (EFSI)*, 2013, estimates economic freedom in the 20 biggest Indian states, based to the extent possible on data for 2012, using a methodology adapted from the Fraser Institute's *Economic Freedom of the World (EFW)* annual reports. The main highlights of our report this year are as follows:

1. Gujarat has widened its lead at the top of the economic freedom table, with an index score of 0.65 (on a scale from 0 to 1.0). Tamil Nadu remains in second position, but some distance behind, with a score of 0.54. Next in line come Andhra Pradesh (0.50), Haryana (0.49), Himachal Pradesh (0.47) and Madhya Pradesh (0.47) (see Table 0.1).
2. Overall, the states have become freer over time. The median score for economic freedom among states had earlier declined from 0.38 in 2005 to 0.36 in 2009, but has now improved to 0.43. However, this is way behind the top score of 0.65 registered by Gujarat, showing that most states have a long way to go yet.

Table 0.1

Economic Freedom of the States: Index Scores and Rankings, 2005 and 2013

	Rank		Score	
	2013	2005	2013	2005
Gujarat	1	5	0.65	0.46
Tamil Nadu	2	1	0.54	0.57
Andhra Pradesh	3	7	0.50	0.40
Haryana	4	4	0.49	0.47
Himachal Pradesh	5	3	0.47	0.48
Madhya Pradesh	6	2	0.47	0.49
Rajasthan	7	12	0.46	0.37
Chhattisgarh	8	16	0.44	0.33
Karnataka	9	13	0.43	0.36
Kerala	10	10	0.42	0.38
Maharashtra	11	9	0.42	0.40
Jammu & Kashmir	12	15	0.41	0.34
Punjab	13	6	0.40	0.41
Uttarakhand	14	17	0.39	0.33
Odisha	15	11	0.36	0.37
Uttar Pradesh	16	14	0.36	0.35
West Bengal	17	18	0.35	0.31
Jharkhand	18	8	0.33	0.40
Assam	19	19	0.32	0.30
Bihar	20	20	0.31	0.25

3. The three states recording the fastest improvement in economic freedom have been among the fastest-growing states. Growth has averaged 10.1 per cent in Gujarat, 8.5 per cent in Chhattisgarh and 8.8 per cent in Andhra Pradesh (see Table 1.8).
4. Gujarat is not only the freest state, but it has also registered the fastest rate of improvement (from 0.46 to 0.65). The second fastest improver is Andhra Pradesh (from 0.40 to 0.50).
5. The bottom three states, in reverse order, are Bihar (0.31), Assam (0.32) and Jharkhand (0.33). Bihar has long been last in this league and continues to be last despite significant improvement after Nitish Kumar became Chief Minister in 2005. Assam remains at 19th position. Jharkhand has worsened more than any other state, with its index score falling from 0.40 in 2005 to 0.33 in 2013. Because of this, it has slipped from 8th position to 18th. It has also recorded one of the lowest rates of economic growth (7.0%). Jharkhand claims that it has been held back by Maoist insurrection in several districts, but this is a weak excuse for poor governance. Assam and Jammu & Kashmir have been other relatively slow-growing states (see Table 1.8).
6. The biggest improvement has been recorded by Chhattisgarh, which has moved up from 16th to 8th position. This state has an even worse problem of Maoism than Jharkhand, but has shown that improved governance and rapid gross domestic product (GDP) growth are nevertheless possible in such difficult circumstances. Rajasthan is another state that has shown much improvement, moving up from 12th to 7th position. On the other hand, Punjab's rank has slipped substantially, from 6th to 13th position. Its score has remained almost unchanged, but many other states have improved their scores while Punjab has not.
7. This report has a special chapter on the remarkable improvement in Bihar's economic and social performance in the last decade. Bihar's freedom index score has improved significantly from 0.25 in 2005 to 0.31 in 2013. But it remains in last position among the 20 states because its starting point was so far behind the others. Under Chief Minister Nitish Kumar, its GDP growth rate averaged 11.8 per cent between 2004-05 and 2010-11. It used to be the poorest state but slashed its poverty headcount ratio from 56 per cent in 2009-2011 to just 33.74 per cent in 2011-12, and is no longer the poorest. Its overall literacy rate improved by 16.8 percentage points and its female literacy rate by 20 percentage points in the decade 2001-2011 (the highest among states in both cases). The main pillars of Nitish Kumar's strategy were the improved provision of two essential government services (technically called public goods) needed for the proper functioning of the state—public order and

good road connectivity. By putting almost 80,000 top gangsters in jail, he ended the earlier 'jungle raj' (rule of the jungle), created safety and personal security for citizens, and hence made it safe for entrepreneurs to invest in and expand businesses. His massive road-building programme brought connectivity and economic opportunity to areas lacking both. He was helped greatly by national economic reforms starting in 1991 that created a liberal economic climate that backward states like Bihar were able to take advantage of. Rapid economic development helped Kumar tackle the menace of Maoism, with violent incidents down from 1,309 in 2001-2005 to 514 in 2006-2010, and civilian deaths down from 760 to 214.

8. The improvement in Bihar's economic freedom score, from 0.25 in 2005 to 0.31 in 2013, is significant but not spectacular. Yet, starting from a very low base, it represents an improvement of one-fourth, much better than the national average improvement of one-tenth. Many but not all of Bihar's individual freedom indicators have improved. The recovery of stolen property remains dismally low; judicial vacancies have worsened even as the national rate has improved; and the proportion of violent crime, though falling, is almost double the national average. Almost half the legislators from Nitish Kumar's own party face criminal charges. In neighbouring Odisha, Chief Minister Naveen Patnaik has sacked many of his ministers for corruption. But Kumar has not done the same in Bihar, although corruption is widely regarded as very high. So, while the quality of governance has improved a lot in Bihar, it is still unsatisfactory.
9. This report has a special chapter on centre-state relations, making the point that the economic freedom of the states is constrained by excessive centralisation of economic power. This centralisation also violates the spirit of the Constitution, and needs dilution. For instance, states cannot borrow except with Reserve Bank of India (RBI) permission. Discretionary flows of funds through the Planning Commission to the states must be reduced, by drastically pruning the current 200 odd centrally sponsored schemes (CSS). The Finance Commission currently recommends a formula periodically for sharing tax revenue between the centre and states. But its formula does not apply to borrowed central funds used for investment (plan spending), whose distribution is decided arbitrarily by New Delhi. The distinction between Plan and non-Plan spending is arbitrary and hurts an integrated view of development, in which maintenance spending is as important as Plan spending. The Finance Commission formula is supposed to help backward states improve their public services to a minimum standard, but in practice it is deficient.