

# **Gujarat keeps top rank in economic freedom, gives Narendra Modi big boost: Report**

By: FE Bureau

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New Delhi — Amid intense poll-time discourse over claims of development in Gujarat, the latest report on the economic freedom of Indian states has revealed that the western coastal state retained in 2013 the No.1 slot it held in 2011. Gujarat also widened the gap with Tamil Nadu, which lost the top rank in 2011, in what could give ammunition to BJP's prime ministerial candidate Narendra Modi in the electoral sweepstakes.

Bihar continued to languish at the bottom of 20 major states reviewed since 2005 despite "significant" improvement under chief minister Nitish Kumar, showed the latest report on Economic Freedom of the States of India (EFSI).

Madhya Pradesh chief minister Shivraj Singh Chouhan — BJP's other poster-boy of development — hasn't been quite successful though, with the state slipping four notches since 2005 and three notches since 2011 to No. 6 last year. Moreover, of the top five states that enjoyed economic freedom the most in 2013, Andhra Pradesh and Haryana were ruled by the Congress for the period under review, while there was an AIADMK-led government in Tamil Nadu.

The report — authored by Bibek Debroy, Laveesh Bhandari and Swaminathan S Anklesaria Aiyar and is a joint effort of the Friedrich-Naumann-Stiftung für die Freiheit, the Cato Institute and the Academic Foundation — is based on an index that factors in three major parameters: Size of the government with focus on expenditures, taxes and enterprises; legal structure and security of property rights; and regulation of labour and business.

Compared with 2005, the sharpest improvement in overall economic freedom scores has been registered by Gujarat (0.19 points), Chhattisgarh (0.11 points) and Andhra Pradesh (0.10 points) — all of which, unsurprisingly, also witnessed faster GDP expansion. The GDP growth averaged 12% in Gujarat, 10.6% in Chhattisgarh and 10.4% in Andhra Pradesh between FY06 and FY12. On the other hand, Jharkhand, Madhya Pradesh, Tamil Nadu, Punjab and Odisha have experienced declines in their index value since 2005.

What contributed most to Gujarat's top rank in economic freedom was its stellar performance in "regulation of labour and business" in which it has scored 0.87 out of 1, leaving No.2 Tamil Nadu at a far distant 0.51, and retaining its top position since 2005.

“A host of factors have contributed to Gujarat’s continuing improvement (in this segment). A sharp decline in man-days lost due to strikes and lock-outs, higher market wage rates compared with minimum wage rates, and a decline in pendency of cases are some major factors,” it said.

Gujarat has also retained its slot at No.2 in the “size of government”, which is based on parameters such as government revenue expenditure as a share of the gross state domestic product (GSDP), the contribution of national services to the national product, state level taxes on income, property and capital transactions to the GSDP, among others.

However, at No.9, the Modi-led state’s performance hasn’t been quite impressive in “legal structure and security”. Its rank dropped by five notches since 2011, although it witnessed improvement since its ranking at No. 12 in 2005. Here, Chouhan beat Modi, with Madhya Pradesh retaining its lead over all other states since the 2011 rankings.

In contrast, India performed poorly in the Economic Freedom of the World (EFW) index in 2011, with its ranking slipping from a peak of 6.72 in 2005 to 6.34 in 2011, the report said. The 2013 EFW report is yet to be published.

“The good news is that economic freedom in the states of India has improved even as it has decreased in India as a whole... This is a good, important structural feature of the economy,” wrote Debroy and Bhandari.

Interestingly, Bihar remained at the bottom of the index consistently since 2005, despite what Aiyar calls “a veritable revolution” since Kumar took over in 2005. Nevertheless, the state improved its score to 0.31 last year from 0.29 in 2011 and 0.23 in 2005, aided by a sharp 15-fold increase in Plan spending, financed mainly by central transfers, over the past eight years and a construction boom.

The report also calls for greater role of states in the economic development and use of resources. It advocates equitable access to services by citizens across states, horizontal equity among states and the need for reducing flows through the Planning Commission.