

# Tamil Nadu, Gujarat top economic freedom chart

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**A**NDHRA Pradesh and Gujarat were the most improved states in terms of economic freedom in 2009, according to a list released on Monday by Planning Commission deputy chairman Montek Singh Ahluwalia.

The Economic Freedom Rankings of the States of India, 2011, brought out by Indicus Analytics, the Cato Institute and Fur Die Freiheit, placed Tamil Nadu at the top, followed by Gujarat (up from No 5) and Andhra Pradesh (up from No 7). This move up from seventh place has been facilitated by the state's progress on three fronts: reducing the relative size of government, its legal institutions and labour and business regulation. This, in turn, helped the state nearly double its growth rate from 5.59% (between 1997-98 and 2000-01) to 9.07% (2004-5 to 2008-09), consistently growing faster than the all-India average, save in 2008-09 when a drought pulled its average growth rate down.

The state has improved only marginally in the rela-

## OVERALL ECONOMIC FREEDOM RATINGS

| States           | 2005 Overall | 2005 Rank | 2009 Overall | 2009 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        |
| Uttaranchal      | 0.33         | 17        | 0.26         | 19        |
| Bihar            | 0.25         | 20        | 0.23         | 20        |

tive size of state category because of its expansive welfare programmes, also termed 'freebies' by the report. The populist schemes have attracted criticism on the grounds that they are "irrational and untargeted"

and would "drain the treasury without producing real growth", according to noted economist Swaminathan Aiyar, one of the authors of the report.

"(Former chief minister) YS Rajasekhara Reddy recog-

nised that to have giveaways, you need revenue. For revenue, you need a business-friendly environment, which will create opportunities for employment," he said. However, although the government grew big, the state economy grew still bigger, decreasing the relative size of government, aided by high public investment and business-friendly policies. Agricultural growth in the state, at 6.82%, outpaced the national average of 3.26%. Industry in Andhra Pradesh grew at 10.75%, beating the country's average of 8.7%. In part, this has been possible because of rising total factor productivity—the gap in capital formation between Andhra and India grew, yet GDP growth in the state has been higher, getting more out of less.

Another landmark system reform has been in police functioning. By improving road connectivity and increasing government presence in Maoist-affected areas, the state was able to recruit locals who would give them actionable counter-intelligence.

On the business front, Andhra Pradesh ranks fourth in software exports. This means that "its growth has not been driven primarily by services", the report says. But even though it has improved its business-friendly quotient, the Doing Business 2010 report ranks India 133 out of 183 countries, behind Pakistan (85), Bangladesh (119) and China (89). However, the Doing Business in India, a sub-national report, ranked Hyderabad second of 17 cities, the top place having been claimed by Ludhiana. In one of the indicators, construction permits, Hyderabad did better than the OECD—an approval time of 80 days compared with 162 days.

Thus, while economic freedom is not the only freedom that exists—political and civil rights, too, have spillover effects on economic freedom—if development and prosperity are the benchmarks, it is most significant. "The report claims that smaller government is a good thing, but if you cause the state to wither away then there's less positive freedom—the capabilities that enable one to benefit from negative freedoms (for example, the absence of forces restraining business)", said Ahluwalia.