People Power

Governance and Development

> 'India has the potential to show the fastest growth over the next 30 to 50 years. Growth could be higher than 5% over the next 30 years and close to 5% as late as 2050 if development proceeds successfully…………While growth in the G6, Brazil, Russia and China is expected to slow significantly over the next 50 years, India's growth rate remains above 5% throughout the period. India's GDP outstrips that of Japan by 2032……India has the potential to raise its US dollar income per capita in 2050 to 35 times current levels.'

Goldman Sachs,
Dreaming With BRICs: The Path to 2050,
Global Economics Paper No: 99.

There is a "feel good" factor that characterizes the assessment of Indian economy today. The possibility of stupendous economic growth has become a regular feature in the media. The way we formulate our economic policy will determine whether India will achieve stupendous economic growth as is being portrayed. However, failure to improve our governance process will certainly make it impossible for us to achieve higher growth rates. We need to remember that the economic growth rate of a country is not merely a product of economic policies and productive capacity of its industry and agriculture. The economic growth rate of a country is also contingent on the way it governs itself. The collapse of erstwhile Soviet Union bears testimony to this fact. This combined with the experience of the transition countries demonstrate that corruption and mis-governance are increasingly acting as impediments to growth. Before we move on with analyzing the impact of governance on development lets us briefly define governance. Asian Development Bank in its publication aptly defined governance as the "manner in which power is exercised in the management of a country's social and economic resources for development."

Power is in essence the ability to influence events, resources and human behaviour, for the larger public good. In a democratic society, people elect their representatives to exercise such positive power. Control of the state exchequer, supervision over the employees of the state and the power to make laws are the three fundamental tools available to a government to discharge its functions. Every single day the Indian state — all governments put together — spends about Rs.1500 crores. This astronomical sum of more than a crore of rupees every single minute — day and night — should provide us goods and services of quality. This amount is roughly equivalent to Rs. 5000 per head per annum, or about Rs.125,000 per family of five during a five-year term of an elected legislature! In fact if this money is properly utilised, we could easily provide basic amenities to most people and create the infrastructure required for universal school education of reasonable quality and primary health care accessible to all. It is estimated that about 80 million (8 crores) children between the ages of 5 to 14 are outside the schools. If money alone is the issue, all it takes is an expenditure of about Rs.16000 crores (160 billion) to build 16 lakhs (1.6 million) class rooms as capital investment and further annual recurrent expenditure of about Rs.8000 crores (80 billion) to employ 16 lakhs (1.6 million) teachers. Arithmetically this is equivalent to about 11 days' and about 6 days' state expenditure respectively. And yet the Indian state could not provide universal access to school education even after 53 years of democratic experiment.

Similarly, if we take the issue of sanitation, some 70% of Indian people have no access to safe, hygienic toilets and are forced to defecate in public. Apart from the problems of health on account of lack of hygiene and sanitation, public defecation is aesthetically unpleasant, terribly inconvenient to citizens, and most of all offensive to human dignity. Again if money is the issue, to build a safe toilet in every one of the 14 crore (140 million) house-holds which are in need, it costs no more than Rs.35000 crores (350 billion) at Rs.2500 for toilet. Many organizations like Sulabh International have demonstrated that Rs.2500 is adequate for a safe, modern, hygienic toilet without any frills. And yet most Indians have no access to the basic public services and amenities, which are taken for, granted in any civilized society. It is by now universally acknowledged that very little of this huge quantity of public money spent everyday is actually translated into services and public goods. That is why basic infrastructure in power, road and rail transport and ports is in a state of disrepair, retarding our economic growth.

The other facet of the dysfunctional state is its vast and labyrinthine bureaucracy which is self-perpetuating. Out of the nearly one billion population of India, the organised wage- earning sector accounts for only about 27 million workers, who in turn constitute only about 8% of work force in India. Out of these organised workers, as many as 19 million are employees of government. While the size of the government as a proportion of the population or its expenditure as a proportion of GDP are by no means unusual when compared to other countries, in reality most of the government employees do not provide any services of real value to the public. Firstly the employment in government is highly is skewed in relation to the needs of the people. For instance in the State of Andhra Pradesh, out of the nearly 900,000 employees of state (excluding those working in public sector undertakings) as many as 280,000 are clerks who by definition are only support staff helping in decision making. A further 180,000 employees are attenders, peons and drivers who only serve their political and bureaucratic masters. Over 50%of employees are thus in the non-productive sector. Moreover there is an increasing disjunction between the needs of the public and those of the employees of government resulting in skewed public investment patterns.

For instance, National Health Policy of India – 2002 admits that while the public health investment in the country over the years has been comparatively low, as a percentage of GDP it has declined further from 1.3 percent in 1990 to 0.9 percent in 1999. Out of this, about 17 percent of the aggregate expenditure is public health spending, most of the balance being out-of-pocket expenditure. This declining public spending on health (less than 1 percent of GDP) places India in the bottom 20 percent of countries. According to NHP-2002, the central budgetary allocation for health over the period 1990 – 99 has been stagnant at 1.3% of the total budget. At the same time the fiscal pressures led to a reduction of States' public health expenditure from 7 percent to 5.5 percent. The current annual per capita public health expenditure in India is around Rs. 200. Of this, about 15 percent is contributed by the Union government.

The high reliance on private, out-of-pocket payments in health in India impose a disproportionate burden on the poor. The poorest 20 percent Indians, for example, have more than double the mortality rates, malnutrition, and fertility of the richest quintile. The only countries with higher proportions of private payment on health than India are countries that have undergone civil conflict and collapse of the public sector, like Georgia, Cambodia, Myanmar and Afghanistan. While the States share 75 – 90 percent of public health expenditure, most of these funds are tied up in salaries, leaving few resources for essential drugs, supplies, operations and maintenance. Moreover curative public services largely favour the rich, with Rs 3 spent on the richest quintile for every rupee spent on the poorest 20 percent.

As nearly all the private spending is out-of-pocket, the poor are highly vulnerable to health risks and they avoid hospitalization because of their inability to pay. Hospitalization frequently means financial disaster as nearly 40 percent of those hospitalized borrow money or sell assets to cover expenses. Yet another well-known inequity in health sector is that rural areas with 73 percent of the population account for only 33 percent of government health resources. Urban population has thus received more than 5 times what the rural population received in per capita terms. Consequently, the attainment of health indices has been very uneven across the rural-urban divide. All the evidence thus shows that higher and better-directed public expenditure is a necessary prerequisite for significant health improvements. In OECD countries, public health expenditure is of the order of 15 to 20 percent of the total government expenditure. In India, the share of public health expenditure is 1.3 percent of the central budget and 5.5 percent of state's budgets.

Let us take the example of education and see if it is enhancing productivity and thereby contributing to the economic prosperity. It goes without saying that a literate person is more productive than an illiterate. Various studies have demonstrated that a country with high literacy levels enjoys high levels of productivity. For instance, a survey across 31 countries concluded that the productivity of an educated farmer is 8.5 per cent higher than a farmer with no education. Similarly, If this is so, we need to critically examine the contribution of education sector to India’s economic prosperity.

On the face of it, education sector in India might appear rosy. We have over 5 million scientists, engineers and technicians in India now. About 300,000 of them (6%) are engaged in research and development. We can boast of 450,000 allopathic physicians, 200,000 agricultural graduates and 40,000 veterinarians. The stock of other postgraduate degree holders is about 4.5 million in liberal arts, and a million each in sciences and commerce. In addition, we have about 9.5 million graduates in liberal arts, 4.5million in sciences and 5 million in commerce. Our engineers alone exceed a million now, with 1100 colleges producing 350,000 technologists every year, 60 percent of whom graduate from the four southern states alone! But these numbers hide a grave crisis in our higher education. Our finest scholars – about 5 percent – are a match for the brightest and best in the world. A culture of rote learning, lack of application of knowledge, and poor examination system have undermined our higher education. Most graduates lack basic communication skills, nor do they exhibit problem-solving capacity. Educated unemployment is very much on the rise, largely because most graduates cannot promote wealth creation and are therefore unemployable. And yet, our society faces acute shortage of problem solvers, and capable workers in various fields like health care, education, justice delivery and law and order. This is a classic case of a mismatch between our needs and human resources. If this is the case with our higher education, the primary education in India is in a dismal state. Judging by the three 'R's (reading, writing and arithmetic), one suspects that no more than 40 percent of our people are literate. True, the last decade saw added emphasis to school education in government programmes. But conversion of single-teacher schools to two-teacher schools, appointment of para teachers and redefining the school under Education Guarantee Schemes are at best acceptable first-steps in promoting literacy. But if these are taken as policy goals, it will be a cruel hoax at the expense of the poor and long-suffering people.

In a country with rigid social hierarchies and vast poverty and illiteracy, any person with the advantages of education and health, and a regular wage-earning job automatically wields considerable power. When the job is in government with all its colonial hangover, the roles of the public servant and the citizen are easily reversed. The public servant is transformed into the master and the citizen becomes the subject. The extraordinary degree of life-time security given to a bureaucrat at every level, with virtually no chance of being brought to book, made it impossible for any government to enforce accountability. Added to this the political compulsions to indulge in populism and direct subsidies, converting the citizen into a recipient and the government functionary into a giver, promoted corruption and helped in reversing the roles between the master and the servant.

The presence of high levels of administrative corruption has resulted in growth of unofficial economy. For example, Former Central Vigilance Commissioner of India, N.Vittal, referred to unofficial economy as being 40 percent of the Indian Gross Domestic Product (GDP). The governments in such circumstances will be facing a paradoxical situation. On one hand there will substantial wealth in the society, on the other the government cannot tax it to generate resources to meet the basic needs of the poor. The absence of buoyant resource base also constrains a state's economic policy, as implementing a bold policy is fraught with serious economic consequences. For instance Indian government in 1996-1997 reduced customs duties to attract foreign investors and direct taxes as a part of tax rationalization measures. The government was not able to raise the revenues from other sources to meet the attendant short fall in revenues resulting in a fiscal crisis. In order to overcome the fiscal crisis the Government of India started Voluntary Disclosure Income Scheme (VDIS). The government urged all tax evaders to disclose their assets under VDIS as such disclosures would not incur any punitive action from the government. The amount collected under the scheme was whooping 33,697.32 crores, which many journalists and administrators stated as tip of black money iceberg. This tip of the iceberg amounted to three percent of the GDP in 1996-1997. During the same period the total government spending on the health sector in India was less than one percent, which means that the total amount (i.e., black money) collected by the government under one scheme in one year was three times the government health budget. It is pertinent to note that India secured 115th position in UNDP Human Development Index (HDI) with high levels of infant mortality rate and with average life expectancy (62.9) less than that of its neighbors China and Sri Lanka. The correlation between high levels of corruption and low levels of human development indicators is not specific to India. A table comparing the Transparency International's Corruption Perception Index with UNDP Human Development Index shows a close relation between high incidence of corruption and low levels of human development indicators.

(In the Table, 0 is most corrupt and 10 least)

TOP 10 CLEANEST COUNTRIES	CORRUPTION PERCEPTION	UNDP HDI RANKING

TOP 10 MOST CORRUPT	CORRUPTION PERCEPTION	UNDP HDI RANKING

	INDEX (CPI)	2001
FINLAND	9.7	10
DENMARK	9.5	15
NEW ZEALAND	9.5	19
ICELAND	9.4	7
SINGAPORE	9.3	26
SWEDEN	9.3	4
CANADA	9.0	3
LUXEMBOURG	9.0	12
NETHERLANDS	9.0	8
UNITED KINGDOM	8.7	14

COUNTRIES	INDEX (CPI)	2001
BANGLADESH	1.2	132
NIGERIA	1.6	136
PARAGUAY	1.7	80
MADAGASCAR	1.7	135
ANGOLA	1.7	146
KENYA	1.9	123
INDONESIA	1.9	102
AZERBAIJAN	2.0	79
UGANDA	2.1	141
MOLDOVA	2.1	98

Source: CPI, Transparency International Survey 2002,
HDI Index, UNDP Human Development Report 2001,

The above table demonstrates that most clean countries have excellent human development indicators ranging between one to fifteen, which means that the population living in these countries enjoy good health, educational and other social security benefits. Whereas the most corrupt countries human development indicators are above or close to hundred, which means that the population in these countries suffer from low levels of education, health indicators and near absence of social security measures.

Corruption also impacts on the industrial growth. For instance, the *"Anti-Corruption in Transition: A Contribution To The Policy Debate,"* a survey of more than 3,000 firms in East European Countries, carried out by World Bank and European Bank For Reconstruction and Development (EBRD) 2002, demonstrated that firms in East Europe paid bribes ranging from eight percent of their annual revenue in Russia to two percent in Croatia. While 31.3 percent of companies paid bribe tax in Hungary, 32.7 percent of companies in Poland and 29.2 percent of companies in Russia did so. Further the survey demonstrated that the bribes were acting as regressive tax amounting to 5% of the revenue for small firms, 4% of revenue for medium firms and 3% for large enterprises. The prevalence of corruption tends to make the taxation structure less progressive as the vulnerable sections of society will not only be compelled to pay their taxes but are also susceptible to the extortion's of the corrupt officials. A study by Tanzi and Davoodi titled *"Corruption Growth And Public Finances,"* observed that one point increase in corruption reduced the ratio of direct taxes by 1.8 percentage point to/of GDP, while the indirect taxes fell by 1.2 percentage points to GDP. Further, individual income taxes declined by 0.63 percent of GDP with one point increase in corruption.

This situation can only be described as constitutional brigandage and legal plunder. The state, instead of serving the citizen, is actually partaking in plunder. This predatory corruption can be tackled effectively through strong legal mechanisms. We have thousands of laws in our statute books but most of them are archaic and obscure. Many are on paper and are never implemented. Even when the state desires to enforce a law, the institutional mechanisms have been so weakened that it is no longer possible to ensure compliance of citizens. Abnormal delays in litigation and huge pendency in courts have become endemic features of our judicial system. The conviction rate is abnormally low with only 6 percent cases resulting in conviction. Even in cases involving extremely grave offences with direct impact on public order and national security, there are abnormal delays. As justice system has all but collapsed, a whole new industry of administering rough and ready justice using strong-arm tactics has been setup by local hoodlums in most of India. As a consequence the poor tend to get alienated with the current legal institutions due to their complex framework and the alien language. It is this alienation, according to Hernando de Sotto that accentuates poverty in the third world. Hernando de Sotto in his work, "The Mystery of Capital" highlighted the importance of legal and judicial system in facilitating faster economic development. Hernando de Sotto argues that poverty in third world countries, such as Latin American countries, is largely a consequence of poor being unable to legalize their property or various assets that they posses. In the absence of proprietary rights, various assets of the poor are not creditworthy and the poor would not be in a position raise necessary capital by mortageing their assets. As a consequence the poor are not in a position to use their assets creatively to improve their economic status. Hernando de Sotto estimates that such assets, which he calls "dead capital" are today worth $9.3 trillion. Thus the absence of proper legal system and judiciary's incapacity to enforce property contributes to the continuation of poverty in the developing countries such as India. If developing countries do register higher growth rates, then the number of commercial disputes in those countries tends to rise. As World Development Report 2002 pointed out, between 1979 and 1999 the Chinese economy witnessed rapid growth. In 1979-1982, the average number of commercial disputes filed in the courts was around 14,000 a year; by 1997, 1.5 million new cases were filed more than 100 fold increase (World Bank, 2002). In such instances the legal institutions must be equipped to handle the increased litigation and enforce rule of law without imposing prohibitive costs on the litigants. A survey of 166 countries has demonstrated that a country with better rule of law is associated with higher per capita income, the reason being the better enforcement of contracts. The better enforcement of contracts helps various enterprises to carry out the economic activities efficiently. As World Bank Report (2002) observed that the smaller and unaffiliated firms or enterprises tend to benefit from effective legal institutions. Unlike the bigger firms, smaller firms or enterprises do not go in for out of court settlement as they lack necessary social contacts. In such a situation an effective and faster judiciary helps the smaller firms to bear the costs litigation. The above examples and arguments demonstrate that there is a direct relationship between compliance with rule of law and development indicators of a country. It is also evident that, for an economy to function vibrantly an efficient legal institution is imperative and entrepreneurial confidence in an economy is also determined by the effectiveness of the legal institutions.

Law's Delays - Cases Pending (2002)

- Supreme Court : 23,012 (1,04,936 in 1991)
- High Courts : 3.62 million (2.65m in 1993)
  - Allahabad : 0.87 m
  - Kerala : 0.41 m
  - Madras : 0.35 m
  - Bombay : 0.30 m
  - Delhi : 0.18 m
  - Andhra Pradesh : 0.15 m
  - Gujarat : 0.14 m
  - Rajasthan : 0.13 m
  - Average : 5600 cases / Judge

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The above discussion focused on the correlation between governance and public investment pattern, prevalence of corruption and absence of strong legal system and their impact on economic growth. With the advent of economic liberalization and delicensing of most industry, the nature of corruption is now undergoing a major transformation. The one-time grand corruption on large private projects – notably in power and other infrastructure sectors – has now become quite common. An even more alarming trend is the shift of corruption from licensing and permits to more dangerous and pernicious areas of sovereign functions of state like policing. The increasing nexus between hardened criminals, rogue policemen and corrupt politicians is one such example. It is clear that the state's gradual withdrawal from economic activity does not automatically eliminate corruption. Many more practical and institutional initiatives are needed to successfully curb corruption.

- The first is active citizen assertion to curb corruption
- Second, there are several rules and procedures whose only impact on the public is extortionary corruption. There is need for a comprehensive review of the regulatory functions and procedures in every department and agency.
- Third, Right to information on all matters of governance with very few specific, limited exceptions in the interest of national security etc.,
- Fourth, the recent draft legislation of Government of India leaves much to be desired. There are too many vague exemptions; no penalties are provided for non-compliance, and there is no independent appeal mechanism. A sensible, citizen-friendly law needs to be quickly enacted and strictly enforced.
- Fifth, for some years now, Citizen's Charters are being released by various departments. A true Citizen's Charter should fix responsibility on individual public servants, specify performance standards, and provide compensation to citizens for delays.
- Sixth, Wards Committees need to be constituted in accordance with the letter and spirit of Article 243-S of the Constitution, and these Committees serving small areas of about 25000–50000 population should be empowered to collect municipal taxes and provide basic services. Such local accountability will reduce corruption.
- Seventh, there is need to tighten the anti-corruption laws and creating independent and effective agencies to curb corruption
- Eight, we must increase the risks of corrupt behaviour to an unacceptable level by ensuring speedy justice, exemplary punishment and confiscation of assets.
- Finally, we should all recognize that the roots of corruption lie in the exorbitantly high, illegitimate and illegal election expenditure.

The time for action is now. The national mood is ripe. People are disgusted with endless corruption and are restive. What we need are tools for informed citizen assertion. The task is big, but achievable. As Margaret Mead said "Never doubt that a small group of thoughtful, committed citizens can change the world. Indeed, it is the only thing that ever did".

Jayaprakash Narayan

The author is the National Coordinator of LOK SATTA movement and National Campaign for Electoral Reforms. E-mail: loksatta@satyam.net.in; url: www.loksatta.org

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