



A short course on Political Economy of India

Lecture 4

**REALIGNING INCENTIVES -
THE WAY FORWARD**

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State is critical for citizens' welfare:

The purpose of a government is to make it easy for people to do good and difficult to do evil.

- William Gladstone

Rule of Law

Basic Amenities and Services

Land Management

Quality Education and Healthcare

Ease of Doing Business

&

Electoral outcomes are often products of people's response to State government



Why State matters?

Role of the Union government

- The Union plays a critical role in
 - national security
 - fiscal policy
 - transparent allocation of natural resources
 - ensuring essential infrastructure for economic growth and prosperity
- Once these key instruments are in place, most things that matter to a citizen's well-being and prosperity are shaped by governance at the state level



But, Westminster model is proving distortionary

Three factors have led to a complex and dysfunctional crisis:

- MsLA support critical for CM's survival
- Poor service delivery making MLA *de facto* executive, and imposing enormous burden on parties
- Local governments weak and opposed by MsLA and bureaucracy

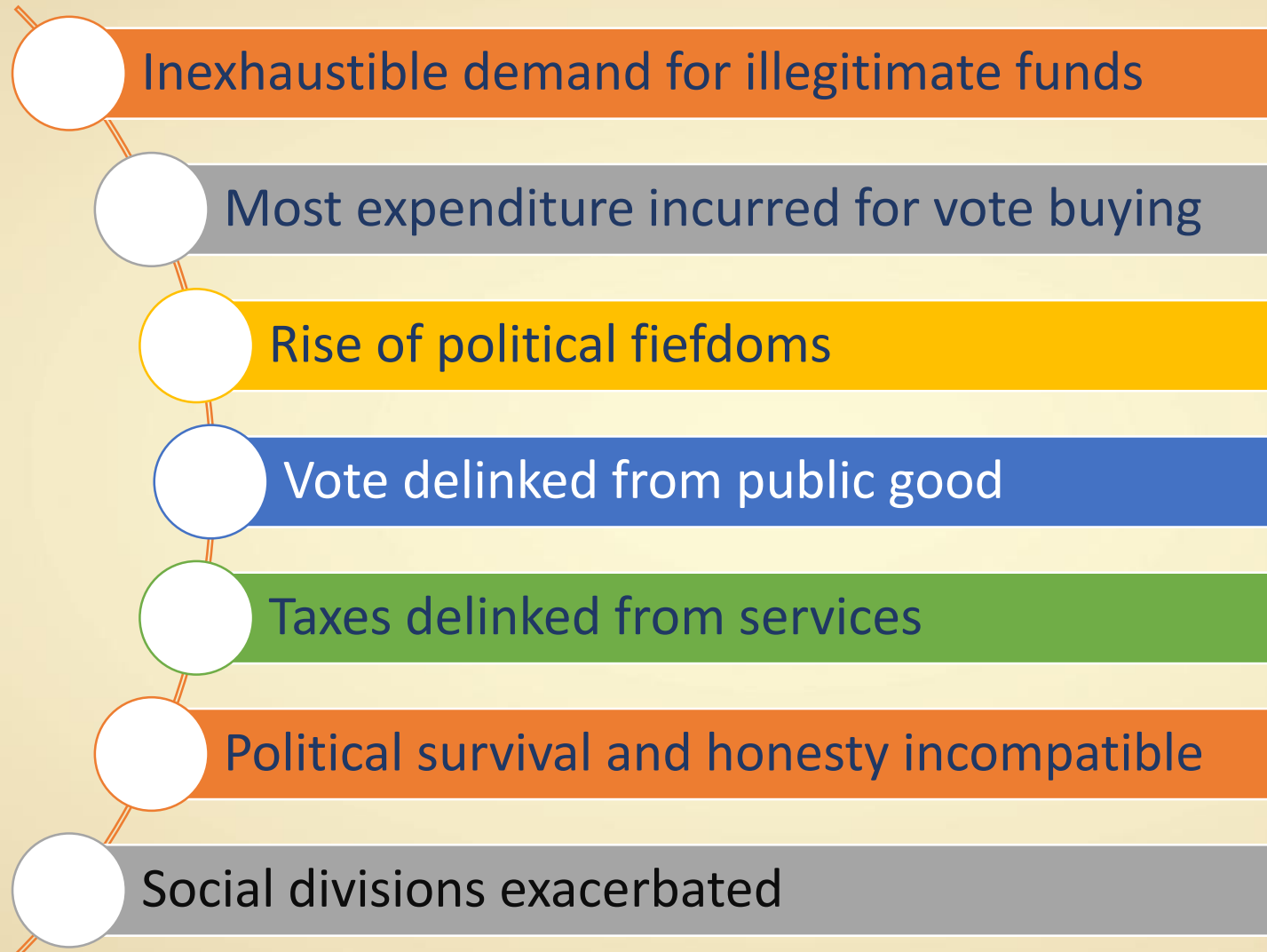


Westminster model in states

- Vast energy expended in survival of government
- MLA involved in service delivery and acting as executive
- Perpetual political interference in transfers, postings, etc.
- A system of patronage and corruption
- Vote buying and high cost of elections
- Resistance to local governments
- Competitive populism, in the face of failure to deliver
- Talented citizens shunning politics



Governance Crisis – Vicious Cycle

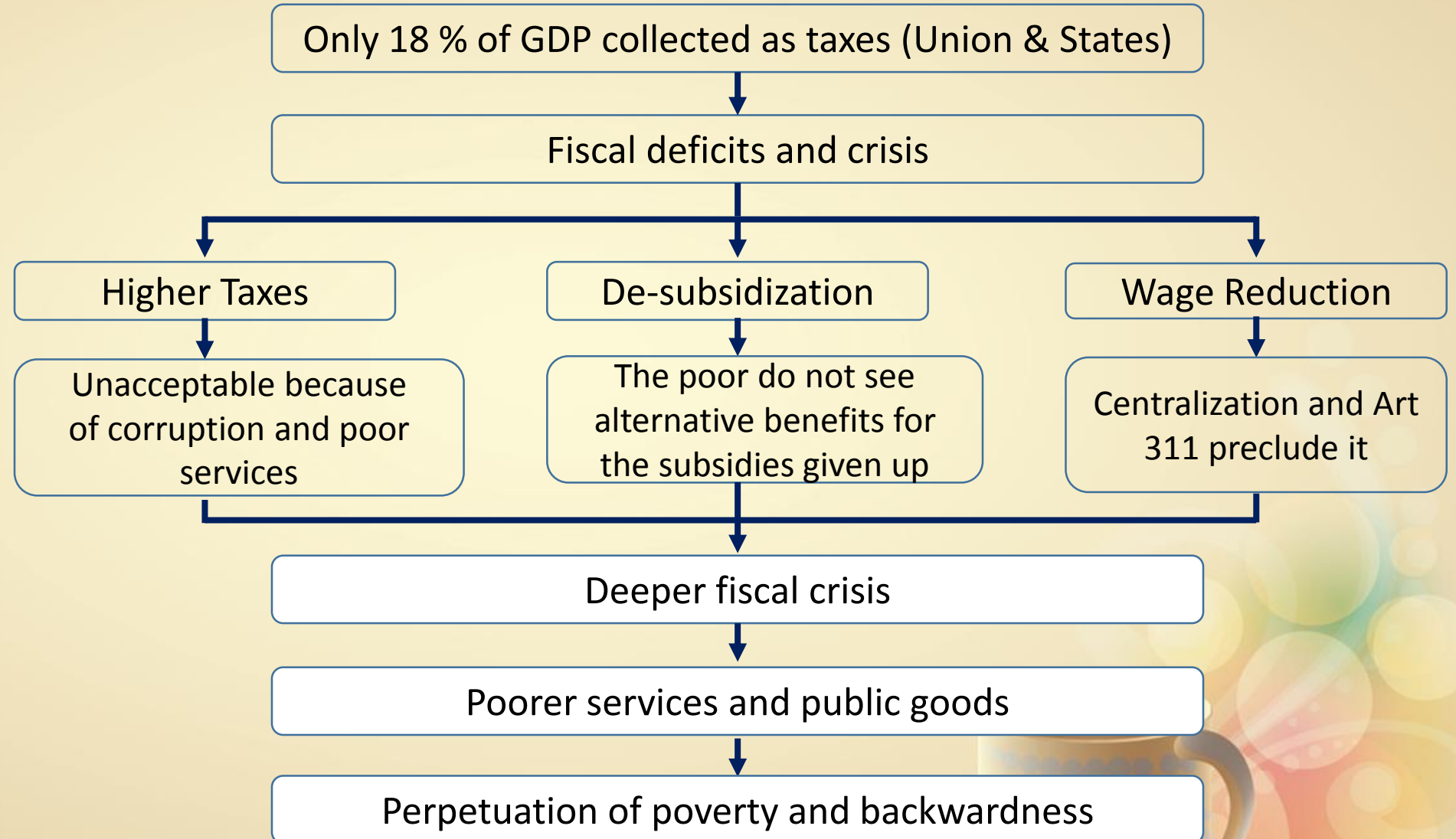


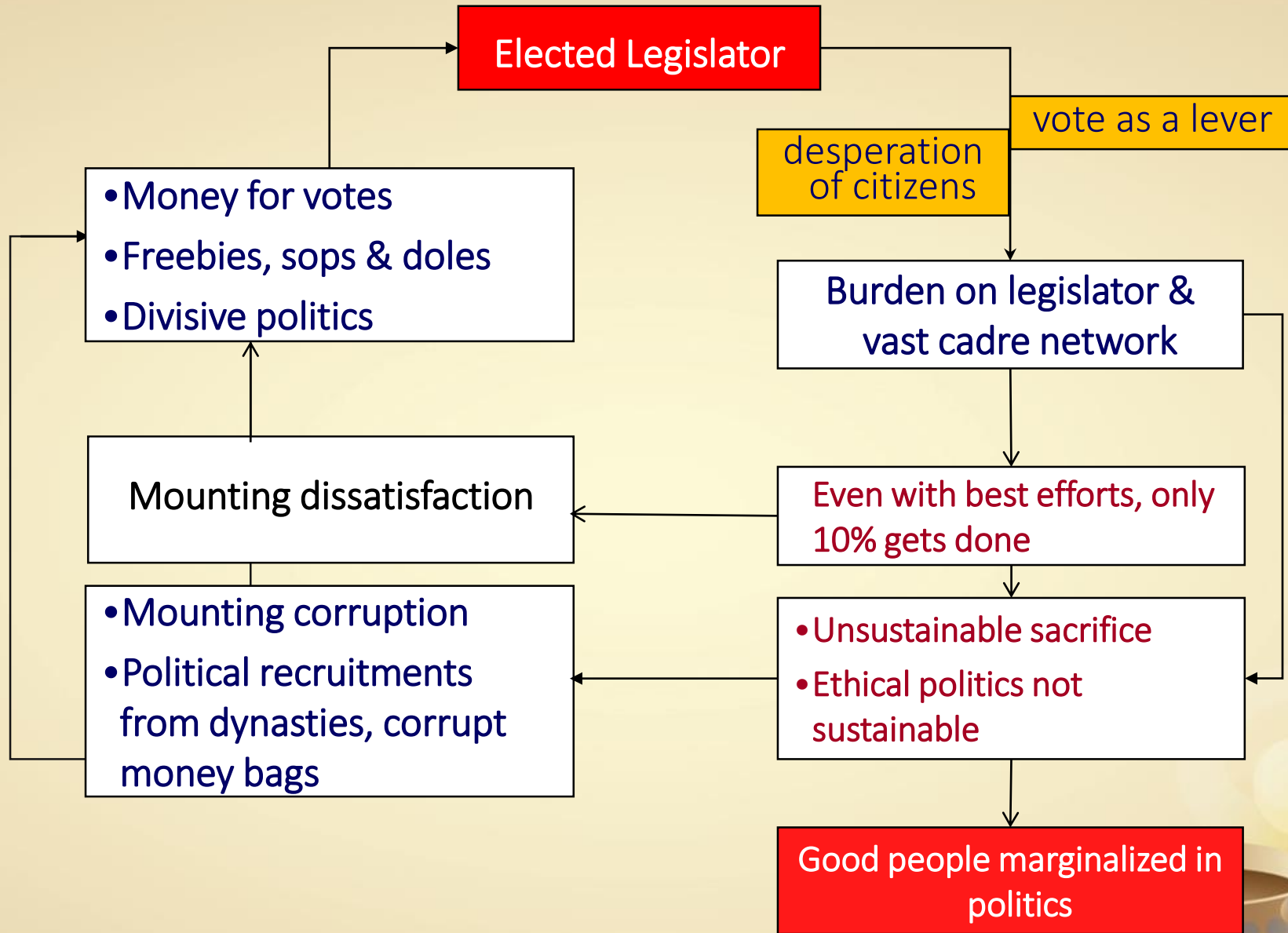


Vicious Cycles

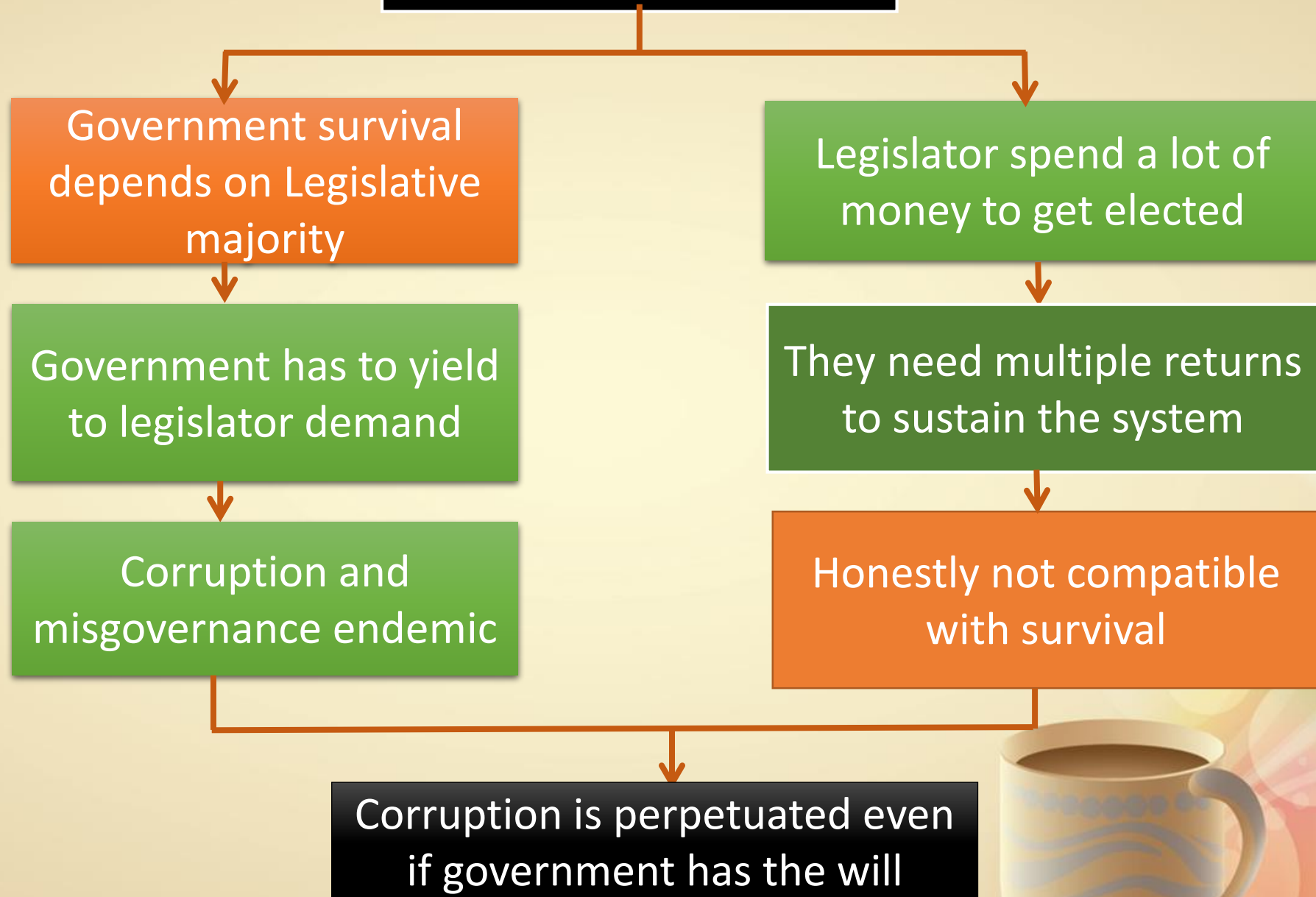


Taxes Delinked From Services





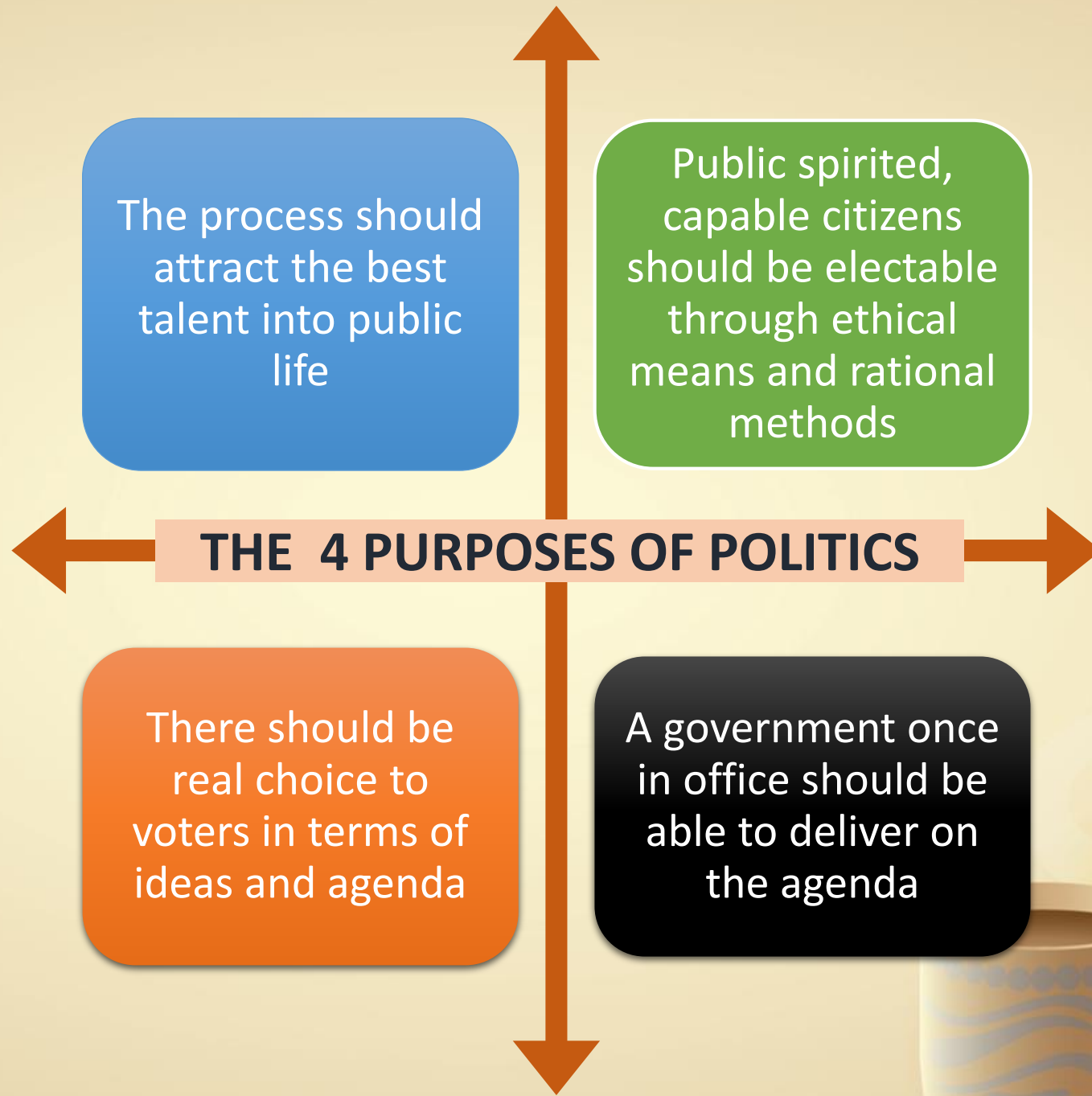
Parliamentary Executive



Context shapes Outcomes

- Outcomes are shaped by the institutions, culture and practices
- The local factors shaping different outcomes:
 - Recruitment of competent, public-spirited individuals
 - Space for alternative agendas in public discourse
 - Clean elections
 - Institutional capacity to translate mandate into outcomes





System Improvements

**Instruments of
Accountability**

**Direct election of Chief
Executive at the State
level with clear
separation of powers**

**Comprehensive
Electoral Reforms**

- Direct Elections
- Proportional Representation

**Empowerment of Local
Governments**

Rule of Law

**Key
Governance
Reforms**



1. Instruments of accountability

Reforms

Consequences

Service Delivery Law

- Tax money deployed for services

Ombudsmen

- Asymmetry of power countered

Accountability Measures

- Check on abuse of authority
- Reduced burden on parties and political process

Civil Service Reforms

- Enhanced capacity to deliver

Key
Governance
Reforms

2. Direct elections to the executive in state to ensure:

- Clear separation of powers
- Fixed tenure and stability
- Cabinet chosen by the executive (outside the legislature)
- No nominated Governor
- No Article 356

The Way
Ahead, in
our context



3. Proportional Representation

- State as unit for PR threshold
- Multi-member constituencies having 6 to 10 seats
- Each voter will have a single vote for a party of his/her choice.
- Each party will offer a list of candidates in order of preference
- Members are elected from party lists in each multi-member constituency
- Each elected member is allotted to an Assembly / Lok Sabha segment by preferential choice based on party vote share in the Multi-Member Constituency

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our context



Merits of Proportional Representation

- Vote buying diminishes as marginal vote is not critical
- Competent and honest politicians with good image become electoral assets
- Rational, long-term policies can be pursued as marginal vote is unimportant
- National parties will be viable in all states
- Vote reflects voters' views
- Greater voter participation
- Voice and representation to all segments and views

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Ahead, in
our context



4. Importance of Rule of Law

Effective rule of law will accelerate change by :

Enforcing accountability

Preventing / checking abuse of authority

Enforcing rights of the weak and poor

Reducing incentives for criminals & corrupt to enter politics / capture the state

Punishing corruption swiftly

Why State matters?



Reforms in Rule of Law

- Separation of crime investigation
- Independent investigation commission under judicial supervision
- Independent District Attorneys drawn from trial court judges (Session Judges) on deputation for a fixed term
- Strong forensic infrastructure
- Increase number of judges / courts
- Indian Judicial Service
- Procedural reform for justice delivery

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Ahead,
in our
context



5. Local government empowerment

Present Scenario

Over-structured,
underpowered local
government

- Needed Complete devolution: treat 11th and 12th Schedule, on par with 7th Schedule
- The Legislative Council as the 'Council of Local Governments' similar to Rajya Sabha
- Devolution of funds and functionaries

The Way
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in our
context



Local government empowerment

Vote

- Public Good
- Reduced role of vote buying
- Participation of enlightened citizens

Taxes

- Services
- Better Public policy
- Focus on infrastructure and nation building
- Better fiscal management

Authority

- Accountability
- Better Service delivery
- Greater legitimacy and democracy

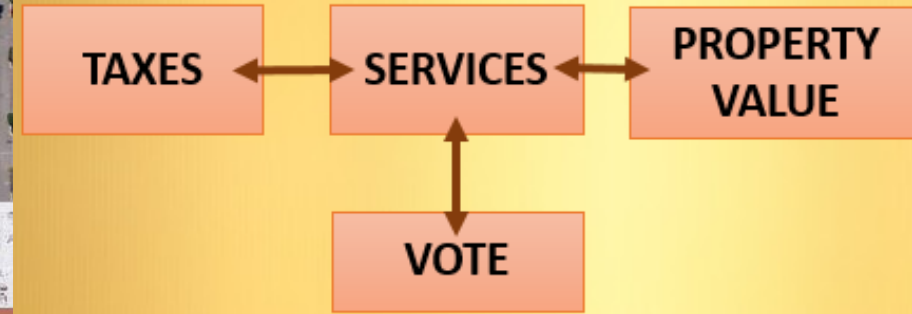
The Way
Ahead, in
our context



The Way Ahead, in our context



- Sunnyvale & Cupertino are two cities in Bay Area of California on either side of Homestead Road
- Through all conditions are similar, property values of Cupertino are 40 – 50% higher
- Reason: School District in Cupertino has good reputation for outcomes. Only local residents (tax payers) can send kids to local public schools. Hence, greater demand for houses in Cupertino



“Set your course by the stars, not by the lights of every passing ship.”

- *Omar N. Bradley*

