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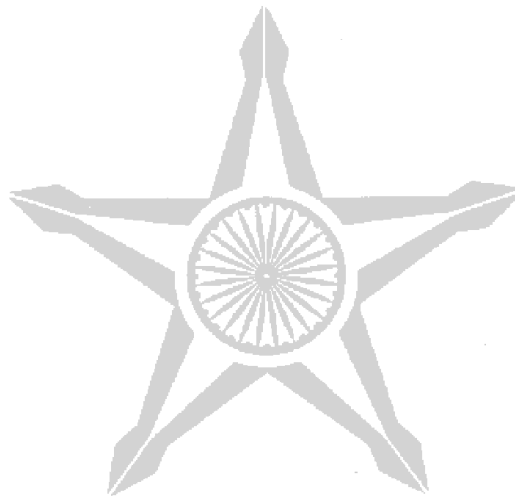
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Governance and Growth

*by*

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# Governance and Growth<sup>1</sup>

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## Introduction: India and China – A Comparison

Despite fractious politics and short-term populism, Indian growth rate at about 7% per annum, is next only to China's among major economies. This reflects the underlying strength of our economy. However, comparisons with China are inevitable, given our comparable sizes, length of history and civilization, and somewhat parallel developments after the Second World War. Many objective observers believe that China is destined to be the next economic superpower. By contrast, India is believed to be under-performing. 'Daedalus' magazine, reviewing the health care in the United States twenty-five years ago, coined the expression "Doing better, and feeling worse". That description certainly fits our economic scene. While on the one hand, when compared with earlier decades, our economy has been doing much better in terms of growth rates, the socio-economic indicators have not changed radically.

Is this underperformance a consequence of democracy, and Chinese progress to dictatorial policies? What is the truth? A careful analysis shows that dictatorship has been an obstacle to China's growth for decades. The infamous Great Leap Forward and Cultural Revolution led to enormous grief and vandalism. The successes of Mao's era – accessible school education, effective healthcare delivery, and transfer of technology to rural areas had nothing to do with dictatorship; they were products of sound and sensible policies.

Similarly, the Deng era successes are not a consequence of authoritarianism, but greater liberalization and democratization. Choice and competition in economic arena, removal of entry and exit barriers, highly decentralized economic decision making, effective local governments enjoying functional autonomy, and in recent days the experiment of deliberative democracy at local level – all these are symptoms of greater democratization, not totalitarian control and arbitrary decision-making.

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<sup>1</sup> This paper draws heavily from the author's earlier writings and lectures – notably The Palkhivala Foundation Lecture in Chennai (Aug 20, 2005) and Prof. G Raghava Reddy Memorial Lecture in Guntur (July 27, 2005).

Clearly, the difference in growth rates and current GDP levels between the two countries cannot be attributed to Chinese totalitarianism and Indian democracy. Instead, sound policies and enhancement of liberty are the two key determinants of economic success. Despite our democratic system, decision-making is highly centralized in India. It is said that the United States has the largest number of final decision-making authorities relative to any other society. India possibly has the smallest number of final decision makers for any large society, let alone a democracy.

Not too long ago, China's spectacular advances in the field of telecommunications was a source of global wonder and admiration. But once Indian policy makers got their act together, and allowed choice, competition, technology and investment, we are now witnessing a comparable growth in this sector. The difference between the two countries is largely on account of the delayed liberalization in India. As China, under the redoubtable Deng, changed course in 1978, we waited until the 1991 crisis to allow freedom and choice.

### **Liberalization – Not a Panacea**

The economic reform process started in 1991 certainly yielded good dividends. Growth rate went up. In a country used to the Hindu rate of growth of about 3%, 6 - 7 % growth rate now is widely regarded as unsatisfactory. Consumer goods are better and cheaper now, and there is greater choice on offer. Investment has gone up, and exports boomed for a decade. Contrary to fears, opening up of the economy did not lead to a deluge of foreign goods. The Indian consumer proved to be very discerning, seeking good value for money. Nor did neocolonialism or economic imperialism threaten India's freedom. The percentage of poor people is showing decline, and population is reaching replacement level in the South and the West. Removal of foreign exchange controls did not lead to flight of dollars; reserves actually went up significantly. Reductions of tax rates led to higher revenues, and not lower. Many new enterprises came up significantly, and the young people are more ready than ever before to find jobs outside government. India saw a revolution in telecom and information sectors. Organized workers, who had enjoyed immense protection for long, now realize that their future is linked to the health of their enterprises. The person-days lost on account of industrial strife fell dramatically. The *doomsdayers* who prophesied disaster with liberalization proved to be wide off the mark. Most people are actually better off today than they were a decade ago. By all standards, the reform process has yielded good results.

It is now axiomatic that the government which governs the least is the best government. Public opinion has also come to accept that government has no business to run businesses. Libertarians naturally oppose high taxation or huge public expenditure. As Milton Friedman so succinctly explained, a citizen knows best how to maximize his happiness by spending, as he deems fit, the Rs.100 in his pocket. The alternative of transferring to the State most of it and hoping that someone, somewhere will take sound decisions for him (an unsound assumption), and receiving only a small fraction of it in the form of public goods and services (after transaction costs, leakages, inefficiency and corruption) is clearly unattractive to most of us.

But closer examination of the OECD countries shows that in the real world, most States pursue economic policies that combine the libertarian principle of *laissez faire* with expenditure for promoting social good in the form of education, health care and welfare. Notwithstanding Ronald Reagan and Margaret Thatcher, the public expenditure in OECD countries is about 45% of GDP on an average. India's public expenditure as a share of GDP is lower than every OECD country, except the two city-States of Hong Kong and Singapore. The social expenditure alone accounts for 25% of GDP, adjusting for country-variations. The high-income countries spend 5.6% of GDP on public education and 6.4% of GDP on public health. Medium income countries spend only 4.6% and 3.2% of GDP on education and health respectively, while poor countries spend a measly 2.5% and 0.8% on these two sectors.

What does this indicate? Limited government and political and economic freedom to citizens are vital for individual growth and national advancement. But liberty cannot be construed in a very narrow and negative sense of State not abridging individual freedoms. State is not merely a necessary evil to defend our frontiers, maintain public order, protect citizens and ensure justice. State can, and should, also be a positive institution to create basic infrastructure, develop natural resources, and most of all to provide quality school education and effective primary health care. Liberal think-tanks and academics have been vehemently advocating rollback of the State from these areas. While State's role in business is now universally opposed, there are no realistic substitutes to State in school education, primary health care and the like.

It does not mean that State alone should pay for these services. Private and voluntary sectors have a significant role, and nowhere in market economies is that role more pronounced than in India. Nor does it mean that State should necessarily deliver these services. Stakeholders groups and voluntary organizations often do the job much better. But the financing has to come from the State. And, the State does not mean the centralized, remote, big-government, but localized, citizen-centered government starting with a community of stakeholders, and expanding in concentric circles to local, provincial and federal governments based on the principle of subsidiarity.

We have to recognize that social goods like school education and primary health care cannot be accessed by most citizens without State's intermediation or funding. And in our country, with vertical hierarchies, caste divisions and moral neutrality to social inequities, State's role is critical. With the State failing in these sectors, the bulk of our gene pool is wasted, and educational opportunities are effectively limited to a quarter of our population; poor people end up suffering and spending much more than the rich in market-driven private health care systems. Making education a profit-making enterprise has resulted in mushrooming of countless colleges that produce mostly literate, semi-educated, unemployable graduates. It is easy for the well-heeled and well-connected to ridicule the role of the State. But the fact remains that the future of the vast majority of our children is dictated by the circumstances of their birth. The potential of most children remains unfulfilled. Opportunities for vertical mobility are severely restricted for the bulk of the population. Paradoxically, in the 1950's and 60's, children had better opportunities. But the decline in public education and health care makes the situation increasingly unacceptable. Abdication of State is no solution.

### **State, Resources and Development**

As pointed out, the GDP share of public expenditure in India is low compared to OECD countries. But it would be wrong to conclude that State's incapacity to deliver is a result of shortage of resources alone. Indian State was never short of resources to abstain from carrying out vital functions necessary for development. Excluding the local governments' expenditure and inter-governmental adjustments, the combined total expenditure of the Union and State governments, according to the budget estimates is a whopping Rs 2000 crore per day or in terms of purchasing power it is equivalent to \$2 billion a day!

What do we get in return and what do we have to show? Eighty crore children with no access to school education, 70 crore people without access to proper toilets, shortage of teachers and excess of peons and clerks, appalling public services and woefully inadequate infrastructure. Without having to increase public expenditure, without having to seek aid from international agencies, these 8 crore children could all have access to basic school education. It just requires some re-allocation of funds and commitment of the governing class. At 50 children per classroom we need to build 16 lakh class rooms. Each class room can be built at Rs 1 lakh or less. This will incur a one-time expenditure/investment of Rs 16,000 crore. This is equivalent to only 8 days' government expenditure! Running the school — teachers and basic teaching aids — would incur a recurring expense of Rs 8,000 crore; a mere four days' expenditure! A very paltry investment when you calculate the social and economic returns to the country. Similarly, all it takes to provide a safe, hygienic toilet for every household is about Rs 12,000 crores public expenditure (Half the needy households can pay from their own resources if technology and material are accessible, and a campaign is launched to promote proper hygiene and sanitation). This is equivalent to a one-time investment equal to six days public expenditure. Studies have also shown that our public health system can be completely revamped, and health care improved and made accessible to the poor and needy, at an additional cost of about Rs. 10,000 crores per annum.

These examples demonstrate that while resources are scarce, even the available resources are not properly deployed. The Indian State has increasingly become a stumbling block to our economic growth prospects. The State guzzles vast resources and produces very little in return. We have, in all, about 2.7 crore workers in the organized sector, or about 8% of the total workforce in the country. Of them, an astonishing 2 crore, or nearly three-quarters, are in government! About 1.3 crore are directly employed by the government at various levels, and about 70 lakh are in public sector undertakings. This number in the last decade has actually increased by nearly 10 lakhs. The problem is not the size of government employment in absolute terms. Many nations have a larger proportion of population employed by government. Therefore, the solution does not lie in mindless downsizing. What we need is redeployment and greater productivity. Take a large State like Andhra Pradesh with 900,000 employees in government. About 180,000 or 20% are unproductive for the people, as they are

engaged as peons and drivers! Another 30% (270,000) are support staff (clerks etc..) whose only purpose is to allegedly help the decision-makers. There are about 40,000 officials with decision-making power at some level or other, and they could perform far more efficiently and economically with a well-trained support staff of a total of 60,000. But we have 450,000 of them employed as clerks, drivers and peons! We have about 310,000 teachers, but the State probably needs another 300,000 teachers of good quality to sustain a credible school education infrastructure. The health care system is inadequately staffed. We have a total of about 15000 judges in India. Germany, with a population of 8 crore, has 30,000 judges! We have far fewer police personnel than needed in modern times. All this demonstrates that it is not merely the size of the government, what matters most is the productivity of the government. If government is productive, it creates conditions for economic growth, which in turn promotes employment in private sector. The ratio of government workers then comes down in time.

### **Fiscal Rigidities and Indian State**

The other important aspect that is curtailing productivity of Indian State apparatus is the rigidities that characterize the fiscal planning in India. One of the recurring themes of Indian public expenditure and budget making in the last decade is the fiscal rigidities making it difficult for governments to change policies and priorities. In the Union budget, interest payments, defence expenditure, transfer of resources to States and wages are more or less inflexible, and there is no room for manoeuvring. It is now axiomatic that subsidies cannot be removed without incurring high political and social costs. Similarly, in States too, repayment obligations, wages, administrative costs, expenditure on ongoing schemes and projects, State's share in centrally-sponsored schemes etc., are inflexible, leaving little room for innovation. Again, subsidies are hard to cut. The result is less than adequate social expenditure and poor quality infrastructure.

As early as in 1992, Dr Manmohan Singh as Finance Minister lamented the shackles imposed by these fiscal compulsions. The only two changes subsequently are, defence expenditure shot up significantly in recent years, and wage expenditure of both the Union and State increased greatly with the acceptance of Fifth Pay Commission recommendations. Economists, analysts and politicians owe it to the country to evolve mechanisms to break this logjam.



However, there are realistic and effective options still available. But we need courage and skill to exercise them and achieve tangible results. Let us take subsidies as an example. For fiscal 2002-03, major Union subsidies account for Rs 37,392 crore. Food subsidy alone will cross Rs 21,200 crore. Power subsidies and losses (which will eventually be subsidized) in States will probably account for Rs 40,000 crore. And there are other subsidies in States too. Is there a way of reducing these subsidies, retargeting them without inviting massive social unrest and political opposition?

But there are ways of reducing subsidies in a politically acceptable way. Let us suppose the administration of food subsidy (the consumer part of it) is transferred to local governments. We can actually quantify the amount of subsidy based on the food grain offtake and price differential at the local level. Then the Union or State can ask the local government to retarget the subsidies to reach the deserving poor and cut down on leakages. This will work if the subsidy amount so saved is made available to the local government for other desirable activities, say infrastructure building or social expenditure. Once local government is assured of additional resources based on performance (cut in subsidies), it will have an incentive to reduce subsidies and unlock these resources. The money saved can thus be used for schools, drains, water supply, roads, health centres and sanitation. Since there is a clear link between subsidy reduction and alternative public goods and services, a powerful local constituency will be built favouring reduction in subsidies. In centralized administration, there are only losers in subsidy reduction, and no corresponding gainers. But once it is decentralized, and savings are alternatively deployed, the same family which loses a subsidy will gain directly through better public goods and services. Or there will be as many or more gainers as losers. We will then have achieved two objectives. Subsidies would be reduced, and expenditure is directed towards more desirable goals. This principle can be applied to several subsidies – food, agricultural power, irrigation etc.,

### **Public Sector Management and Indian State**

The third important question pertaining to the productivity of government is the role of government in running enterprises, and the plight of infrastructure sector. It is by now well-recognized that public sector is often a euphemism for political patronage and private aggrandizement. Politicians, in power or out of it, and career bureaucrats as a rule have no respect for economic logic or wealth creation. A few more jobs to cronies, promise of illusory gains to constituents, cushy rehabilitation for favoured sidekicks,

luxurious jaunts, and kickbacks in contracts and purchases are the golden eggs which make PSUs so attractive. In this anxiety to make a killing while the going is good, if the golden goose itself perishes, well, it's too bad! In any case, that is the problem for successors.

This cynical approach has been the hallmark of management of public enterprises. For decades, State monopoly in telecom sector held back services and growth and caused misery to hapless consumers. All this in the name of protecting the revenues of inefficient State monopolies and private oligopolies. Airlines have been managed as private fiefdoms of the presiding ministers. Any attempt to inject competition and efficiency, and invite investment is resisted fiercely with predictable invocation of pride in national carriers. Oil sector has suffered decades of loot by meddlesome politicians, and even now monopolies continue despite the facade of opening up. Steel plants were once the favoured trophies. But again, decades of wasteful practices and sloth led to disastrous consequences. And when a competent manager makes valiant efforts to improve efficiency and profitability, he is often victimized.

The analysis so far has demonstrated that the resources are not a vital constraint and yet the State apparatus regularly fails to provide basic services. Centralized governance has made it increasingly difficult to control fiscal profligacy and the State apparatus has become a dispenser of patronage, resulting in institutionalization of corruption. Most Indians share a sense of unease and disquiet. Our potential remains unfulfilled even today. Impressive as they are by global standards, our growth rates are insufficient to make a significant dent in poverty, or to absorb the millions of youngsters joining the workforce. Fiscal deficits stubbornly remain at the 10% GDP level. Government continues to be wasteful, inefficient and corrupt. As a consequence, there are many who ask: how come our political class is not displaying courage and skill to achieve tangible results? But political skills of individual leaders alone is not sufficient. There are large numbers of politicians who have consistently displayed courage in taking decisions that are bold and imaginative. Yet the crisis of bad governance persists due to distortions in our political process. What are these distortions? Huge, illegitimate election expenditure has resulted in money power becoming dominant in elections. The social divisions and the electoral system have facilitated rise of fiefdoms and legislator to become a disguised executive. The centralized governance system and vast bureaucracy are having pernicious impact on fiscal health of States and the Union. With these distortions,

the State apparatus can never function in a productive manner. And an inefficient State apparatus will act as an impediment to economic prosperity. Hence, an exploration into causes of distortions in political process and reasons for absence of good governance will provide us with the keys to economic prosperity and political transformation of India.

Leadership in modern world provides a great contrast what that in India. In a remarkable speech to European Parliament recently, Tony Blair exhorted politicians to respond to the challenges of today. Emphasizing the need for keeping pace in a changing world, he reminded OECD countries, "The USA is the world's only super power. But China and India in a few decades will be the world's largest economies, each of them with populations three times that of the whole of the EU.... (European social model) is allowing more science graduates to be produced by India than by Europe. India will expand its biotechnology sector five-fold in the next five years. China has trebled its spending on R & D in the last five..." Outlining the challenges of today, he called for renewal of the idea of Europe, and said, "Now, almost 50 years on, we have to renew. There is no shame in that. All institutions must do it. And we can. But only if we remarry the European ideals we believe in with the modern world we live in". That is the stuff of true politics and great leadership rooted in genuine soul-searching, passion and spirit of public service.

### **The Problem of Our Politics**

Does our politics measure up to the challenges of today? Four unhappy characteristics dominate our political landscape. First is the patronizing attitude to people: citizens know nothing and are parasitic; and they need regulation, protection and doles. As a corollary we need **centralized administrative apparatus**, as large number of citizens are ignorant and are incapable of participating in local governance structures. The notion that citizens have no capacity to understand their self-interest and are incapable of taking charge of their own lives at local level is absurd in a democracy. And yet, we extol the virtues and wisdom of voters when they exercise their franchise in electing state and national governments. Many of us admire China's rapid economic growth in recent years. But we often ignore the fact that the employment and exports in China are powered by the millions of town and village enterprises (TVEs) with the support and active participation of local governments. One of the ironies of contemporary history is authoritarian and communist China is far more decentralized than liberal democratic India! When the British argued that we were not fit for freedom, our leaders pointed out

that good government was no substitute to self-government. They had to grudgingly admit that the British did give good government, and yet we fought for our freedom. Today, centralized government has become a repository of corruption, incompetence and misgovernance. What we have in the name of governance is constitutional brigandage and legal plunder and yet we continue with highly centralized administrative apparatus, which does not facilitate peoples' participation in governance apparatus.

### **Unceasing Fervor of Failed Ideologies**

This patronizing attitude to people also manifest itself as ideological populism. Witness the quality of debate on BHEL disinvestment. Every perceptive citizen knows that public sector in India is largely private sector of those in public office. We only need better goods and services at least cost, and it does not matter who produces them. We all know, during the past fifty years, in the name of socialism, we undermined true entrepreneurship. And we became control freaks. I vividly remember that only 20 years ago we had cement control and dual pricing, and people had to beg for cement permits to build homes! We had bureaucrats controlling steel sales and seeking bribes and exercising patronage. On the other hand, the state's failure in education, healthcare, rural technologies and infrastructure have been too well documented to need elaboration. In short, the state failed in its core areas of legitimate functioning, and did everything possible to undermine our self-esteem and enterprise. And yet, even today we hear arguments for increased state intervention in non-critical areas.

Let us compare and contrast the efficiency and competitiveness of public sector vis-à-vis private sector. Disinvestment ministry has quoted a NCAER study to conclusively establish that public monopolies cannot effectively respond to changed conditions. Comparisons of factor productivities, profitability and cost structure – all show the dynamism of private management and inertia of state control. As the total factor productivity in private sector recorded 3.4% growth since 1985, in public sector there is a negative growth of -1.1%. Manufacturing PSEs continue to show losses, while manufacturing private sector shows decent profits. From resource utilization point of view and competitiveness, the most critical comparison relates to cost structure of power and fuel, wages and interest as a ratio of net sales. In 1990-91, the public sector (minus oil sector) spent 37.7% of net sales on these three heads, as opposed to private sector's cost of 21.7%, with a net saving of 16 %. Amazingly, by 1997-98, this difference in cost

incurred has increased to 38.3% of net sales, with public sector spending 54.5 % of net sales on these three items, and private sector 16.2 %! Increased competition and open markets forced private sector to reduce costs to a tune of 5.5 %, whereas public sector costs went up by almost 17 %! There cannot be a more severe indictment of public sector management. The managers are not at fault; the same personnel in private environment produce excellent results. We must recognize that even if all else is equal, public sector culture does not foster the best management practices. With the economy opening up, and competition growing, continued insistence on government controlling PSEs will only erode their assets, and eliminate them from the market.

The champions of state control must answer a fundamental question. Have people elected them to govern, or to run a business? Socialism took roots as a moral philosophy based on compassion and concern for equity at a time when predatory capitalism of robber baron variety led to extreme degrees of oppression and misery. But today's market economy adapted the best features of humanism, welfare and sustainability. Resorting to outdated arguments and shibboleths, and criminal waste of scarce public resources at the cost of justice, rule of law, education, health care and decent infrastructure is cruel to the poor and disadvantaged. Quality schooling, accessible health care, speedy justice and security net for the indigent are the best anti-poverty programmes. A government, which cannot provide these, has no moral authority to take upon itself other burdens, and discharge them incompetently. Ministerial office and bureaucratic sinecures have become private fiefdoms, and loss of patronage and control unnerves those in authority. But equating self-interest of those in power with public interest is an insult to the intelligence of the long-suffering people of the country, and a cruel irony in a society impoverished by bad policies and worse governance. Moreover, unnecessary and inefficient state interventions, and imprudent economic policies are pushing our governments into fiscal crisis. And yet, public interest is sacrificed at the altar of failed ideologies. Or take the fears of globalization stoked with unceasing fervour. Mighty US and Europe are showing signs of anxiety with the increasing competitiveness and growing market share of China and India, and our antiquated politics can only see dangers in every opportunity! Or take the labour markets: the world over, rigid markets and overregulation led to large scale unemployment; and yet we want to perpetuate status quo at the cost of the millions of job seekers. And of course the politicians' eternal preference of doles and subsidies

over empowerment and liberation of productive potential is too well known to require elaboration.

### **Politics of Plunder and Rent Seeking**

The second dangerous feature of our politics is its predatory nature. Politics of plunder and rent-seeking have become the norm, and public-spirited politicians are increasingly marginalized. Distortion of markets, kleptocracy, and shameless display of unearned wealth have created a culture of illegitimate plutocracy. Power and ill-gotten money acquired by abuse of power have become ends in themselves. Politics has in a large measure ceased to be a means to public good. Obsession with power at any cost has created a class of criminals and crooks dabbling in politics, and decent citizens are increasingly shunning public life. For instance, after the elections to Maharashtra Assembly, a one-time mafia don, Arun Gawli, and a few others with notorious record of crime, have become law-makers. Arun Gawli did not even need a major party support – he was elected as an independent! In India's poorest state of Bihar too, Pappu Yadav, who strikes terror in the hearts of rival gangs and law-abiding citizens, won with massive majority and is now a Lok Sabha member, a privilege denied to Dr Manmohan Singh in 1999. And Pappu Yadav won against the combined opposition of Samata, BJP, Communists and Lok Janshakti!

Wringing our hands in despair at this increasing criminalization of politics, and politicization of crime will do no good. We need to understand the economic and institutional imperatives that increasingly legitimize crime and violence in society and public life. These criminals have not come out of a vacuum. Our malfunctioning governing institutions created fertile conditions for their rise. Any one who has an unresolved civil dispute with a business partner or customer understands how tough it is to run a business ethically in India. For instance, if an honest entrepreneur produces high quality products at competitive price, and if the government is the monopoly buyer of his product, the travails he faces are unbelievable. If he cooperates with the CBI or other anti-corruption agencies to trap the errant officials, then his troubles multiply. The whole organization suddenly gang up against him and makes his life miserable.

If such are the problems faced by asset-rich, resourceful and well-connected entrepreneurs, the pain and suffering inflicted on lesser mortals in getting civil contracts enforced, or receiving reparation for the damages sustained have to be seen to be

believed. A house-owner who cannot get her property vacated even for self-occupation, and the owner of a small plot of land who cannot evict a land-shark have no realistic legal recourse in our society. With 25 million cases pending in courts, and with most litigations taking decades for resolution, people have no realistic hope of justice through formal mechanisms. As a result, millions of cases never reach the courts. Like 'missing' girl children on account of female foeticide, there are millions of such 'missing' cases in India every year. These missing cases, and not merely pending cases, reflect the appalling failure of due process and rule of law in our country. Most people prefer to swallow injustice and suffer silently. A few who have means, or are desperate, seek rough and ready justice through brutal methods. The neighborhood 'bhai', or the local mafia don is supplying his services to meet this unmet demand. In a civil court, even if you are lucky to get a decree in your favour after decades of struggle, your problems continue. To enforce a decree, an execution petition has to be filed, and another prolonged, excruciating process begins! But the local don will ensure settlement of dispute for a price within a few days, and his 'verdict' is enforced instantly. No wonder, many people see crime lords not as villains, but as saviours!

It is no secret that many banks and other financial institutions are now deploying musclemen to recover debts. If formal, organized businesses feel the need to resort to use of force to run legitimate businesses, it is no surprise that ordinary people treat criminals with deference. In such a twilight zone, the distinction between 'hero' and 'villain' is erased. Brute force becomes the only effective arbiter. We can set things right only when it is possible to do business or protect rights through peaceful and lawful means. Rise of criminals is a consequence, not the cause, of breakdown of rule of law. This is particularly true of urban India.

A similar process is at work in government too. The spectacle of helpless citizens, in Andhra Pradesh, and at times influential persons and officials, queuing in front of the Maoist Communists ('Naxalites') petitioning for redressal of their grievances says it all. There is no greater indictment of the functioning of our governing institutions than the public display of faith in armed revolutionary groups in the midst of the peace negotiations with government. In general, people have lost faith in the system, and have come to believe that nothing is accomplished through peaceful efforts, or due process.

Is it a surprise then that voters have no qualms in electing notorious gangsters as their representatives? People do know the difference between right and wrong, and good and evil. But they have realized that an honest, peaceful representative cannot really deliver results in this unhappy milieu. That is why a Manmohan Singh, whose assumption of office as Prime Minister was universally hailed, is not elected as a mere MP in a Lok Sabha constituency. And the decent men and women who do get elected are helpless in getting things done. We have created a system of alibis in which authority is delinked from accountability, and stake-holding is divorced from power-wielding. In such a situation, honest legislators have very little capacity to influence events for public good. But a mafia don enforces iron discipline, and makes the bureaucracy comply. The very criminal reviled by the media and middle classes is perceived as a saviour by the common man! And once a gangster makes money, he spends lavishly for 'good causes', styles himself as the leader of his caste or religious group, and can muster the muscle power required to navigate through the political and bureaucratic minefield. Witness the rise of Arun Gawli!

Once a legislator gets elected by deploying illegitimate and unaccounted money power, he converts politics as business. While constituents are kept relatively happy by 'good' deeds and selective intervention, the legislator's influence is largely deployed for postings of pliable bureaucrats and transfers of inconvenient officials; distorting market forces and undermining fair competition in contracts, tenders and public procurements; and endless interference in crime investigation. This is the 'dangerously stable equilibrium' Robert Wade described in his authoritative studies 25 years ago. The situation is even more complex in some ways now, but is by no means intractable. However, as Yeats lamented, "The best lack conviction, and the worst are full of passionate intensity." In the process very few new and powerful ideas are vigorously pursued to improve the conditions of the bulk of our people or to accelerate our growth rate.

### **Medieval Politics**

Third, politics continues to be medieval in nature. Much of the debate on education is centered round rewriting history or detoxification of text books. The 'great' debates are about the location of a temple or a mosque, or past insults and private injuries, or perpetuation of barbaric practices and shunning of modern, humanistic vision.



Obscurantism is zealously guarded, and “the clear stream of reason has lost its way into the dreary desert sand of dead habit.”

The Medieval character of our polity is also reflected in the way political recruitment is done. In India, traditionally parties have been seen as pocket boroughs of those at the helm. Often there are entry barriers to members. Those who pose a potential threat to entrenched leadership are denied access to a party, or expelled even for faintest criticism or dissent. The parties, which exhibit such authoritarian tendencies in protecting the privilege of those in power and nipping in the bud any potential threat to individual dominance have not shown the slightest sense of shame or remorse in assiduously cultivating and recruiting known criminals, corrupt persons and those with a dubious record. Such shady elements are courted and welcomed, while decent and dignified citizens are shunned and often rejected. There are no published membership rolls, and spurious membership has become a common feature. There are no internal democratic norms and procedures in leadership choices at various levels. There are no mechanisms for open debate or dissent, and for influencing the views of members. Finally, the choice of candidates nominated by a party for elective public office is left entirely to the discretion of the party bosses with members having little say. With this the control of party bosses and coteries is complete – they are often unelected, and unaccountable, and they perpetuate themselves with illegal funding and a culture of nominations to all party posts and elective offices. All this has created political fiefdoms resembling ancient monarchies or medieval Zamindaris. Little dynasties have spawned all over the country and these oligarchies have a vice-like grip over our legislatures. A careful analysis of the nearly 5000 legislative offices in States and Lok Sabha will reveal that probably two-thirds of them are controlled by about 10,000 well-connected political families. No matter which party wins, power alternates between members of these families. Politics has become big business. Big investments are made in elections, and much bigger profits are reaped once elected to office. A legislator is more a disguised and unaccountable executive than a public representative. This prevalence of medieval culture in political parties is the root cause of the increasing failure of parliamentary democracy.

### **Incompetent Policies: A Case of Education and Health Care**

Finally, incompetence and laziness have become virtues in our political domain. Even now, our vision of education is merely increasing enrolment of school children and reduction of dropouts. Quality of education, high productivity of citizens, and seizing

opportunities that modern world offers do not even enter our public discourse. Our universities languish despite the undoubted potential of our youngsters and the civilization strength we enjoy. Statistically education sector in India looks impressive. 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!

All these are impressive numbers by any standards. India certainly has a vast higher education infrastructure, which can be the envy of any developing country. 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. But many of them are migrating to the U.S and West. Recent reports say that the 75,000 Indian students constitute the largest foreign contingent in American universities! These are products of the few good institutions, backed by exceptional talent, family support and conducive environment. But most of our colleges and universities produce graduates of indifferent quality. 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. As Coleridge lamented in his immortal poem, "Water, water everywhere; but not a drop to drink!"

Clearly, the main function of higher education system is to add real value to human resources, and produce wealth creators and leaders in all fields – business, professions, politics, administration, and creative pursuits. Even the crisis in school education is compounded by the failure of higher education. Most problems in our schools – curriculum, text books, teaching methods, examination system – can be overcome by

innovative efforts and sensible public policy. But there is phenomenal shortage of good teachers. And only university graduates can be teachers! Millions of graduates are hunting for jobs, and yet, most of them cannot be trusted with our children's education. A classic vicious cycle has set in : poor school education has weakened university standards; and collapse of higher education denies good teachers to schools! All of us face this dilemma in our schools.

Given this, most households are petrified at the thought of a kid to be admitted to school, or a sick person seeking medical attention. Quality education and healthcare are simply inaccessible and unaffordable to most Indians. Let's take health-care. There is ample evidence to demonstrate that delivery of public health services in India is insufficient and iniquitous. India's allocation for public health is indeed pitiful – 0.9% of GDP. Shamefully, our public health expenditure at 17% of total health expenditure is comparable to that of failed societies like Cambodia, Burma, Afghanistan and Georgia. Many studies reveal that on an average, s/he spends 60% of the annual income towards medical costs for a single episode of hospitalization - whether in private facility or in government hospital. Consequently, 40% of hospitalized Indians are forced to sell their properties or borrow at high interest rates. This results in a good 25% falling below the poverty line. Most of this burden is borne by the poor, unorganized sectors of population.

China may run medical schools to educate Indians at moderate costs; US and Europe may attract bright Indian youngsters to their universities; India may have the potential to create world class facilities to meet our growing needs and become the hub of global education and health services. But our politicians are oblivious to the challenges of today, and frame lazy policies and execute them incompetently.

### **Vicious Cycles**

The distortions of our political process have significantly eroded the State's capacity for good governance. First, the positive power to promote public good has been severely restricted; while the negative power of undermining public interest is largely unchecked. Authority is delinked from accountability at most levels, and in respect of most functions. As a result, most State functionaries have realistic and plausible alibis for non-performance. Second, while the electoral system has demonstrated great propensity to change governments and politicians in power, the rules of the game remain largely unchanged. Increasingly, honesty and survival in political office are incompatible. Third,

all organs of State are affected by the malaise of governance. Political executive, legislators, bureaucracy and judiciary – no class of functionaries can escape blame. For instance, 2.5 crore cases are pending in courts, and justice is inaccessible, painfully slow and costly. Fourth, at the citizen's level, there are no sufficient incentives for better behaviour. Good behaviour is not rewarded sufficiently and consistently, and bad behaviour is not only not punished consistently, it is in fact rewarded extravagantly. As a result, deviant and socially debilitating behaviour has become prevalent, and short-term individual interest has gained precedence over public good.

### **Interlocking Vicious Cycles**

In a well-functioning democracy, the political process ought to find answers to governance problems. Every election holds a promise for peaceful change. People in India have been voting for change time and again. But the political process is locked into a vicious cycle, and has become a part of the problem. There are several factors complicating the political process, perpetuating the status quo.

First, election expenditures are large, unaccounted and mostly illegitimate. For instance, expenditure limit for Assembly elections in most major States was Rs 6 lakh until recently, when it has been revised to Rs 10 lakh. In reality average expenditure in most States is several multiples of it, sometimes exceeding Rs 1 crore. Most of this expenditure is incurred to buy votes, bribe officials and hire musclemen. Sadly, the Southern States, which are hailed for better governance, have the dubious distinction of being the worst offenders in this regard. The expenditure incurred in Andhra Pradesh in the current Assembly and Lok Sabha poll is estimated to be about Rs 800 – 1000 crores. On an average, the leading candidates for Assembly spend Rs. 1 to 1.5 crores each, and those for Lok Sabha about Rs. 3 – 4 crores each. The expenditure in the Kanakapura by-election (in Karnataka) for Lok Sabha held in 2003 was estimated by knowledgeable people at about Rs. 20 crores! The eventual winner was reported to have been heavily outspent by his nearest rival. Curiously, the stakes in that by-election were limited: only a few months of Lok Sabha membership was at stake, and both the leading contenders would have to sit only in opposition! Saidapet byelection in Tamil Nadu Assembly too was said to have broken records, with expenses exceeding Rs. 10 crores!

There are three features of such skyrocketing election expenses. First, large expenditure does not guarantee victory; but inability to incur huge expenses almost certainly

guarantees defeat! There are a few candidates who win without large expenditure, but such constituencies are limited. Also in great waves, expenditure is irrelevant. The Lok Sabha victory of Congress in 1971, Janata in 1977, NTR's victory in AP in 1983 – these are among the many examples when money power had no role. But in the absence of ideology, and increasing cynicism, large expenditure has become necessary to win. Desperate to win at any cost, parties are compelled to nominate mostly those candidates who can spend big money. Such large, unaccounted expenditure can be sustained only if the system is abused to enable multiple returns on investment. The economic decision-making power of the State is on the wane as part of the reform process. But as the demand for illegitimate political funds is not reduced, corruption is shifting to the core areas of State functioning, like crime investigation. Robert Wade studied this phenomenon of corruption, and described the dangerously stable equilibrium, which operates in Indian governance. This vicious chain of corruption has created a class of political and bureaucratic 'entrepreneurs' who treat public office as big business.

Second, as the vicious cycle of money power, polling irregularities, and corruption has taken hold of the system, electoral verdicts ceased to make a difference to people. Repeated disappointments made people come to the conclusion that no matter who wins the election, they always end up losing. As incentive for discerning behaviour in voting has disappeared, people started maximizing their short-term returns. As a result, money and liquor are accepted habitually by many voters. This pattern of behaviour only converted politics and elections into big business. As illegitimate electoral expenditure skyrocketed, the vicious cycle of corruption is further strengthened. With public good delinked from voting, honesty and survival in public office are further separated.

Third, this situation bred a class of political 'entrepreneurs' who established fiefdoms. In most constituencies, money power, caste clout, bureaucratic links, and political contacts came together, perpetuating politics of fiefdoms. Entry into electoral politics is restricted in real terms, as people who cannot muster these forces have little chance of getting elected. While there is competition for political power, it is often restricted between two or three families over a long period of time; parties are compelled to choose one of these individuals or families to enhance their chances of electoral success. Parties thus are helpless, and political process is stymied. Absence of internal democratic norms in

parties and the consequent oligarchic control has denied a possibility of rejuvenation of political process through establishment of a virtuous cycle.

Fourth, in a centralized governance system, even if the vote is wisely used by people, public good cannot be promoted. As the citizen is distanced from the decision-making process, the administrative machinery has no capacity to deliver public services of high quality or low cost. Such a climate which cannot ensure better services or good governance breeds competitive populism to gain electoral advantage. Such populist politics have led to serious fiscal imbalances.

Fifth, fiscal health can be restored only by higher taxes, or reduced subsidies or wages. The total tax revenues of the Union and States are of the order of only 15 percent of GDP. Higher taxation is resisted in the face of ubiquitous corruption and poor quality services. De-subsidization is always painful for the poor who do not see alternative benefits accruing from the money saved by withdrawal of subsidies. A vast bureaucracy under centralized control can neither be held to account, nor is wage reduction a realistic option.

Sixth, elected governments are helpless to change this perilous situation. As the survival of the government depends on the support of legislators, their demands have to be met. The legislator has thus become the disguised, unaccountable executive controlling all facets of government functioning. The local legislator and the bureaucrats have a vested interest in denying local governments any say in real decision-making. The vicious cycle of corruption and centralized, unaccountable governance is thus perpetuated.

Seventh, the first-past-the-post (FPTP) system exacerbates our social divisions as it tends to over-represent geographically concentrated social groups and under-represent the scattered minorities. This representational distortion leads to ghettoisation and marginalisation of the excluded social groups, which then indulge in strategic voting. This gives rise to vote-bank politics in which obscurantists become interlocutors of the group drowning the voice of reason and modernity. For instance, religious symbolism and not education and job opportunities become dominant issues of public discourse. This pandering of fundamentalism leads to competitive mobilization of various groups based on primordial loyalties, leading to communal polarization and social strife.

Eighth, the need for money power and caste clout to win a plurality of votes in FPTP system precludes political participation of men and women of integrity and competence. With their exclusion, bad public policy and incompetent governance become endemic, deepening the crisis.

Ninth, under FPTP system, only a high threshold of voting ensures victory. Usually a party needs 35% vote or more to get reasonable representation in legislature, or social groups with local dominance get elected. As a significant but scattered support pays no electoral dividends, reform groups and parties below the threshold tend to wither away. Voters prefer other “winnable” parties and candidates. This tends to marginalize reform parties, and national parties in many States. It is no accident that the main national parties, Congress and BJP, are directly competing for power in only a few major States. In most States, one or two regional parties are dominant. FPTP thus tends to lead to oligopoly of parties.

### **Social Infrastructure and Good Governance – A *Sine qua non* for Growth**

Given this complex nature of our crisis, we need a multi-pronged strategy to improve the efficiency of governance machinery in order to have a faster and equitable growth. However, can something be done to accelerate growth within the stated fiscal and political constraints? In other words, are there painless, low-cost solutions? Happily, there are at least four areas improvements in which will raise growth rates spectacularly. All these are politically feasible, win-win solutions, which can be implemented within the present or projected budgetary allocations.

First, delivery of education – at both school and university level. Allocations for schools have gone up, and the recent education cess is universally accepted. But even in this day and age, our focus is merely on enrolment and retention, and not on quality. As a result, much of our education is futile. Functional literacy, communication skills, conceptual clarity, skill promotion, and creation of meaningful knowledge and its application form the essence of education.

Except for a few elite schools and colleges, and a small proportion of gifted children, most of our education is unproductive. As a result, millions of unemployable school and college graduates are churned out every year. Happily, there is phenomenal demand for quality education. Even the poor are willing to spend considerable sums for education, in

the hope of a better future for their children. Sensible policies and non-monetary inputs based on best practices will improve the quality of human power, and enhance growth rate by at least one percent.

Second, our healthcare system is in shambles. The government's record in public health is appalling. A few correctives are being applied in recent years, and the Prime Minister launched the Health Mission in April, 2005. But more allocations and better infrastructure alone are not sufficient. Avoidable hospital costs and sickness are the chief causes of poverty, indebtedness and low productivity. Decentralized management, accountability to the community, integration of various health programmes and nutrition, water supply and sanitation at the grassroots level, and most of all, choice, competition and altered incentives in hospital management are the critical changes in trajectory in healthcare delivery. If there is a genuine change of course, even the projected modest enhancements in allocations for public health will ease the suffering of the bulk of our people, raise their productivity and incomes, and substantially accelerate growth.

Third, rule of law is the bedrock of market economy and growth. Proper land surveys, assured property titles, speedy and fair adjudication of disputes, swift punishments for violation of law, quick and effective enforcement of contracts and non-discriminatory treatment are all critical requirements to ensure predictability and encourage investment, risk-taking and hardwork. While normatively we have an independent judiciary and institutions of rule of law, in reality they are moribund and ineffective. As a result, there is a growing market demand for criminals in society, and mafia and musclemen have become the undeclared judges dispensing rough and ready justice by brutal means for a price. There are reports of even a few foreign banks in India hiring musclemen to enforce recovery of overdues. Clearly such a climate inhibits economic activity and retards growth. There are many low cost, politically acceptable, popular mechanisms to improve justice delivery and rule of law. This alone will enhance growth by at least one percent per annum.

Fourth, extortionary corruption and arbitrariness in tax departments are sapping the energies of small and medium enterprises and seriously eroding the competitiveness of our manufacturing sector. The direct taxes have witnessed some measurable improvements. But the administration of central excise, service tax, customs and state-level sales-tax are still largely discretionary, unpredictable and arbitrary. Rent-seeking



behaviour is therefore exceedingly common, seriously undermining the competitiveness of honest tax payers, and diverting the precious time and energy of the entrepreneurs. Transparent, industry-friendly procedures will not only help the economy, but will also enhance revenues. It costs no money, and yet boosts growth.

Improvements in these four sectors cost little, make the government popular, accelerate economic growth by 3-4 percent, promote investment and employment generation, and create several virtuous cycles of growth, savings and investment. All these are eminently feasible, but require bureaucratic accountability and delivery of services, sound, self-correcting, sustainable policies, and display of minimum level of political skills to build consensus and mobilize public opinion in favour of these improvements.

Apart from the sectoral reforms mentioned above, we need involve Civil Society and ordinary citizens to improve efficiency and combat corruption in the state apparatus. There are mechanisms for involving citizens directly in the fight against corruption. In the US, there is a law called False Claims Act, which directly empowers citizens. Any citizen can file a civil suit on behalf of the Federal government if there is corruption and loss to the public exchequer – directly in monetary terms, or indirectly by way of social or environmental costs. The court is empowered to swiftly try such cases called qui-tam suits, and impose a penalty equal to three times the loss sustained. The citizen gets 15-35% of the penalty as compensation for his initiative, depending on the degree of involvement. Over the past 15 years, nearly \$15 billion was thus recovered in these qui-tam suits.

Right to information, citizen's charters, and other people-friendly measures of accountability are powerful weapons in the fight against corruption. In AP, a citizen's charter for the municipalities provides for a compensation of Rs.50 per day's delay in a few basic services. This measure, which came about because of Lok Satta's advocacy, has had a very salutary effect in improving those services and minimizing corruption. Surveys reveal that in those services, satisfaction levels now are over 90 percent. The recently enacted Right to Information law is well-drafted and citizen-friendly. Once this is operationalized in all agencies, states and local governments, it will be a powerful tool in the hands of citizens. Civil society organizations need to seize the opportunity and educate, organize, and mobilize the public in this fight against corruption.

Finally, we must recognize that our political system itself is founded on corruption. Vast, illegitimate expenditure in elections and multiple returns in office have become a vicious cycle distorting our democracy. Politics has become big business. Increasingly, a new class of entrepreneurs who are willing to 'invest' vast sums is attracted to politics. There is thus an inexhaustible appetite for illegitimate funds in our system. Every lever of state is manipulated to get multiple returns on investment. The estimated expenditure of candidates and parties, in elections for Lok Sabha and State Assemblies in a cycle of five years is about Rs. 10,000 crore. Most of it is illegitimate and unaccounted. The system can be sustained only if there is a ten-fold return to politicians to cover risk, return on investment, provisioning for the next election, upkeep of an army of political 'workers,' and private gain. In return, politicians created a system of rent-seeking, with corruption proceeds shared with the bureaucracy. Given that the employees extorting money vastly outnumber politicians, the actual corruption over a five-year period to sustain this corruption chain is of the order of Rs. 10,00,000 crore or Rs. 2,00,000 crore per annum. This is the burden of corruption that citizens face. The message is clear: corruption can be substantially eradicated; but it needs painstaking efforts and will, and most of all, far-reaching political reforms. In my considered judgment, there are three such reforms required.

## **Political Reforms**

### **1. Mixed Compensatory Proportional Representation**

The first-past-the-post (FPTP) system that India has adopted led to several distortions, given the passage of time and ingenuity of legislators. Politics of fiefdom at constituency level has forced the parties to rely on local strongmen. As a result, the political parties and independent candidates have astronomical election expenditure for vote buying and other illegitimate purposes. This has led to a significant weakening of the party platform and ideology, reducing elections to private power games. In many States, national parties have been marginalized where their voting percentage falls below a threshold. Following this, regional parties have occupied center stage in several pockets, holding larger interests at ransom.

All these failings find expression in serious and long-term predicaments. The inability of all political parties to attract and nurture best talent is the primary issue. Difficulties of minority representation leading to ghetto mentality, backlash, and communal tension

form another facet of the problem. Lastly, leadership is undermined by permanent reservation of constituencies (or regular rotation) in order to provide fair representation to excluded groups. The solution to this flawed system is adoption of proportional representation.

Pure proportional representation (PR) in India would invite three legitimate objections. First, in a caste-ridden society PR will lead to further political fragmentation, mushrooming of parties, and greater social schism. The answer to this problem lies in having a reasonable threshold of voting requirement, of say 10 % of votes polled in major States, for representation in legislature. Second, party bosses will become even more autocratic in nomination of candidates in list system. This tendency can be curbed by political party reform, mandating choice of candidates for elective office by members of the party or their elected delegates through secret ballot at the local level. Third, people are used to a system of territorial representation, and PR snaps the link between the constituency and its elected legislator. This can be addressed by electing half the legislators from single-member constituencies as now, and electing the rest from party lists in a manner that the final composition of legislature is based on the principle of proportionality of votes. The key features of the suggested system are as follows:

- The overall representation of parties in legislature will be based on the proportion of valid vote obtained by them.
- A party will be entitled to such a quota based on vote share only when it crosses a threshold, say 10% of vote in a major State, and more in minor States.
- 50% of legislators will be elected from territorial constituencies based on FPTP system. This will ensure the link between the legislator and the constituents.
- The balance 50% will be allotted to parties to make up for their shortfall based on proportion of votes.
  - eg 1): If the party is entitled to 50 seats in legislature based on vote share, but had 30 members elected in FPTP system, 20 more will be elected based on the party list.
  - eg 2): If the party is entitled to 50 seats based on vote share, but had only 10 members elected in FPTP system, it will have 40 members elected from the list
- The party lists will be selected democratically at the State or multi-party constituency level by the members of the party or their elected delegates through secret ballot.

- There will be two votes cast by voters - one for a candidate for FPTP election, and the other for a party to determine the vote share of the parties.

It needs to be remembered that PR system can be effective only after internal functioning of political parties is regulated by law. Otherwise, PR system will give extraordinary power to party leaders and may prove counter-productive. However, the PR system has one more advantage of ensuring better representation of women in legislatures.

## **2. Political Party Regulation by Law**

Political recruitment has suffered a great deal, and bright young people are no longer attracted to politics. Centralized functioning of parties is imposing enormous burden on leadership to manage the party bureaucracy, leaving little time for evolving sensible policies or governance. Party leaders are helpless in candidate selection, and the choice is often between Tweedledum and Tweedledee. An important reform to improve the quality of politics and restore credibility would be a law to regulate political parties' functioning, without in any way restricting leadership choice and policy options. A law needs to be enacted to regulate political parties in the following four key aspects:

- Free and open membership with no arbitrary expulsions
- Democratic, regular, free, secret ballot for leadership election; and opportunity to challenge and unseat leadership through formal procedures with no risk of being penalized
- Democratic choice of party candidates for elective office by members or their elected delegates through secret ballot.
- Full transparency in funding and utilization of resources

## **3. Clear Separation of Powers at the State and Local Levels Through Direct Election of Head of Government**

The other systemic reform that is needed to isolate the executive from unwanted influences, as has been pointed out, is to ensure direct election of Head of Government in States and Local Governments.

As election costs have skyrocketed, candidates spend money in anticipation of rewards and opportunities for private gain after election. Legislators perceive themselves as disguised executive, and Chief Ministers are hard pressed to meet their constant demands. Postings, transfers, contracts, tenders, tollgates, parole, developmental schemes, and crime investigation - all these become sources of patronage and rent seeking. No government functioning honestly can survive under such circumstances. While the legislators never allow objective and balanced decision-making by the executive in the actual functioning of legislation, their role has become nominal and largely inconsequential. This blurring of the lines of demarcation between the executive and legislature is one of the cardinal features of the crisis of our governance system.

Therefore, separation of powers, and direct election are necessary in States and local governments. At the national level, such a direct election is fraught with serious dangers. Our linguistic diversity demands a parliamentary executive. Any individual seen as the symbol of all authority can easily become despotic, given our political culture. But in States, separation of powers poses no such dangers. The Union government, Supreme Court, constitutional functionaries like the Election Commission, UPSC, and CAG, and the enormous powers and prestige of the Union will easily control authoritarianism in any State. This necessitates adoption of a system of direct election of the head of government in States and local governments. The fundamental changes suggested find mention as under:

The legislature will be elected separately and directly, while the ministers will be drawn from outside the legislature. The legislature will have a fixed term, and cannot be dissolved prematurely except in exceptional circumstances (sedition, secession, etc) by the Union government. The head of government will have a fixed term, and cannot be voted out of office by the legislature. Any vacancy of office will be filled by a due process of succession. The elected head of government will have no more than two terms of office. Even though these changes may not be panacea to all evils in the present structure of legislature and executive, they will certainly encourage more healthy and vibrant democracy and democratic processes. Further, clear and periodic delineation of functions between Union and States, and among various tiers of local governments, is also a necessary condition for a vibrant democracy. It is only a true federal structure that can ensure unity in this multi-ethnic and multi-religious society.

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 good governance is a prerequisite for economic growth. The above enunciated measures constitute good governance, and that is what is lacking now. Freedom is not a liability; it is a glorious asset for growth. Sound politics is about making democracy and growth compatible, not finding alibis for non-performance. We can, and should, overtake China in long-term growth. But we need to set our house in order first.

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