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People Power

Economic Growth & Political Reforms: The Next Decade

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

William Gladstone

Can Economic Reforms Alone Deliver?

- Smaller and more focused government will help
- But government still has large role

Failure of state in key areas

- Rule of law
- Public order
- Justice
 - Telgi stamp scam
 - Ahmedabad Magistrate case
 - Satyendra Dubey Murder

Inadequate Social Sector Spending

- Education – only 3.2 % GDP
- Functional literacy 30-40%
- Crisis of higher education
- Healthcare – only 0.9% of GDP
- Population growth rates still too high 1.94

Inadequate Social Sector Spending

- 25 % of hospitalized Indians fall below the poverty line because of hospital expenses.
 - 81 % of out patient care is provided private healthcare
 - Only 40% inpatient care is provided public healthcare
 - Only 17% of Health expenditure in public sector
 - Very high reliance on out-of-pocket expenditure – Georgia , Cambodia, Myanmar and Afghanistan
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Infrastructure

- Telecom – good
- Roads, ports, electricity, public transport and urban infrastructure need massive public investment
- Irrigation – 25mn hectares with irrigation potential – projects in pipeline

Public Expenditure as % of GDP

Country	Public Expenditure as % of GDP
United Kingdom	36.4
Germany	32.6
United States	27.5
India	26.0

Priorities in Public Spending

Country	PE on Education as % of GDP	PE on Health as % of GDP
United Kingdom	4.5	5.9
Germany	4.6	8.0
United States	4.8	5.8
OECD	5.2	8.1
India	3.2	0.9

What the Reform Process has not Attempted so far

- Freeing ordinary citizens from shackles of government bureaucracy
- Strengthening agriculture
- Reducing corruption
- Promoting transparency
- Enhancing accountability
- Enforcing rule of law
- Building adequate infrastructure
- Improving public services

Persistent Regulatory Shackles

- The long arm of state hurting economic activity and livelihoods
eg: rickshaw pullers, hawkers etc.
 - Extortionary corruption debilitating industry
 - Customs
 - Central excise
 - Commercial taxes etc
 - Absence of reforms to generate demand for labour
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Unintended Consequences of Early Phase of Reforms

- One time grand corruption – golden goose effect
- Abdication of state in critical areas
- Corruption shifting to sovereign areas
- Continuing regional disparities

Way Out

- Genuine democratic reforms
 - Reinventing the state
 - Effective state – not weak state
 - Genuine liberal democratic paradigm in public discourse
 - High quality scholarship in non-marxist framework
 - Special package for low-growth regions
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Governance at a Glance

- Governments spend Rs. 2000 crores every day
 - Out of 27 million organised workers, government employs 70%
 - Fiscal deficit (Union and States) remains at 10 % GDP
 - 50% Union tax revenues go towards interest payment
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Is Money the Issue?

School Education

- 1.6 million classrooms needed
- Capital cost : Rs.16,000 crores – 9 days govt. expenditure
- Recurring expenditure : Rs.8000 crores – 5 days govt. expenditure

Sanitation

- 140 million toilets needed
 - Cost: Rs 35000 crores
 - Equals just 20 days expenditure
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In a Sane Democracy

- Political process should resolve the crisis
 - Parties, elections and public office are the route to reform
 - In India a vicious cycle operates
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Vicious Cycles

- Inexhaustible demand for illegitimate funds
 - Most expenditure is to buy votes
 - Rise of political fiefdoms
 - Vote delinked from public good
 - Taxes delinked from services
 - Political survival and honesty not compatible
 - FPTP- Social divisions exacerbated
 - FPTP – competency and integrity excluded
 - FPTP- Oligopoly of parties
 - FPTP- representational distortions
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Keys to Resolution

- Crisis is systemic
- Most players are victims of a vicious cycle
- Change of players not enough
- Change of rules of the game needed
- Institutions are the key
- Resources are not a problem
- The way they are deployed is the key

Key Reforms

Electoral reforms	Funding
	Criminalization
	Voting irregularities
Electoral system	Proportional Representation
	Separation of Powers
Decentralization	Local Governments
Rule of Law	Judicial reforms
Accountability	Right to information
	Citizens' charters
	Independent crime investigation

Recent Reform Initiatives

- Disclosure of candidate details
 - Changes in Rajya Sabha Election
 - Anti-defection Law changes
 - Limiting the Size of Council of Ministers
 - Women's Reservation in legislatures
 - Post office as nodal agency for voter registration
 - National Judicial Commission
 - Right to Information
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Window of Opportunity

- Deepening fiscal crisis
- Citizen's disgust and concern
- Unsustainable status quo
- Relatively sound private economy
- Demographic changes and rising expectations
- Communications revolution

Two Paths - Choice is Ours

German example vs USSR example

- Freedom enhancing
- Democratic
- Orderly
- Integrating
- Growth-oriented
- Tyrannical
- Chaotic
- Disintegrating
- Debilitating

“Never doubt that a small group of thoughtful
committed citizens can change the world.
Indeed it is the only thing that ever did ”

- *Margaret Meade*