Governance and Development

AIF, 10th January 2005
The purpose of a government is to make it easy for people to do good and difficult to do evil

- Gladstone
Economic Reform

- Political consensus available
- Process irreversible
- Continuity of policy
- Stridency not to be confused with substance
- Young Indians (71% below 34 yrs of age) in favour of markets
- Rule of Law and sanctity of contracts - record is mixed
- Political games do cause delays (eg. disinvestments)

Contd...
Things are Improving

- Telecom sector
- Railway freight
- Improved highways – rapid execution
- 6-7% growth still sustained
- Population control in Tamil Nadu, AP, etc
- Governance and control of corruption are on the agenda
- States competing for investment and growth
- Young people are ambitious, educated and hungry for success
- Liberalization process has unlocked the economic potential of India
Can Economic Reforms Alone Deliver?

- Smaller and more focused government will help

- But government still has a large role
Irreducible Role of Government

- Public order
- Rule of law
- Justice
- School education
- Healthcare
- Infrastructure
- Natural resource development
- Social security
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%
### Priorities in Public Spending

<table>
<thead>
<tr>
<th>Country</th>
<th>PE on Education as % of GDP</th>
<th>PE on Health as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>4.5</td>
<td>5.9</td>
</tr>
<tr>
<td>Germany</td>
<td>4.6</td>
<td>8.0</td>
</tr>
<tr>
<td>United States</td>
<td>4.8</td>
<td>5.8</td>
</tr>
<tr>
<td>OECD</td>
<td>5.2</td>
<td>8.1</td>
</tr>
<tr>
<td>India</td>
<td>3.2</td>
<td>0.9</td>
</tr>
</tbody>
</table>
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
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
Shifting Nature of Corruption

- Inexhaustible appetite for illegitimate funds
  - Telgi stamp scam
  - Satyendra Kumar Dubey’s murder
  - CAT exam papers’ leak
  - Warrant against President Kalam and Chief Justice VN Khare
  - CGHS scam
Crisis of Governance

- Increasing lawlessness
- Inefficient state apparatus
- Unresponsive bureaucracy
- Ineffective judicial system
- All pervasive corruption
- Criminalization of politics
- Money and muscle power in elections
- Political instability
- Erosion of legitimacy of authority
Distortions of State Power

- Positive power restricted
  Negative power unchecked

- All organs are dysfunctional

- A system of alibis
  Victims of vicious cycle

- Change of players
  No change in the rules of the game

- Political process ought to be the solution
  But has become the problem itself
Governance at a Glance

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

Sanitation
- 140 million toilets needed
- Cost: Rs 35000 crores
- Equals just 20 days’ expenditure

School Education
- 1.6 million class rooms needed
- Capital cost: Rs 16,000 crores – 9 days’ govt. expenditure
- Recurring expenditure: Rs 8000 crores – 5 days’ govt. expenditure
## What does the Citizen Expect?

<table>
<thead>
<tr>
<th>Goals</th>
<th>Components</th>
<th>State Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Dignity</td>
<td>Freedom from child labour, drudgery, hunger and public defecation</td>
<td>Strong policies, Effective laws, Resources</td>
</tr>
<tr>
<td>Accessible justice</td>
<td>Local courts, fair processes, just compensation for rights violations, and speedy resolution</td>
<td>Rule of Law, Local Courts, Judge-population ratio, Procedural changes, Accent on rights of poor</td>
</tr>
<tr>
<td>Opportunitie s for vertical mobility</td>
<td>School education, primary healthcare, basic amenities - water</td>
<td>Resource allocation, Sensible policies, Effective delivery systems, Accountability, Decentralization</td>
</tr>
</tbody>
</table>
Justice and Rule of Law

- Not the esoteric or romantic concept of justice
- Even mere fair and speedy adjudication, reparation for rights violated, and swift trial to punish the guilty are beyond the reach of citizens
- The poor and the under-privileged are the worst sufferers
  - The case of dog-bite
  - The case of police van accident
- Yet simple solutions are available
Health Care

- Only 10% Indians have some form of health insurance, mostly inadequate
- Hospitalized Indians spend 58% of their total annual expenditure on health care
- Over 40% of hospitalized Indians borrow heavily or sell assets to cover expenses
- Over 25% of hospitalized Indians fall below poverty line because of hospital expenses
- 33% children have proper immunization
Health Care

- Total Health Expenditure 5.2% GDP

- Comparable countries:
  - Cambodia
  - Burma
  - Afghanistan
  - Georgia
System Caught in a Vicious Cycle

- Inexhaustible demand for illegitimate funds
- Most expenditure incurred for vote buying
- Rise of political fiefdoms
- Vote delinked from public good
- Taxes delinked from services
- Political survival and honesty incompatible
- Social divisions exacerbated
- Competence and integrity excluded
- National parties marginalized
Way out

- Assert people’s sovereignty
- Fundamental democratic transformation
- People-centered governance
## Key Reforms

<table>
<thead>
<tr>
<th>Category</th>
<th>Reforms</th>
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<tbody>
<tr>
<td>Electoral reforms</td>
<td>Funding</td>
</tr>
<tr>
<td></td>
<td>Criminalization</td>
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<td></td>
<td>Voting irregularities</td>
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<tr>
<td>Electoral system</td>
<td>Proportional Representation</td>
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<td></td>
<td>Separation of Powers</td>
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<tr>
<td>Decentralization</td>
<td>Local Governments</td>
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<tr>
<td>Rule of Law</td>
<td>Judicial reforms</td>
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<tr>
<td>Accountability</td>
<td>Right to information</td>
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<td>Citizen’s charters</td>
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<td>Independent crime investigation</td>
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Window of Opportunity

- Demand for reform
- Relatively sound private economy
- Demographic changes
- Large, skilled, young, low-cost manpower
- Communications revolution
- Improved transport
- Power sector reforms in progress
- Road blocks to growth being removed
- Stable polity
- Mature financial system
- National mood mood upbeat
Two Paths - Choice is Ours

German example vs USSR example

- Freedom enhancing vs Tyrannical
- Democratic vs Chaotic
- Orderly vs Disintegrating
- Integrating vs Debilitating
- Growth-oriented
“Never doubt that a group of thoughtful, committed individuals can change the world. Indeed it is the only thing that ever did”

- Margaret Meade