

LOK SATTA
People Power

Governance and Development

AIF, 10th January 2005

401/ 408, Nirmal Towers, Dwarakapuri Colony, Punjagutta, Hyderabad – 500 082

Tel: 91 40 2335 0778 / 23350 790; Fax: 91 40 23350783; email: loksatta@satyam.net.in; url: www.loksatta.org

**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)

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 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

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

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?

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

Justice and Rule of Law

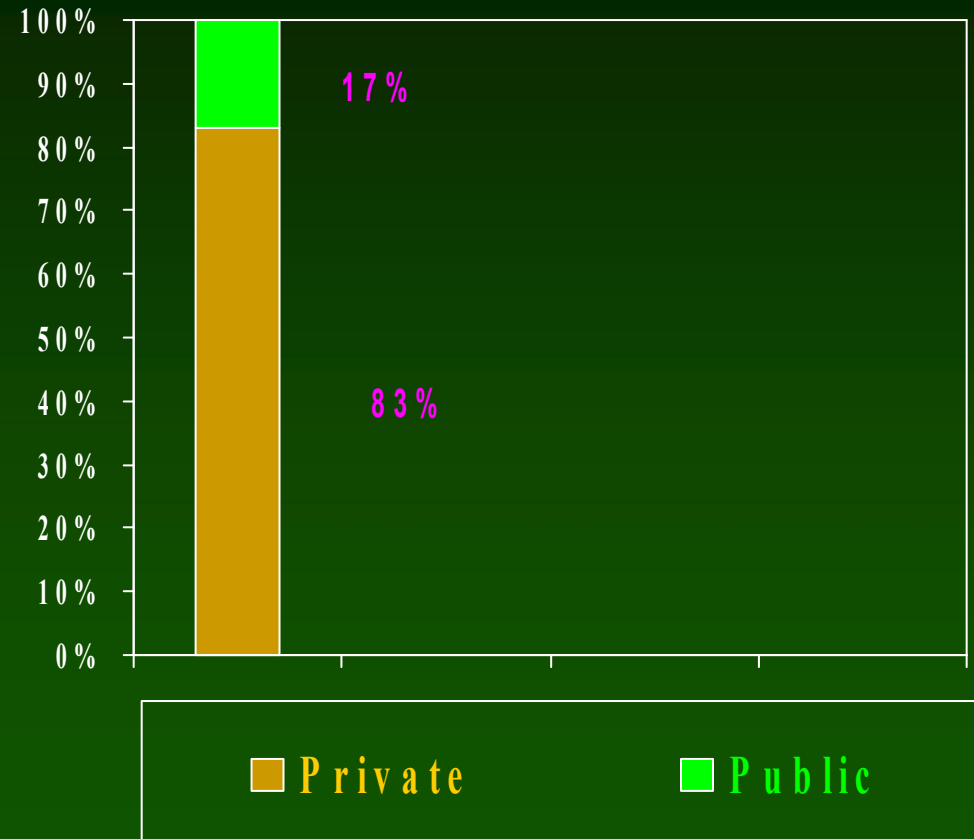
- Not the esoteric or romantic concept of justice
- Even mere fair and speedy adjudication, reparation for rights violated, and swift trial to punish the guilty are beyond the reach of citizens
- The poor and the under-privileged are the worst sufferers
 - ➔ The case of dog-bite
 - ➔ The case of police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

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
	Citizen's charters
	Independent crime investigation

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 upbeat

Two Paths - Choice is Ours

German example

vs

USSR example

– Freedom enhancing

– Tyrannical

– Democratic

– Chaotic

– Orderly

– Disintegrating

– Integrating

– 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*