

**LOK SATTA**  
*People Power*

## **Governance and Growth**

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**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

# 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

# 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

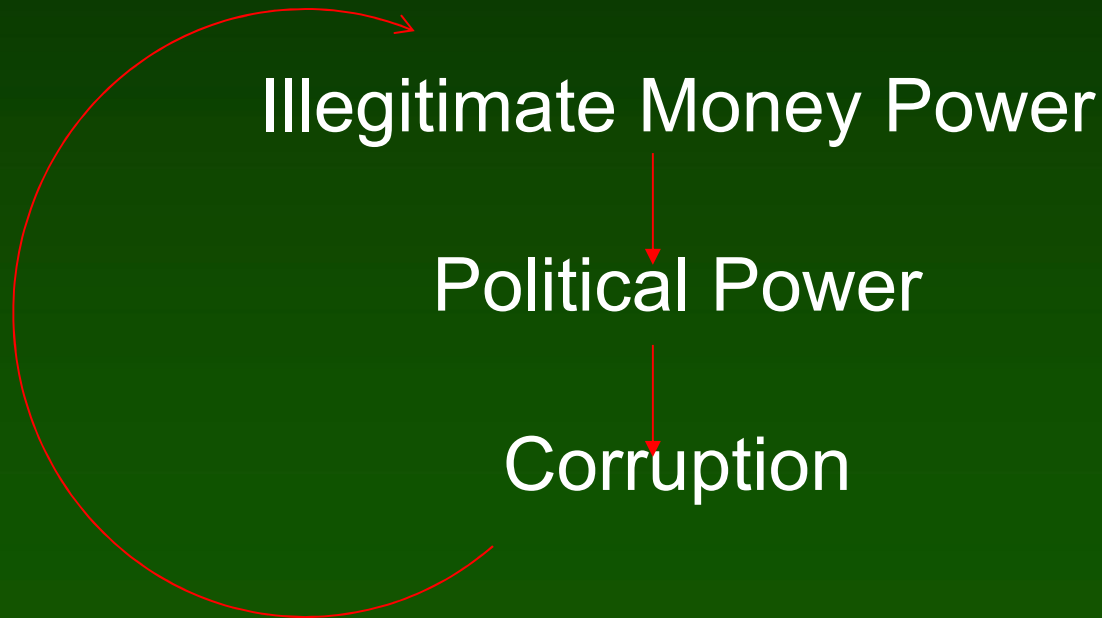
- Positive power restricted  
Negative power unchecked
- All organs are dysfunctional
- A system of alibis  
Victims of vicious cycle
- Change of players  
No change in the rules of the game
- Political process ought to be the solution  
But has become the problem itself



# Failure of Political Process

Interlocking vicious cycles

Inexhaustible demand for illegitimate funds



# Most Expenditure is to Buy Votes

Voter seeks money & liquor

More expenditure

Large spending may or may not lead to success, but failure to spend almost certainly leads to defeat

Greater corruption

Greater cynicism

Voter seeks more money

Contd..

## Rise of Political Fiefdoms

Need for money, caste and local clout



Parties are helpless in choice of candidates



Rise of political fiefdoms



Absence of internal party democracy



Competition among a few families in most constituencies



Oligopoly at constituency level

Contd..

## Vote Delinked From Public Good

Centralized polity

No matter who wins, people lose

Vote does not promote public good

Voter maximizes short-term gain

Money, liquor, caste, emotion and anger become  
dominant

Vicious cycle is perpetuated

Contd..

# Taxes Delinked From Services

Only 16% of GDP collected as taxes (Union & States)

Fiscal deficits and crisis

Higher Taxes

Unacceptable because of corruption and poor services

Desubsidization

The poor do not see alternative benefits for the subsidies given up

Wage Reduction

Centralization and Art 311 preclude it

Deeper fiscal crisis

Poorer services and public goods

Perpetuation of poverty and backwardness

Contd..

# Political Survival and Honesty Not Compatible

Parliamentary executive

Government survival depends on legislative majority

Legislators spend a lot of money to get elected

They need multiple returns to sustain the system

Corruption and misgovernance endemic

Government has to yield to legislators' demands

Corruption is perpetuated even if government has the will

Honesty not compatible with survival

Contd..

## Social Divisions Exacerbated

FPTP

↓  
Scattered minorities unrepresented

↓  
Marginalization and Ghettoization

↓  
Strategic voting and vote-bank politics

↓  
Obscurantists become interlocutors drowning voices of reason and modernity

↓  
Politicians pander fundamentalists

↓  
Counter-mobilization of other groups based on primordial loyalties

↓  
Communal polarization and strife

Contd..

# Competence and Integrity Excluded

FPTP



Need for money power and caste clout



Honest and decent elements have little chance



Bad public policy and incompetent governance



Deepening crisis



Contd..

## Oligopoly of Parties

FPTP

Only a high threshold of voting ensures victory

Parties with 35 - 50% vote, or social groups with local dominance get elected

Significant but scattered support pays no electoral dividends

Voters prefer other “winnable” parties

Marginalization of reformers, and national parties

Regionalization of polity & perpetuation of status quo

Contd..

# Representational Distortions

FPTP

↓  
Women & deprived sections not represented

↓  
Reservation with rotation is arbitrary and leads to proxies

↓  
Perpetuation of dominance of traditional groups

↓  
Representational illegitimacy

# Campaign Expenditure – Vicious Cycle

- Illegitimate expenses are often 5-10 times the ceiling or more

(Assembly ceiling: Rs 6 lakhs

Lok Sabha ceiling: Rs 15 lakhs)

- Every crore spent illegitimately

Rs 10 crore returns

(to cover ROR, Interest, personal upkeep, supporters, family's future, next election costs)

Rs 100 crore collected through bureaucracy

(for every legislator, there are 2000 employees who need to collect 'rent')

People suffer ten times more.

(Payment extorted, on pain of delay, harassment, humiliation, anxiety and greater loss)

# Way Out

- Assert people's sovereignty
- Fundamental democratic transformation
- People-centered governance

# Key Governance Reforms

- Comprehensive electoral reforms
- Empowerment of local governments
- Instruments of accountability
- Speedy and efficient justice

# Electoral Reforms

- Process Improvements
  - Preventing polling irregularities
  - Arresting and reversing criminalization of politics
  - Checking abuse of unaccountable money power in elections
- System Improvements
  - Political party reform
  - Proportional representation
  - Direct election of Chief Executive at the State level with clear separation of powers

# Empowerment of Local Governments

- Transfer of funds, functions and functionaries to local governments
- Link between

vote  $\rightleftharpoons$  public good

taxes  $\rightleftharpoons$  services

authority  $\rightleftharpoons$  accountability

# Instruments of Accountability

- Right to Information
- Independent crime investigation
- Independent appointment of constitutional functionaries
- Independent and effective anti-corruption agency
- Term limits for public office
- Strict penalties for abuse of office
- Citizen's Charters
- Stakeholder empowerment



# Judicial Reforms

- Local courts in local language (Gram Nyayalaya)
- Increase number of courts
- Time bound justice
- Removal of corrupt judges
- Independent mechanism for judicial appointments
- Independent crime investigation

# Political System is Responding

- Right to Information
- Maharashtra – removal of corrupt judges
- Balanced federalism over the past decade
- Local government agenda
- Voter registration improvements
- Political funding reform
- Disclosure of candidate details
- Anti-defection law improvements
- Limiting size of council of ministers
- Changes in Rajya Sabha election

# 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

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

**- *Margaret Meade***