Lecture 4
REALIGNING INCENTIVES - THE WAY FORWARD

- Dr. Jayaprakash Narayan

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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

Why State matters?

- Rule of Law
- Basic Amenities and Services
- Land Management
- Quality Education and Healthcare
- Ease of Doing Business

Electoral outcomes are often products of people’s response to State government.
Role of the Union government

• The Union plays a critical role in
  – national security
  – fiscal policy
  – transparent allocation of natural resources
  – ensuring essential infrastructure for economic growth and prosperity

• Once these key instruments are in place, most things that matter to a citizen’s well-being and prosperity are shaped by governance at the state level
But, Westminster model is proving distortionary

Three factors have led to a complex and dysfunctional crisis:

• MsLA support critical for CM’s survival
• Poor service delivery making MLA *de facto* executive, and imposing enormous burden on parties
• Local governments weak and opposed by MsLA and bureaucracy
Westminster model in states

• Vast energy expended in survival of government
• MLA involved in service delivery and acting as executive
• Perpetual political interference in transfers, postings, etc.
• A system of patronage and corruption
• Vote buying and high cost of elections
• Resistance to local governments
• Competitive populism, in the face of failure to deliver
• Talented citizens shunning politics
Governance Crisis – 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
The initial conditions...

1. Asymmetry of Power
   - bribes & red-tape
   - harassment & delays
   - influence peddling

2. Citizenship sense lacking
   - Elected leaders as ‘monarchs’
   - Legislators and party cadre should ‘somehow’ deliver
   - No link with taxes
   - No sense of public money, entitlement to public services

3. Over Centralization
   - No local leaders or local solutions
   - Systemic distortions not corrected
   - Links broken: Taxes↔Services, Vote ↔Public good
     - Authority ↔Accountability
     - Easy populism & wasteful use
     - Citizen & public servants roles reversed
Vicious Cycles

Inexhaustible Demand for Illegitimate Funds

- Corruption

Illegitimate Money Power

- Political Power

Most expenditure is to buy votes

- Greater voter cynicism
- Voter seeks money & liquor
- More election expenditure
- Not spending large amounts almost guarantees defeat
- Greater corruption

Rise of Political Fiefdoms

- Need for money, caste and local clout
- Parties are helpless in choice of candidates
- Absence of internal party democracy
- Competition among a few families in most constituencies

Vote Delinked From Public Good

- Money, liquor, caste, emotion and anger become dominant
- No matter who wins, people lose
- Vote does not promote public good
- Voter maximizes short-term gain

Social Divisions Exacerbated

- Identity politics, polarization and strife
- Marginal vote most important
- Strategic voting and vote-bank politics
- Voices of reason and modernity drowned out by obscurantists
- Politicians pander to fundamentalists
- Counter-mobilization by other groups based on primordial loyalties
Taxes Delinked From Services

Only 18% of GDP collected as taxes (Union & States)

Fiscal deficits and crisis

Higher Taxes

Unacceptable because of corruption and poor services

De-subsidization

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
Elected Legislator

- Burden on legislator & vast cadre network
- Desperation of citizens

Mounting dissatisfaction

- Money for votes
- Freebies, sops & doles
- Divisive politics

Mounting corruption
- Political recruitments from dynasties, corrupt money bags

Even with best efforts, only 10% gets done

- Unsustainable sacrifice
- Ethical politics not sustainable

Good people marginalized in politics

vote as a lever
Government survival depends on Legislative majority

Legislator spend a lot of money to get elected

Government has to yield to legislator demand

They need multiple returns to sustain the system

Corruption and misgovernance endemic

Honestly not compatible with survival

Corruption is perpetuated even if government has the will
Outcomes are shaped by the institutions, culture and practices

The local factors shaping different outcomes:

- Recruitment of competent, public-spirited individuals
- Space for alternative agendas in public discourse
- Clean elections
- Institutional capacity to translate mandate into outcomes
The process should attract the best talent into public life

Public spirited, capable citizens should be electable through ethical means and rational methods

There should be real choice to voters in terms of ideas and agenda

A government once in office should be able to deliver on the agenda

THE 4 PURPOSES OF POLITICS
System Improvements

Key Governance Reforms

Instruments of Accountability

Direct election of Chief Executive at the State level with clear separation of powers

Comprehensive Electoral Reforms
• Direct Elections
• Proportional Representation

Empowerment of Local Governments

Rule of Law
1. Instruments of accountability

**Reforms**

- Service Delivery Law
- Ombudsmen
- Accountability Measures
- Civil Service Reforms

**Consequences**

- Tax money deployed for services
- Asymmetry of power countered
- Check on abuse of authority
- Reduced burden on parties and political process
- Enhanced capacity to deliver
2. Direct elections to the executive in state to ensure:

- Clear separation of powers
- Fixed tenure and stability
- Cabinet chosen by the executive (outside the legislature)
- No nominated Governor
- No Article 356
Advantages

SEPARATION OF EXECUTIVE AND LEGISLATURE

- Selection of cabinet by the elected head
- Better Competence

- No pressure on executive from legislators while taking decisions

- More stability of the Executive

- Local Governments could be empowered and effective without much resistance

- The image and record of a leader is critical for election

- Public-spirited citizens would find politics hospitable

- Better political recruitment

- Vote buying and black money would be phased out

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3. Proportional Representation

- State as unit for PR threshold
- Multi-member constituencies having 6 to10 seats
- Each voter will have a single vote for a party of his/her choice.
- Each party will offer a list of candidates in order of preference
- Members are elected from party lists in each multi-member constituency
- Each elected member is allotted to an Assembly / Lok Sabha segment by preferential choice based on party vote share in the Multi-Member Constituency
The Way Ahead, in our context

Merits of Proportional Representation

- Vote buying diminishes as marginal vote is not critical
- Competent and honest politicians with good image become electoral assets
- Rational, long-term policies can be pursued as marginal vote is unimportant
- National parties will be viable in all states
- Vote reflects voters’ views
- Greater voter participation
- Voice and representation to all segments and views
4. Importance of Rule of Law

Effective rule of law will accelerate change by:

- Enforcing accountability
- Preventing / checking abuse of authority
- Enforcing rights of the weak and poor
- Reducing incentives for criminals & corrupt to enter politics / capture the state
- Punishing corruption swiftly
Reforms in **Rule of Law**

- Separation of crime investigation
- Independent investigation commission under judicial supervision
- Independent District Attorneys drawn from trial court judges (Session Judges) on deputation for a fixed term
- Strong forensic infrastructure
- Increase number of judges / courts
- Indian Judicial Service
- Procedural reform for justice delivery
5. Local government empowerment

**Present Scenario**

Over-structured, underpowered local government

**The Way Ahead, in our context**

- Needed Complete devolution: treat 11\textsuperscript{th} and 12\textsuperscript{th} Schedule, on par with 7\textsuperscript{th} Schedule
- The Legislative Council as the ‘Council of Local Governments’ similar to Rajya Sabha
- Devolution of funds and functionaries
Local government empowerment

**Vote**
- Public Good
- Reduced role of vote buying
- Participation of enlightened citizens

**Taxes**
- Services
- Better Public policy
- Focus on infrastructure and nation building
- Better fiscal management

**Authority**
- Accountability
- Better Service delivery
- Greater legitimacy and democracy
Sunnyvale & Cupertino are two cities in Bay Area of California on either side of Homestead Road.

Through all conditions are similar, property values of Cupertino are 40 – 50% higher.

Reason: School District in Cupertino has good reputation for outcomes. Only local residents (tax payers) can send kids to local public schools. Hence, greater demand for houses in Cupertino.
“Set your course by the stars, not by the lights of every passing ship.”

- Omar N. Bradley