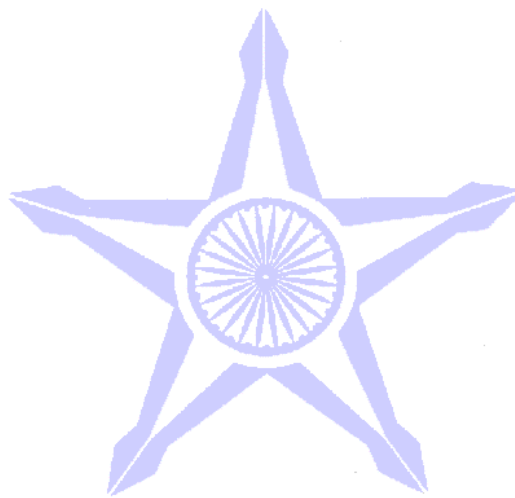


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“First World People
and
Third World Politics”

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First World People and Third World Politics

I deem it a great privilege to address this meeting organized by The Palkhivala Foundation. The city of Chennai has a long tradition of liberalism, erudition, common sense, respect for the best in our culture, simplicity and high thinking. Rajaji symbolized many of these qualities decades ago. It was he who warned us against excessive state control and an intrusive governance apparatus. Sadly, our policy makers did not heed that wise counsel, and yielded to the economic orthodoxy of the day. The result has been extremely debilitating to our economy and polity. Nani Palkhivala was the foremost among our liberal intellectuals who fought against the all-pervasive, inefficient state role, and politics of plunder. He combined in himself great erudition with legal knowledge, economic sense, wide experience, superb analytical skills, sharp intellect, fierce adherence to liberal democratic values, and an unusual capacity to distil and communicate the lessons of history. He believed passionately that market and morality can, and should, coexist. The underperformance of the extortionary Indian state, and the fetters imposed on the productive potential of a whole nation were sources of deep disquiet in him. His post-budget lectures in the eighties were the stuff of legends, with hundreds of thousands keenly following every word, and analyzing each thought. Only Gopal Kirshna Gokhale in the early years of freedom struggle had a similar impact on the nation through his budget analysis.

I was a village lad when Palkhivala became famous. Like millions of my generation, I too believed in the state's will and ability to eradicate poverty and promote human good. The emergency of 1975-77 shattered many of my illusions about the nature of the state. Even then, the hold of socialist rhetoric on me was considerable. Like many, I joined the government believing that public sector was by definition moral and good, and private sector was somehow suspect. Then, early in my career, I was the Special Officer of Visakhapatnam Steel Project. That stint taught me an unforgettable lesson – that public sector in India is often the 'private' sector of those in public office! Pelf, privilege, patronage, petty tyranny and nuisance value are often the manifestations of power over public purse in a prismatic society like ours. Since those days of early eighties, I have

been an implacable champion of individual initiative, economic liberty and clearly defined, but vital role of the state.

The crisis of 1991 forced our policy makers to embark on a path of economic liberalization. This reform was ushered in more by compulsion than by conviction. Even such half-hearted, halting, and incomplete reform yielded good dividends. Gone are the days of waiting endlessly for a telephone, or paying a premium to buy a motor car, or begging for the permit to buy a few bags of cement to undertake repairs of the house. The entrepreneurial energy of Indians was unleashed, and economic growth went up. Wherever choice, competition, technology and transparency were introduced, corruption went down dramatically. Telephones and railway reservation are two outstanding examples.

Delicensing and opening up of the economy are critical for growth and prosperity. A part of Palkhivala's dream was fulfilled by the dismantling of the license – permit – quota raj. But increasingly, two dangers are apparent. First, while corruption came down significantly in areas where there is no state monopoly, there is a corresponding rise of corruption in the core areas of state functioning. The Telgi Stamp scam, the murder of Satyendra Dubey, the escapades and misdeeds of Ranjeet Don, who leaked every conceivable question paper, the warrants of arrest issued by an Ahmedabad magistrate against President Kalam and the then Chief Justice of India, VN Khare, the CGHS scam in several cities plundering the public exchequer – all these constitute compelling empirical evidence that corruption is shifting from the traditional license – permit areas to the core areas of the state functioning. As the demand for illegitimate funds is inexhaustible and continues unchecked, closing down some avenues of supply have only led to opening up other, even more dangerous avenues. Second, our polity and governance have a profound impact on the economy. While a growth rate of 6 to 7 percent per annum is still creditable, our performance is far below our potential. The failure of state and dysfunctional political process are extracting a heavy toll on the economy and undermining the future and prosperity of hundreds of millions of hapless people. Even the most die-hard market enthusiast cannot deny the vital role of state. The state, by failing in the crucial areas within its domain, has become a stumbling block for the fulfilment of our potential as a nation. My theme for today's discussion is therefore the disjunction between an economy and society which have shown great dynamism

and vibrancy, and the tardy performance and failure of the state which is retarding our future.

The Prime Minister's state visit to the US and its outcome are perceived by different people in different ways. But differing perspectives apart, all have agreed that this visit marked a breakthrough in Indo-US relations, and in the eyes of the Western world India is now officially the strategic counterweight to the rapidly rising power of China. India clearly has arrived on the global scene.

The rising importance of India is entirely due to the first world attitudes of our people. Despite mass poverty, limited natural resources, centuries of oppression, a society "fragmented by narrow domestic walls", and historical baggage, Indian people have extremely positive attributes to succeed in modern world. It is because of this positive attitude of our people, there is feel good factor about Indian economy. For instance, the Goldman Sachs report titled "*Dreaming With BRICs: The Path to 2050*" said: "India has the potential to show the fastest growth over the next 30 to 50 years. Growth could be higher than 5% over the next 30 years and close to 5% as late as 2050 if development proceeds successfully.....While growth in the G6, Brazil, Russia and China is expected to slow significantly over the next 50 years, India's growth rate remains above 5% throughout the period. India's GDP outstrips that of Japan by 2032.....India has the potential to raise its US dollar income per capita in 2050 to 35 times current levels."

The strength of the family as an enduring institution with the attendant sense of responsibility and infinite capacity to face hardship is at the heart of our resilience as a society. Ordinary Indians exhibit uncommon ambition and drive for their economic upliftment. Witness the entrepreneurship of the dabbawallahs in Mumbai or the millions of tiny enterprises in unorganized sector which are sustaining our economy. People are willing to fend for themselves against heavy odds. For a poor country, the amounts paid by families for education of children and healthcare are astronomical. The thrift of our people is legendary, and Indian consumer is not easily swayed by consumerism, and seeks good value for money. And time and again, Indian society displayed an enlightened and modern spirit of nationalism with pride in ourselves, but without much animosity or jingoism. All these are recipes for success in the twenty-first century.

And yet our antediluvian politics is retarding our society. Leadership in modern world provides a great contrast what that in India. In a remarkable speech to European Parliament recently, Tony Blair exhorted politicians to respond to the challenges of today. Emphasizing the need for keeping pace in a changing world, he reminded OECD countries, "The USA is the world's only super power. But China and India in a few decades will be the world's largest economies, each of them with populations three times that of the whole of the EU... (European social model) is allowing more science graduates to be produced by India than by Europe. India will expand its biotechnology sector five-fold in the next five years. China has trebled its spending on R & D in the last five..." Outlining the challenges of today, he called for renewal of the idea of Europe, and said, "Now, almost 50 years on, we have to renew. There is no shame in that. All institutions must do it. And we can. But only if we remarry the European ideals we believe in with the modern world we live in". That is the stuff of true politics and great leadership rooted in genuine soul-searching, passion and spirit of public service.

The Problem of Our Politics

Does our politics measure up to the challenges of today? Four unhappy characteristics dominate our political landscape. First is the patronizing attitude to people: citizens know nothing and are parasitic; and they need regulation, protection and doles. As a corollary we need **centralized administrative apparatus**, as large number of citizens are ignorant and are incapable of participating in local governance structures. The notion that citizens have no capacity to understand their self-interest and are incapable of taking charge of their own lives at local level is absurd in a democracy. And yet, we extol the virtues and wisdom of voters when they exercise their franchise in electing state and national governments. Many of us admire China's rapid economic growth in recent years. But we often ignore the fact that the employment and exports in China are powered by the millions of town and village enterprises (TVEs) with the support and active participation of local governments. One of the ironies of contemporary history is authoritarian and communist China is far more decentralized than liberal democratic India! When the British argued that we were not fit for freedom, our leaders pointed out that good government was no substitute to self-government. They had to grudgingly admit that the British did give good government, and yet we fought for our freedom. Today, centralized government has become a repository of corruption, incompetence

and misgovernance. What we have in the name of governance is constitutional brigandage and legal plunder and yet we continue with highly centralized administrative apparatus, which does not facilitate peoples' participation in governance apparatus.

Unceasing Fervor of Failed Ideologies

This patronizing attitude to people also manifest itself as ideological populism. Witness the quality of debate on BHEL disinvestment. Every perceptive citizen knows that public sector in India is largely private sector of those in public office. We only need better goods and services at least cost, and it does not matter who produces them. We all know, during the past fifty years, in the name of socialism, we undermined true entrepreneurship. And we became control freaks. I vividly remember that only 20 years ago we had cement control and dual pricing, and people had to beg for cement permits to build homes! We had bureaucrats controlling steel sales and seeking bribes and exercising patronage. On the other hand, the state's failure in education, healthcare, rural technologies and infrastructure have been too well documented to need elaboration. In short, the state failed in its core areas of legitimate functioning, and did everything possible to undermine our self-esteem and enterprise. And yet, even today we hear arguments for increased state intervention in non-critical areas.

Let us compare and contrast the efficiency and competitiveness of public sector vis-à-vis private sector. Disinvestment ministry has quoted a NCAER study to conclusively establish that public monopolies cannot effectively respond to changed conditions. Comparisons of factor productivities, profitability and cost structure – all show the dynamism of private management and inertia of state control. As the total factor productivity in private sector recorded 3.4% growth since 1985, in public sector there is a negative growth of -1.1%. Manufacturing PSEs continue to show losses, while manufacturing private sector shows decent profits. From resource utilization point of view and competitiveness, the most critical comparison relates to cost structure of power and fuel, wages and interest as a ratio of net sales. In 1990-91, the public sector (minus oil sector) spent 37.7% of net sales on these three heads, as opposed to private sector's cost of 21.7%, with a net saving of 16 %. Amazingly, by 1997-98, this difference in cost incurred has increased to 38.3% of net sales, with public sector spending 54.5 % of net

sales on these three items, and private sector 16.2 %! Increased competition and open markets forced private sector to reduce costs to a tune of 5.5 %, whereas public sector costs went up by almost 17 %! There cannot be a more severe indictment of public sector management. The managers are not at fault; the same personnel in private environment produce excellent results. We must recognize that even if all else is equal, public sector culture does not foster the best management practices. With the economy opening up, and competition growing, continued insistence on government controlling PSEs will only erode their assets, and eliminate them from the market.

The champions of state control must answer a fundamental question. Have people elected them to govern, or to run a business? Socialism took roots as a moral philosophy based on compassion and concern for equity at a time when predatory capitalism of robber baron variety led to extreme degrees of oppression and misery. But today's market economy adapted the best features of humanism, welfare and sustainability. Resorting to outdated arguments and shibboleths, and criminal waste of scarce public resources at the cost of justice, rule of law, education, health care and decent infrastructure is cruel to the poor and disadvantaged. Quality schooling, accessible health care, speedy justice and security net for the indigent are the best anti-poverty programmes. A government, which cannot provide these, has no moral authority to take upon itself other burdens, and discharge them incompetently. Ministerial office and bureaucratic sinecures have become private fiefdoms, and loss of patronage and control unnerves those in authority. But equating self-interest of those in power with public interest is an insult to the intelligence of the long-suffering people of the country, and a cruel irony in a society impoverished by bad policies and worse governance. Moreover, unnecessary and inefficient state interventions, and imprudent economic policies are pushing our governments into fiscal crisis. And yet, public interest is sacrificed at the altar of failed ideologies. Or take the fears of globalization stoked with unceasing fervour. Mighty US and Europe are showing signs of anxiety with the increasing competitiveness and growing market share of China and India, and our antiquated politics can only see dangers in every opportunity! Or take the labour markets: the world over, rigid markets and overregulation led to large scale unemployment; and yet we want to perpetuate status quo at the cost of the millions of job seekers. And of course the politicians' eternal preference of doles and subsidies

over empowerment and liberation of productive potential is too well known to require elaboration.

Politics of Plunder and Rent Seeking

The second dangerous feature of our politics is its predatory nature. Politics of plunder and rent-seeking have become the norm, and public-spirited politicians are increasingly marginalized. Distortion of markets, kleptocracy, and shameless display of unearned wealth have created a culture of illegitimate plutocracy. Power and ill-gotten money acquired by abuse of power have become ends in themselves. Politics has in a large measure ceased to be a means to public good. Obsession with power at any cost has created a class of criminals and crooks dabbling in politics, and decent citizens are increasingly shunning public life. For instance, after the elections to Maharashtra Assembly, a one-time mafia don, Arun Gawli, and a few others with notorious record of crime, have become law-makers. Arun Gawli did not even need a major party support – he was elected as an independent! In India's poorest state of Bihar too, Pappu Yadav, who strikes terror in the hearts of rival gangs and law-abiding citizens, won with massive majority and is now a Lok Sabha member, a privilege denied to Dr Manmohan Singh in 1999. And Pappu Yadav won against the combined opposition of Samata, BJP, Communists and Lok Janshakti!

Wringing our hands in despair at this increasing criminalization of politics, and politicization of crime will do no good. We need to understand the economic and institutional imperatives that increasingly legitimize crime and violence in society and public life. These criminals have not come out of a vacuum. Our malfunctioning governing institutions created fertile conditions for their rise. Any one who has an unresolved civil dispute with a business partner or customer understands how tough it is to run a business ethically in India. For instance, if an honest entrepreneur produces high quality products at competitive price, and if the government is the monopoly buyer of his product, the travails he faces are unbelievable. If he cooperates with the CBI or other anti-corruption agencies to trap the errant officials, then his troubles multiply. The whole organization suddenly gang up against him and makes his life miserable.

If such are the problems faced by asset-rich, resourceful and well-connected entrepreneurs, the pain and suffering inflicted on lesser mortals in getting civil contracts enforced, or receiving reparation for the damages sustained have to be seen to be believed. A house-owner who cannot get her property vacated even for self-occupation, and the owner of a small plot of land who cannot evict a land-shark have no realistic legal recourse in our society. With 25 million cases pending in courts, and with most litigations taking decades for resolution, people have no realistic hope of justice through formal mechanisms. As a result, millions of cases never reach the courts. Like 'missing' girl children on account of female foeticide, there are millions of such 'missing' cases in India every year. These missing cases, and not merely pending cases, reflect the appalling failure of due process and rule of law in our country. Most people prefer to swallow injustice and suffer silently. A few who have means, or are desperate, seek rough and ready justice through brutal methods. The neighborhood 'bhai', or the local mafia don is supplying his services to meet this unmet demand. In a civil court, even if you are lucky to get a decree in your favour after decades of struggle, your problems continue. To enforce a decree, an execution petition has to be filed, and another prolonged, excruciating process begins! But the local don will ensure settlement of dispute for a price within a few days, and his 'verdict' is enforced instantly. No wonder, many people see crime lords not as villains, but as saviours!

It is no secret that many banks and other financial institutions are now deploying musclemen to recover debts. If formal, organized businesses feel the need to resort to use of force to run legitimate businesses, it is no surprise that ordinary people treat criminals with deference. In such a twilight zone, the distinction between 'hero' and 'villain' is erased. Brute force becomes the only effective arbiter. We can set things right only when it is possible to do business or protect rights through peaceful and lawful means. Rise of criminals is a consequence, not the cause, of breakdown of rule of law. This is particularly true of urban India.

A similar process is at work in government too. The spectacle of helpless citizens, in Andhra Pradesh, and at times influential persons and officials, queuing in front of the Maoist Communists ('Naxalites') petitioning for redressal of their grievances says it all. There is no greater indictment of the functioning of our governing institutions than the public display of faith in armed revolutionary groups in the midst of the peace

negotiations with government. In general, people have lost faith in the system, and have come to believe that nothing is accomplished through peaceful efforts, or due process.

Is it a surprise then that voters have no qualms in electing notorious gangsters as their representatives? People do know the difference between right and wrong, and good and evil. But they have realized that an honest, peaceful representative cannot really deliver results in this unhappy milieu. That is why a Manmohan Singh, whose assumption of office as Prime Minister was universally hailed, is not elected as a mere MP in a Lok Sabha constituency. And the decent men and women who do get elected are helpless in getting things done. We have created a system of alibis in which authority is delinked from accountability, and stake-holding is divorced from power-wielding. In such a situation, honest legislators have very little capacity to influence events for public good. But a mafia don enforces iron discipline, and makes the bureaucracy comply. The very criminal reviled by the media and middle classes is perceived as a saviour by the common man! And once a gangster makes money, he spends lavishly for 'good causes', styles himself as the leader of his caste or religious group, and can muster the muscle power required to navigate through the political and bureaucratic minefield. Witness the rise of Arun Gawli!

Once a legislator gets elected by deploying illegitimate and unaccounted money power, he converts politics as business. While constituents are kept relatively happy by 'good' deeds and selective intervention, the legislator's influence is largely deployed for postings of pliable bureaucrats and transfers of inconvenient officials; distorting market forces and undermining fair competition in contracts, tenders and public procurements; and endless interference in crime investigation. This is the 'dangerously stable equilibrium' Robert Wade described in his authoritative studies 25 years ago. The situation is even more complex in some ways now, but is by no means intractable. However, as Yeats lamented, "The best lack conviction, and the worst are full of passionate intensity." In the process very few new and powerful ideas are vigorously pursued to improve the conditions of the bulk of our people or to accelerate our growth rate.

Medieval Politics

Third, politics continues to be medieval in nature. Much of the debate on education is centered round rewriting history or detoxification of text books. The 'great' debates are about the location of a temple or a mosque, or past insults and private injuries, or perpetuation of barbaric practices and shunning of modern, humanistic vision. Obscurantism is zealously guarded, and "the clear stream of reason has lost its way into the dreary desert sand of dead habit."

The Medieval character of our polity is also reflected in the way political recruitment is done. In India, traditionally parties have been seen as pocket boroughs of those at the helm. Often there are entry barriers to members. Those who pose a potential threat to entrenched leadership are denied access to a party, or expelled even for faintest criticism or dissent. The parties, which exhibit such authoritarian tendencies in protecting the privilege of those in power and nipping in the bud any potential threat to individual dominance have not shown the slightest sense of shame or remorse in assiduously cultivating and recruiting known criminals, corrupt persons and those with a dubious record. Such shady elements are courted and welcomed, while decent and dignified citizens are shunned and often rejected. There are no published membership rolls, and spurious membership has become a common feature. There are no internal democratic norms and procedures in leadership choices at various levels. There are no mechanisms for open debate or dissent, and for influencing the views of members. Finally, the choice of candidates nominated by a party for elective public office is left entirely to the discretion of the party bosses with members having little say. With this the control of party bosses and coteries is complete – they are often unelected, and unaccountable, and they perpetuate themselves with illegal funding and a culture of nominations to all party posts and elective offices. All this has created political fiefdoms resembling ancient monarchies or medieval Zamindaris. Little dynasties have spawned all over the country and these oligarchies have a vice-like grip over our legislatures. A careful analysis of the nearly 5000 legislative offices in States and Lok Sabha will reveal that probably two-thirds of them are controlled by about 10,000 well-connected political families. No matter which party wins, power alternates between members of these families. Politics has become big business. Big investments are made in elections, and much bigger profits

are reaped once elected to office. A legislator is more a disguised and unaccountable executive than a public representative. This prevalence of medieval culture in political parties is the root cause of the increasing failure of parliamentary democracy.

Incompetent Policies: A Case of Education and Health Care

Finally, incompetence and laziness have become virtues in our political domain. Even now, our vision of education is merely increasing enrolment of school children and reduction of dropouts. Quality of education, high productivity of citizens, and seizing opportunities that modern world offers do not even enter our public discourse. Our universities languish despite the undoubted potential of our youngsters and the civilization strength we enjoy. Statistically education sector in India looks impressive. We have over 5 million scientists, engineers and technicians in India now. About 300,000 of them (6%) are engaged in research and development. We can boast of 450,000 allopathic physicians, 200,000 agricultural graduates and 40,000 veterinarians. The stock of other postgraduate degree holders is about 4.5 million in liberal arts, and a million each in sciences and commerce. In addition, we have about 9.5 million graduates in liberal arts, 4.5million in sciences and 5 million in commerce. Our engineers alone exceed a million now, with 1100 colleges producing 350,000 technologists every year, 60 percent of whom graduate from the four southern states alone!

All these are impressive numbers by any standards. India certainly has a vast higher education infrastructure, which can be the envy of any developing country. But these numbers hide a grave crisis in our higher education. Our finest scholars – about 5 percent – are a match for the brightest and best in the world. But many of them are migrating to the U.S and West. Recent reports say that the 75,000 Indian students constitute the largest foreign contingent in American universities! These are products of the few good institutions, backed by exceptional talent, family support and conducive environment. But most of our colleges and universities produce graduates of indifferent quality. A culture of rote learning, lack of application of knowledge, and poor examination system have undermined our higher education. Most graduates lack basic communication skills, nor do they exhibit problem solving capacity. Educated unemployment is very much on the rise, largely because most graduates cannot promote wealth creation and are therefore unemployable. And yet, our society faces

acute shortage of problem solvers, and capable workers in various fields like health care, education, justice delivery and law and order. This is a classic case of a mismatch between our needs and human resources. As Coleridge lamented in his immortal poem, "Water, water everywhere; but not a drop to drink!"

Clearly, the main function of higher education system is to add real value to human resources, and produce wealth creators and leaders in all fields – business, professions, politics, administration, and creative pursuits. Even the crisis in school education is compounded by the failure of higher education. Most problems in our schools – curriculum, text books, teaching methods, examination system – can be overcome by innovative efforts and sensible public policy. But there is phenomenal shortage of good teachers. And only university graduates can be teachers! Millions of graduates are hunting for jobs, and yet, most of them cannot be trusted with our children's education. A classic vicious cycle has set in : poor school education has weakened university standards; and collapse of higher education denies good teachers to schools! All of us face this dilemma in our schools.

Given this, most households are petrified at the thought of a kid to be admitted to school, or a sick person seeking medical attention. Quality education and healthcare are simply inaccessible and unaffordable to most Indians. Let's take health-care. There is ample evidence to demonstrate that delivery of public health services in India is insufficient and iniquitous. India's allocation for public health is indeed pitiful – 0.9% of GDP. Shamefully, our public health expenditure at 17% of total health expenditure is comparable to that of failed societies like Cambodia, Burma, Afghanistan and Georgia. Many studies reveal that on an average, s/he spends 60% of the annual income towards medical costs for a single episode of hospitalization - whether in private facility or in government hospital. Consequently, 40% of hospitalized Indians are forced to sell their properties or borrow at high interest rates. This results in a good 25% falling below the poverty line. Most of this burden is borne by the poor, unorganized sectors of population.

China may run medical schools to educate Indians at moderate costs; US and Europe may attract bright Indian youngsters to their universities; India may have the potential to create world class facilities to meet our growing needs and become the hub of global education and health services. But our politicians are oblivious to the challenges of

today, and frame lazy policies and execute them incompetently. But some 'experts' may point out that the policy-making in the context of lack of adequate resources is the main culprit. Is this so? Do we have scarce resources?

Resources and Development

The GDP share of public expenditure in India is low compared to OECD countries. But it would be wrong to conclude that state's incapacity to deliver is a result of shortage of resources alone. Indian state was never short of resources to abstain from carrying out vital functions necessary for development. Excluding the local governments' expenditure and inter-governmental adjustments, the combined total expenditure of the union and state governments, according to the budget estimates, is a whopping Rs 2000 crore per day or in terms of purchasing power, it is equivalent to \$2 billion a day!

Country	Public Expenditure as % of GDP
United Kingdom	37.7
Germany	44.5
United states	32.7
India	26.0

What do we get in return and what do we have to show? Eighty million children with no access to school education, 700 million people without access to proper toilets, shortage of teachers and excess of peons and clerks, appalling public services and woefully inadequate infrastructure. Without having to increase public expenditure, without having to seek aid from international agencies, these 80 million children could all have access to basic school education. It just requires some reallocation of funds and commitment of the governing class. At 50 children per classroom, we need to build 1.6 million classrooms. Each classroom can be built at Rs 1 lakh or less. This will incur a one-time expenditure/investment of Rs 16,000 crore. This is equivalent to only 10 days' government expenditure! Running the school

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

— teachers and basic teaching aids — would incur a recurring expense of Rs 8,000 crore; a mere five days' expenditure! A very paltry investment when you calculate the social and economic returns to the country. Similarly, all it takes to provide a safe, hygienic toilet for every household is about Rs 12,000 crores public expenditure (half the needy households can pay from their own resources, if technology and material are accessible, and a campaign is launched to promote proper hygiene and sanitation). This is equivalent to a one-time investment equal to six days' public expenditure. Studies have also shown that our public health system can be completely revamped, and health care improved and made accessible to the poor and needy, at an additional cost of about Rs. 10,000 crores per annum.

These examples demonstrate that while resources are scarce, even the available resources are not properly deployed. The Indian state has increasingly become a stumbling block to our economic growth prospects. The state guzzles vast resources and produces very little in return. We have, in all, about 28 million workers in the organized sector, or about 8% of the total workforce in the country. Of them, an astonishing 20 million, or nearly three-quarters, are in government! About 13 million are directly employed by the government at various levels, and about 7 million are in public sector undertakings. This number in the last decade has actually increased by nearly a million. The problem is not the size of government employment in absolute terms. Many nations have a larger proportion of population employed by government. Therefore, the solution does not lie in mindless downsizing. What we need is redeployment and greater productivity. Take a large state like Andhra Pradesh with 900,000 employees in government. About 180,000 or 20% are unproductive for the people, as they are engaged as peons and drivers! Another 30% (270,000) are support staff (clerks, etc.) whose only purpose is to allegedly help the decision-makers. There are about 40,000 officials with decision-making power at some level or other, and they could perform far more efficiently and economically with a well-trained support staff of a total of 60,000. But we have 450,000 of them employed as clerks, drivers and peons! We have about 310,000 teachers, and the state probably needs another 300,000 teachers of good quality to sustain a credible school education infrastructure. The health care system is inadequately staffed. We have just over 1000 judges in the state, and a total of about 12,000 in India. Germany, with a population of 80 million, has 30,000 judges! We have far fewer police personnel than needed in modern times. All this demonstrates that it is

not merely the size of the government which matters, but the productivity of the government. Clearly, we have to enhance the productivity and efficiency in the government, especially in health and education sectors for faster and equitable growth.

Win-Win Solutions – A Recipe for Growth

Increasing productivity and efficiency in four areas improvements, including health and education sectors, will raise growth rates spectacularly. All these are politically feasible, win-win solutions, which can be implemented within the present or projected budgetary allocations.

First, delivery of education – at both school and university level. Allocations for schools have gone up, and the recent education cess is universally accepted. But even in this day and age, our focus is merely on enrolment and retention, and not on quality. As a result, much of our education is futile. Functional literacy, communication skills, conceptual clarity, skill promotion, and creation of meaningful knowledge and its application form the essence of education.

Except for a few elite schools and colleges, and a small proportion of gifted children, most of our education is unproductive. As a result, millions of unemployable school and college graduates are churned out every year. Happily, there is phenomenal demand for quality education. Even the poor are willing to spend considerable sums for education, in the hope of a better future for their children. Sensible policies and non-monetary inputs based on best practices will improve the quality of human power, and enhance growth rate by at least one percent.

Second, our healthcare system is in shambles. The government's record in public health is appalling. A few correctives are being applied in recent years, and the Prime Minister launched the Health Mission in April, 2005. But more allocations and better infrastructure alone are not sufficient. Avoidable hospital costs and sickness are the chief causes of poverty, indebtedness and low productivity. Decentralized management, accountability to the community, integration of various health programmes and nutrition, water supply and sanitation at the grassroots level, and most of all, choice, competition and altered incentives in hospital management are the critical changes in trajectory

in healthcare delivery. If there is a genuine change of course, even the projected modest enhancements in allocations for public health will ease the suffering of the bulk of our people, raise their productivity and incomes, and substantially accelerate growth.

Third, rule of law is the bedrock of market economy and growth. Proper land surveys, assured property titles, speedy and fair adjudication of disputes, swift punishments for violation of law, quick and effective enforcement of contracts and non-discriminatory treatment are all critical requirements to ensure predictability and encourage investment, risk-taking and hardwork. While normatively we have an independent judiciary and institutions of rule of law, in reality they are moribund and ineffective. As a result, there is a growing market demand for criminals in society, and mafia and musclemen have become the undeclared judges dispensing rough and ready justice by brutal means for a price. There are reports of even a few foreign banks in India hiring musclemen to enforce recovery of overdues. Clearly such a climate inhibits economic activity and retards growth. There are many low cost, politically acceptable, popular mechanisms to improve justice delivery and rule of law. This alone will enhance growth by at least one percent per annum.

Fourth, extortionary corruption and arbitrariness in tax departments are sapping the energies of small and medium enterprises and seriously eroding the competitiveness of our manufacturing sector. The direct taxes have witnessed some measurable improvements. But the administration of central excise, service tax, customs and state-level sales-tax are still largely discretionary, unpredictable and arbitrary. Rent-seeking behaviour is therefore exceedingly common, seriously undermining the competitiveness of honest tax payers, and diverting the precious time and energy of the entrepreneurs. Transparent, industry-friendly procedures will not only help the economy, but will also enhance revenues. It costs no money, and yet boosts growth.

Improvements in these four sectors cost little, make the government popular, accelerate economic growth by 3-4 percent, promote investment and employment generation, and create several virtuous cycles of growth, savings and investment. All these are eminently feasible, but require bureaucratic accountability and delivery of services, sound, self-correcting, sustainable policies, and display of minimum level of political skills to build consensus and mobilize public opinion in favour of these improvements.

These are the elements which constitute good governance, and that is what is lacking now. However, given the complex nature of our crisis, many of the reforms suggested above are necessary, but not sufficient. But what is the nature of the political crisis that we are talking about?

Interlocking Vicious Cycles

In a well-functioning democracy, the political process ought to find answers to governance problems. Every election holds a promise for peaceful change. People in India have been voting for change time and again. But the political process is locked in a vicious cycle, and has become a part of the problem. There are several factors complicating the political process, perpetuating status quo.

First, election expenditures are large, unaccounted and mostly illegitimate. For instance, expenditure limit for assembly elections in most major states was Rs 600,000 until recently, when it has been revised to Rs 10 lakh. In reality average expenditure in most states is several multiples of it, sometimes exceeding Rs 10 million. Most of this expenditure is incurred to buy votes, bribe officials and hire musclemen. Sadly, the Southern states which are hailed for better governance, have the dubious distinction of being the worst offenders in this regard. The expenditure incurred in Andhra Pradesh in the current Assembly and Lok Sabha poll is estimated to be about Rs 800 – 1000 crores. On an average, the leading candidates for Assembly spend Rs. 1 to 1.5 crores each, and those for Lok Sabha about Rs. 3 – 4 crores each. The expenditure in the Kanakapura by-election for Lok Sabha held in 2003 was estimated by knowledgeable people at about Rs. 20 crores! The eventual winner was reported to have been heavily outspent by his nearest rival. Curiously, the stakes in that by-election were limited: only a maximum of – months of Lok Sabha membership was at stake, and both the leading contenders would have been in opposition! Saidapet bylection in Tamil Nadu Assembly too was said to have broken records, with expenses exceeding Rs. 10 crores!

There are three features of such skyrocketing election expenses. First, large expenditure does not guarantee victory; but inability to incur huge expenses almost certainly guarantees defeat! There are a few candidates who win without large expenditure, but such constituencies are limited. Also in great waves, expenditure is irrelevant. The Lok

Sabha victory of Congress in 1971, Janata in 1977, NTR's Victory in AP in 1983 – these are among the many examples when money power had no role. But in the absence of ideology, and increasing cynicism, large expenditure has become necessary to win. Desperate to win at any cost, parties are compelled to nominate mostly those candidates who can spend big money. Such large, unaccounted expenditure can be sustained only if the system is abused to enable multiple returns on investment. The economic decision-making power of the state is on the wane as part of the reform process. But as the demand for illegitimate political funds is not reduced, corruption is shifting to the core areas of state functioning, like crime investigation. Robert Wade¹ studied this phenomenon of corruption, and described the dangerously stable equilibrium, which operates in Indian governance. This vicious chain of corruption has created a class of political and bureaucratic 'entrepreneurs' who treat public office as big business.

Second, as the vicious cycle of money power, polling irregularities, and corruption has taken hold of the system, electoral verdicts ceased to make a difference to people. Repeated disappointments made people come to the conclusion that no matter who wins the election, they always end up losing. As incentive for discerning behaviour in voting has disappeared, people started maximizing their short-term returns. As a result, money and liquor are accepted habitually by many voters. This pattern of behaviour only converted politics and elections into big business. As illegitimate electoral expenditure skyrocketed, the vicious cycle of corruption is further strengthened. With public good delinked from voting, honesty and survival in public office are further separated.

Third, this situation bred a class of political 'entrepreneurs' who established fiefdoms. In most constituencies, money power, caste clout, bureaucratic links, and political contacts came together perpetuating politics of fiefdoms. Entry into electoral politics is restricted in real terms, as people who cannot muster these forces have little chance of getting elected. While there is competition for political power, it is often restricted between two or three families over a long period of time; parties are compelled to choose one of these individuals or families to enhance their chances of electoral success. Parties thus are helpless, and political process is stymied. Absence of internal democratic norms in

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parties and the consequent oligarchic control has denied a possibility of rejuvenation of political process through establishment of a virtuous cycle.

Fourth, in a centralized governance system, even if the vote is wisely used by people, public good cannot be promoted. As the citizen is distanced from the decision-making process, the administrative machinery has no capacity to deliver public services of high quality or low cost. Such a climate which cannot ensure better services or good governance breeds competitive populism to gain electoral advantage. Such populist politics have led to serious fiscal imbalances.

Fifth, fiscal health can be restored only by higher taxes, or reduced subsidies or wages. The total tax revenues of the union and states are of the order of only 15 percent of GDP. Higher taxation is resisted in the face of ubiquitous corruption and poor quality services. Desubsidization is always painful for the poor who do not see alternative benefits accruing from the money saved by withdrawal of subsidies. A vast bureaucracy under centralized control can neither be held to account, nor is wage reduction a realistic option.

Sixth, elected governments are helpless to change this perilous situation. As the survival of the government depends on the support of legislators, their demands have to be met. The legislator has thus become the disguised, unaccountable executive controlling all facets of government functioning. The local legislator and the bureaucrats have a vested interest in denying local governments any say in real decision making. The vicious cycle of corruption and centralized, unaccountable governance is thus perpetuated.

Seventh, the first-past-the-post (FPTP) system exacerbates our social divisions, as it tends to over represent geographically concentrated social groups and under represent the scattered minorities. This representational distortion leads to ghettoisation and marginalisation of the excluded social groups, which then indulge in strategic voting. This gives rise to vote bank politics in which obscurantist become interlocutors of the group drowning the voice of reason and modernity. For instance, religious symbolism and not education and job opportunities become dominant issues of public discourse. This pandering of fundamentalism leads to competitive mobilization of various groups based on primordial loyalties, leading to communal polarization and social strife.

Eighth, the need for money power and caste clout to win a plurality of votes in FPTP system precludes political participation of men and women of integrity and competence. With their exclusion, bad public policy and incompetent governance become endemic, deepening the crisis.

Ninth, under FPTP system, only a high threshold of voting ensures victory. Usually a party needs 35% vote or more to get reasonable representation in legislature, or social groups with local dominance get elected. As a significant but scattered support pays no electoral dividends, reform groups and parties below the threshold tend to wither away. Voters prefer other “winnable” parties and candidates. This tends to marginalize reform parties, and national parties in many states. It is no accident that the main national parties Congress and BJP are directly competing for power in only a few major states. In most states one or two regional parties are dominant. FPTP thus tends to lead to oligopoly of parties.

Given this complex nature of our crisis, many of the reforms that have been enacted and those in the pipeline are necessary, but not sufficient. Apart from reforms in local governments, judiciary and bureaucracy and effective instruments to enforce accountability and check corruption, we need to pursue systemic reforms changing the nature of elections and process of power. In my considered judgment, there are three such reforms required.

Political Reforms

1. Proportional Representation

The first-past-the-post (FPTP) system that India has adopted led to several distortions, given the passage of time and ingenuity of legislators. Politics of fiefdom at constituency level has forced the parties to rely on local strongmen. As a result, the political parties and independent candidates have astronomical election expenditure for vote buying and other illegitimate purposes. This has led to a significant weakening of the party platform and ideology, reducing elections to private power games. In many states, national parties have been marginalized where their voting percentage falls below a threshold.

Following from this, regional parties have occupied center stage in several pockets, holding larger interests at ransom.

All these failings find expression in serious and long-term predicaments. The inability of all political parties to attract and nurture best talent is the primary issue. Difficulties of minority representation leading to ghetto mentality, backlash, and communal tension form another facet of the problem. Lastly, leadership is undermined by permanent reservation of constituencies (or regular rotation) in order to provide fair representation to excluded groups. The solution to this flawed system is adoption of mixed system of election combining FPTP system with proportional representation. This can be broadly based on the German model. The key features of the suggested system are as follows:

- ?? The overall representation of parties in legislature will be based on the proportion of valid vote obtained by them.
- ?? A party will be entitled to such a quota based on vote share only when it crosses a threshold, say 10% of vote in a major state, and more in minor states.
- ?? 50% of legislators will be elected from territorial constituencies based on FPTP system. This will ensure the link between the legislator and the constituents
- ?? The balance 50% will be allotted to parties to make up for their shortfall based on proportion of votes.
 - eg 1): If the party is entitled to 50 seats in legislature based on vote share, but had 30 members elected in FPTP system, 20 more will be elected based on the party list.
 - eg 2): If the party is entitled to 50 seats based on vote share, but had only 10 members elected in FPTP system, it will have 40 members elected from the list
- ?? The party lists will be selected democratically at the State or multi-party constituency level, by the members of the party or their elected delegates through secret ballot.
- ?? There will be two votes cast by voters - one for a candidate for FPTP election, and the other for a party to determine the vote share of the parties.

It needs to be remembered that PR system can be effective only after internal functioning of political parties is regulated by law. Otherwise, PR system will give extraordinary power to party leaders and may prove counterproductive. However, the PR

system has one more advantage of ensuring better representation of women in legislatures.

2. Political Party regulation by law

Political recruitment has suffered a great deal, and bright young people are no longer attracted to politics. Centralized functioning of parties is imposing enormous burden on leadership to manage the party bureaucracy, leaving little time for evolving sensible policies or governance. Party leaders are helpless in candidate selection, and the choice is often between Tweedledum and Tweedledee. An important reform to improve the quality of politics and restore credibility would be a law to regulate political parties' functioning, without in any way restricting leadership choice and policy options. A law needs to be enacted to regulate political parties in the following four key aspects:

- ~~✍~~ Free and open membership with no arbitrary expulsions
- ~~✍~~ Democratic, regular, free, secret ballot for leadership election; and opportunity to challenge and unseat leadership through formal procedures with no risk of being penalized
- ~~✍~~ Democratic choice of party candidates for elective office by members or their elected delegates through secret ballot.
- ~~✍~~ Full transparency in funding and utilization of resources

The provisions can be similar to Article 21 of German Basic Law and federal law to regulate parties.

3. Clear Separation of Powers at the State and Local Levels Through Direct Election of Head of Government

The other systemic reform that is needed to isolate the executive from unwanted influences, as has been pointed out, is to ensure direct election of Head of Government in States and Local Governments.

As election costs have skyrocketed, candidates spend money in anticipation of rewards and opportunities for private gain after election. Legislators perceive themselves as disguised executive, and chief ministers are hard pressed to meet their constant

demands. Postings, transfers, contracts, tenders, tollgates, parole, developmental schemes, and crime investigation - all these become sources of patronage and rent seeking. No government functioning honestly can survive under such circumstances. While the legislators never allow objective and balanced decision-making by the executive in the actual functioning of legislation, their role has become nominal and largely inconsequential. This blurring of the lines of demarcation between the executive and legislature is one of the cardinal features of the crisis of our governance system.

Therefore, separation of powers, and direct election are necessary in States and local governments. At the national level, such a direct election is fraught with serious dangers. Our linguistic diversity demands a parliamentary executive. Any individual seen as the symbol of all authority can easily become despotic, given our political culture. But in states, separation of powers poses no such dangers. The Union government, Supreme Court, constitutional functionaries like the Election Commission, UPSC, and CAG, and the enormous powers and prestige of the Union will easily control authoritarianism in any state. This necessitates adoption of a system of direct election of the head of government in states and local governments. The fundamental changes suggested find mention as under:

The legislature will be elected separately and directly while the ministers will be drawn from outside the legislature. The legislature will have a fixed term, and cannot be dissolved prematurely except in exceptional circumstances (sedition, secession etc) by the Union government. The head of government will have a fixed term, and cannot be voted out of office by the legislature. Any vacancy of office will be filled by a due process of succession. The elected head of government will have no more than two terms of office. Even though these changes may not be panacea to all evils in the present structure of legislature and executive, they will certainly encourage more healthy and vibrant democracy and democratic processes. Further, clear and periodic delineation of functions between Union and States, and among various tiers of local governments is also a necessary condition for a vibrant democracy.

Given a mismatch between aspirations and ability of our people and our political process, ushering in systemic political reforms is an immediate task. Clearly such a mismatch between first world people forging ahead with growing aspirations and third

world politics undermining our prosperity and happiness is unsustainable. Either the people will have to force politicians to change and recreate a polity worthy of us and capable of meeting the challenges; or politics will retard our future and bring India down by several notches. Which will happen first? That is the great question of this decade, and the future of our nation and world will be shaped by the answer we give together.

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