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Essays on India's Political Economy

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Abstract

This is a collection of essays written for the *Financial Express*, an Indian financial daily. The common theme of these essays, which cover a period of almost four years, from September 2010 to June 2014, is the issue of governance in India, and how politics combines with societal and institutional structures to shape the quality of governance. The essays discuss corruption, citizenship, effective delivery of public goods and services, taxation and the evolution of democracy at different levels of the Indian polity. The collection begins with the corruption surrounding the Commonwealth Games, and ends with the implications of India's recent, potentially path-breaking general election.

Keywords: India, governance, corruption, leadership, elections, democracy, politics

Getting Things Done in India

September 30, 2010¹

From the Commonwealth Games fiasco to the problem of endemic child malnutrition, India has been receiving critical scrutiny from the Western press. The Games are a high-profile, time-bound project that has struggled from the start, despite more than enough money and time being available to do it right. Malnutrition is a hidden problem, with no deadlines, no bridge collapses, and no obvious villains. But are they both symptoms of the same set of problems? Is there something in common that keeps us from getting things done, whether it is getting ready for a sporting event or feeding undernourished children?

It cannot be culture, despite the claims of a witless official that the Games facilities were the way they were because Indians have lower standards of cleanliness. Cultural factors can affect the treatment of girls versus boys, and attitudes towards time and fate can matter in all sorts of ways, but India has shown that it can do things to match the best in the world. That was the story of India's software pioneers. Indians abroad also have no problem with matching the best wherever they are. It does not seem that Indian attitudes are the culprit.

Perhaps it is the quality of governance that is to blame. The discussion of problems with the preparation for the Commonwealth Games has noted corruption and mismanagement. Government money often gets diverted before it reaches its intended beneficiaries. India's successful software firms, after all, were not government owned. But the Delhi Metro, already well begun in its initial phase, and vastly expanded in time for the Games, is a government project that has functioned effectively. One possibility is that the quality of governance is ruled by voters. Famines cost votes, malnutrition does not. A cricket-related mess might hurt politicians more than the Commonwealth Games, which are more for the elite, while cricket has a mass following. Governance also translates into management, so something that is politically important may get managed better.

The quality of management, in turn, depends not just on the people in charge, but on the complexity of the problem. The Delhi Metro is a complex engineering project, but does not require the variety of tasks and level of coordination that the entire Commonwealth Games effort did – and clearly the complexity of the project was underestimated. Malnutrition turns out to be one of the most complex health challenges that India faces.

One suggestion in the Western press has been that the government needs to lead a charge against malnutrition. Apparently, this is how China dramatically reduced its incidence of child malnutrition, from levels similar to India's to those that are now only a sixth. The Chinese

¹ The dates given are the dates of writing. In most cases, the piece would have appeared in the *Financial Express* several days later.

approach to the Beijing Olympics also had this fervor. The idea here is that an authoritarian government is not necessary, just one that is focused on the most important problems. Brazil, too, has succeeded by focusing on nutrition.

But India does have its schemes and missions. An Integrated Child Development Service (ICDS) has run for 35 years. More recently, the National Rural Health Mission (NRHM) has created a sense of the need to transform the health status of India's poor, in particular. The NRHM provides more money, and is catalyzing attempts to retool public sector delivery of health services. In keeping with my earlier observations, it seems that having a clear focus and engaging effectively with the private sector are important for success. A good illustration comes from the simple attempt to get more mothers to deliver in a hospital or clinic, rather than at home. The Chiranjeevi scheme in Gujarat and the Merry Gold network in Uttar Pradesh are two different examples of how this can be done well.

But institutional childbirths are just a small step toward improved health outcomes. Reduced maternal and infant mortality have to be accompanied by better quality of life. In particular, it seems that the first year or two of children's lives need the most attention. The ICDS, despite its focus, may still be spread too thin, in terms of its target population. At the same time, nutrition depends on quality of food, freedom from diseases that deplete nutrients, and parent education. That represents a broad range of interventions, which somehow have to be effective in concert. The NRHM has perhaps not yet achieved the change in institutional structures of governance at the local level that is needed: coordination across government departments, timely flows of funds, and provision of extrinsic (e.g., money and recognition) and intrinsic (e.g., feelings of fulfillment) incentives for the thousands of people engaged in these efforts.

The embarrassment of the Commonwealth Games will be soon forgotten, and perhaps its lessons unlearned. But 10 percent growth and true poverty reduction will need serious reductions in child malnutrition. That is what India needs to get done. Those better-nourished children will even win some medals for India one day.

Bihar and Inclusive Development

November 25, 2010

Inclusive development is about sharing the fruits of growth with the bottom of the pyramid. It goes beyond welfare schemes to encompass equality of opportunity, enhancing human capabilities across the population, and generating broad-based productive employment. If inclusiveness is the aim of India's policymakers as they pursue high, sustained growth, they should applaud Bihar's assembly election results.

Bihar is the poster child for inclusiveness. It is India's poorest state, handily "beating" rival Uttar Pradesh for that dubious title. It has been conveniently and appropriately the first letter of the BIMARU acronym, which joined Madhya Pradesh and Rajasthan with it and UP to symbolize a

sickness that supposedly afflicted India's heartland, that of poverty and misery. So Bihar doing well economically is a great advertisement for the idea of inclusive development. And the electorate rewarding the state's political leadership for providing inclusive development is a validation of ideas espoused, if not always followed, at the national level.

Development begins with and builds on growth. How has Bihar done? From 2000 to 2005, India's per capita growth averaged about 3.9 percent a year. The corresponding figure for Bihar was 3.1 percent. From 2005 to 2009, the all-India average annual growth was about 6.9 percent, while Bihar, after a change in government, came in at 10.3 percent. Subtract the 3 percent all-India acceleration, and Bihar's net increase is 4.2 percent in the second period. It may not be that all of this increase was due to the change in state leadership in 2005, but voters were surely rational if they went with the positive correlation and gave the ruling coalition a second term.

Was this accelerated growth inclusive? Here there can be no single number to make the case. But the list of examples of how things changed is persuasive. An analysis of the growth drivers indicates that higher infrastructure spending was a big factor. This spending went for roads and bridges, which connect villages to towns and cities, and give people easier and better access to markets and government services. The national government can be pleased with providing these increased funds, but the new state government actually spent the money, and spent it reasonably well.

Bihar's Chief Minister apparently also did simple things like sitting in his office all day and attending to business, making decisions expeditiously. He restored some semblance of responsibility and accountability to the civil service. He raised police morale and cracked down on crime. He pushed through the hiring of teachers and opening of new primary schools. As much as anything else, the basic functions of government are a precondition for growth and development of any kind.

Nitish Kumar also did some interesting things to include the 50 percent of the population that often gets left out or marginalized – women and girls. He increased women's reservations in panchayats from 33 percent to 50 percent. He provided free bicycles for over a million high school girls, so they could go to school and back more easily. Women captured over half of the seats in panchayats elections, turned out in record numbers for the state assembly polls, and made clear that they cared about the focus on law and order and on education.

This is not a new utopia, of course. Caste still matters in Bihar, as it does in all of India. And Bihar is still India's poorest state. Other chief ministers have had good runs in promoting growth and development in their states. Sometimes they have lost elections despite their success. Bihar's challenges remain enormous. But there are important lessons in what has happened in Bihar in the last few years, and in the recent assembly elections. These lessons have been hinted at over the last two decades, in different state and national elections and economic outcomes.

One lesson is that governance matters enormously for economic performance. A second lesson is that good governance is not difficult to achieve when there is good leadership. A third lesson is that campaign financing as an excuse for corruption won't wash – good economic and social outcomes trump expensive political marketing, bribes and pandering to voters' base instincts as drivers of political success. A fourth lesson is that good outcomes have to be inclusive – this has been realized before at the national level, but not always translated clearly into the right actions. A fifth lesson is that federalism works if done right – let spending take place at the level where efficiency and accountability are highest, and let demonstration effects turn into domino effects across states and districts, towns and villages.

The success of Indians on the global stage, in a variety of professions, in many parts of the world, has made one thing clear. Indians in their own country deserve better leadership than they have been getting. Bihar's recent experience may be a significant step in the right direction.

Weighing India's Budget

March 6, 2011

The recent Union Budget elicited the usual range of responses. Various interest groups commented on the lack of what they would ideally have wanted in terms of tax or expenditure policy changes. Many commentators decried the lack of boldness, or lack of economic reforms, or questioned the realism of the Budget's financial projections, especially given the looming dangers of high-priced oil.

I want to make three points. First, this is a reasonably good Budget, doing what it is meant to do, laying out the broad contours of tax and expenditure policy for the next year. Second, reforms are continuing, not always smoothly, not always ones that get highlighted in the Budget, and perhaps not comprehensively enough, but continuing nonetheless. Third, the fundamental character of Indian economic policymaking has changed, and for the better.

Begin with taxes and expenditures. Tax reform, particularly the introduction of the Goods and Services Tax (GST) is creeping forward. No major constructive policy change in India has proceeded according to the schedule originally mooted, and the GST is no exception. But the forward progress is unstoppable, and the GST will come. This Finance Minister also displays restraint in tinkering with tax rates and exemptions, providing more certainty in the business climate. Budgeted expenditures are lower than many had projected, and this is the basis for a solid effort at fiscal consolidation. There are hints at expenditure rationalization, but clearly these will need to follow the implementation of the massive Unique Identification (UID) project, also making progress. Fiscal consolidation may be threatened by oil and food price rises, but, on the other hand, it may be helped by tax revenue buoyancy. The Budget numbers are a reasonable middle-of-the-road projection.

Second, consider the reform process. To me, it is remarkable how much is going on. Simple liberalization moves such as relaxing FDI limits in certain sectors, garner the headlines, with even corporate America providing its opinions as it eyes the Indian market. But the real reform is proceeding in painstaking efforts to redesign and innovate in financial institutions (including innovations to finance infrastructure), and to overhaul a range of legislation that governs the corporate sector. New laws that streamline and modernize the entry, day-to-day functioning, and exit of firms will ultimately pay off for the economy, and literally re-form the private sector engine of India's growth. Land acquisition and labor market reform remain difficult political nuts to crack, but the former, at least, remains on the policy front burner. Interestingly, the government's divestment plan, which would have triggered ideological battles at one time, continues without controversy. Perhaps opposition is softened by the fiscal imperatives behind it, but surely it is also a sign of the changing perception of reform.

Third, the language and analytics of economic policymaking have changed. India has had many sophisticated economists serving the government in the past, and macroeconomic management has always received great attention in the Economic Survey. This year's Survey continues last year's example, with Chapter 2 once again providing lucid microeconomic foundations for the concept of inclusive development, and specific policies that can promote development. The analytical clarity and imagination of the Economic Survey represent a distinct improvement at the core of Indian economic policymaking, and, in my opinion, validate the experiment of bringing into government a microeconomic theorist with deep knowledge of the frontier of economic thinking. No doubt last year's struggles with food price inflation had much to do with the government's emphasis in the Budget on reforming the agricultural supply chain. But I would not be surprised if the Chief Economic Adviser's analytical approach to the working of markets and market institutions has also had an impact on this thinking.

Of course, nothing is perfect, in economic policymaking or anywhere else in the world. Oil is a wild card, and policymakers all over the world must hope that the current crisis has at least a temporary resolution that is reached swiftly. But there are things Indian policymakers can do that have to be done, whatever happens to oil. The Economic Survey highlights the importance of human capital and innovation, but these ideas have not reached into the Budget. How will India educate and train those who represent its demographic dividend? How will the private sector, especially small and medium firms, be given the right enabling environment to innovate and create jobs for those who are ready for them?

India's farmers need help, and they may finally start getting it in constructive ways that increase their options and reduce their risks. India's corporate titans will get a more streamlined playing field that will only help them in their global ambitions. India's elite will continue to get the best education and jobs. But the young men and women who are growing up all across India in small towns and cities will need better access to education and training, and more chances to shape their own working futures. The policy vision for them remains to be articulated.

Did Nationalized Banks Save India?

July 15, 2011

When India survived the global financial crisis relatively unscathed, several prominent public figures claimed that the country's public sector banks had been pillars of stability and resilience, contributing to the economy's strong performance under stress. Indeed, during the crisis, households and firms shifted money from private to public banks, and the latter outperformed the former through those tough times. But what really happened? At the recently held India Policy Forum, Viral Acharya of New York University provided a comprehensive and provocative empirical analysis. No such analysis is perfect, but there is great merit in actually digging into the data, rather than jumping to conclusions and shaping policy without adequate investigation.

Acharya shows that private sector banks that were more vulnerable to crisis (he uses a specific measure of systemic risk) indeed suffered greater deposit contractions during the crisis, as would be expected. But this relationship did not hold at all for public sector banks – indeed, it might have been the opposite. He conjectures that the nature of government guarantees could explain this unusual outcome, since public sector banks are more effectively or obviously protected from all kinds of risk, even beyond basic deposit insurance protection for individuals.

There is also a provocative comparison with the United States, where government guarantees for Fannie Mae and Freddie Mac in the mortgage market allowed those two institutions to crowd out the private sector, and fall prey to political compulsions for expanding access to home ownership. This in turn could have contributed to lax mortgage lending standards, deteriorating to fraud in many cases. This comparison is reminiscent of older arguments that public sector banks in India have been subject to political compulsions in their lending decisions, leading to poor financial performance and greater systemic risk.

One can argue with Acharya's analysis, and certainly there is more work to be done. Bank nationalization has been found by some researchers to have contributed to expansion of bank branches (and hence, presumably, financial inclusion). While this is an argument based on benefits of financial development, rather than insulation against downside risk, it could be taken as justifying the cost of government guarantees. It is also true that the government effectively does guarantee private sector banks as well – none have ever been allowed to fail. But that could be taken to support Acharya's conclusion that what matters is strong and effective regulation, rather than ownership. Indeed, from the perspective of economic theory, there is a case for financial sector regulation, but not for public sector ownership of financial institutions.

The lack of trust in private sector banks displayed by Indian consumers and firms *in extremis* could also be an argument for public sector ownership, if it is based on inferences by customers that the private sector is more prone to sharp practice or deceit (as opposed to the perceived "laziness" of the public sector). But here, too, the correct conclusion could be that better

consumer protection is required, rather than government ownership. The government's job is to make sure that public goods like information are provided, and externalities caused by information asymmetries are dealt with, and that does not require the government itself to run the banks. Furthermore, if trust comes from experience, and good experiences come from competition, stunting competition by chaining private sector banks or artificially propping up public sector banks creates a self-fulfilling prophecy of doom.

The political economy aspects of bank ownership are also interesting. It can be argued that public sector banks can be regulated more effectively than those in the private sector, because they are more subject to informal moral suasion, for example. But the obverse is that they can be more easily corrupted. Indeed, in the US case, not only were the government guaranteed mortgage institutions poorly regulated, so were the private sector investment banks. Again, it was the quality of regulation and regulatory enforcement that mattered, rather than public or private ownership.

So, did nationalized banks save India from the financial crisis? Probably not. If anything, strong and effective regulation, irrespective of ownership, was what mattered. This does not mean that the regulatory system cannot be improved – indeed, there is much more analysis required for improving the design of financial sector regulation. Should India's public sector banks be privatized? One cannot jump to that conclusion either. However, Acharya's empirical work indicates that public sector ownership has not been a panacea for resistance to financial crises.

One way to improve the status quo, in addition to improving the design of the regulatory system, is to increase the market discipline for public sector banks, by pushing for them to be listed on the stock exchange, and gradually increasing the percentage of shareholding by the public (the real public, rather than the government). And loosening up restrictions on private sector bank expansion would also provide increased competition for public sector banks. Faster financial development and greater financial inclusion can be achieved without increasing systemic risk.

Building a New India

September 19, 2011

When the UPA came back to power in 2009, with what seemed to be a stronger and more reasonable coalition structure, I was very optimistic. The global economy had dodged the bullet that might have wounded it critically. India had managed to grow robustly, even in the throes of the global crisis. There was a chance for experienced leadership to return and continue its work. Halfway through the government's term, things appear much less rosy. What has happened and why?

The private sector has done its part. India's entrepreneurs seem to be exhibiting a dynamism that thrives in the face of adversity, trying to innovate and grow in an often hostile business

environment. Households have done their part. They save and consume in reliable ways, seeking better lives for their children through thrift and hard work. It is India's leadership that has failed.

Some of the problems were created before the current government's term, most notably the 2G scandal. They were a function of an inordinately corrupt coalition partner, pursuing the kind of overt family-led corruption that ruined Indonesia's growth story. Other problems have come from adverse global economic developments, hangovers from the 2008 crisis as well as new negative shocks. In all cases, however, the government response has been anemic and defensive.

The US, Europe and Japan have all been struggling with economic problems and their decision making has also left much to be desired. But in each of these cases, there has been more of an excuse. The US and Europe are dealing with internal heterogeneity and political polarization at levels that are unprecedented for them in the recent past, in the context of an era of constrained public resources. Japan had less excuse, until the devastating earthquake and tsunami that hit it. India, on the other hand, has shot itself in the foot.

A fast-growing economy, especially one that needs to invest heavily in infrastructure, is a magnet for corruption. Corruption was rampant in the US just over a hundred years ago, as it emerged as an industrial giant. So India's corruption scandals should not come as a surprise. Precisely for this reason, they should have been dealt with earlier. The 2G allocation was obviously flawed from the start, but no action was taken. The corruption around the Commonwealth Games preparations was common knowledge long before any response was made. It is a reasonable inference that the political leadership deliberately turned a blind eye to problems.

This view is reinforced by the government's reluctance to act on demands for greater accountability. Rather than being proactive and responsive to the concerns of citizens, the leadership allowed a showdown to develop, with citizens having to resort to tactics that might have been appropriate for dealing with an imperial power that disenfranchised them, rather than a government ostensibly of the people.

Much of what we have seen in the last few years, then, is the vestiges of an old India, of patronage and petty power games of insiders. India's current leadership cannot help build a new India without rebuilding itself. The reason that the government has a hard time admitting mistakes, fixing them, and moving on, is that at the heart of its leadership is a flawed model of decision making and choice of decision makers, based on loyalty and connections, rather than competence and probity.

When the leadership suffers from these problems, the rest of society also tends to get corrupted. Business people and individuals who go along with this ethos benefit at the expense of those who have more scruples. The discipline of competition stops working when the playing field is not level. The honest majority's frustration boils over into the streets and the *maidans*.

What can be done? The small ruling elite can step back and realize that its hold on power will not be preserved by doling out favors – small ones to the rural poor and large ones to its inner circles. My sense is that India’s voters have understood what is achievable through competent and relatively honest government, and will not hesitate to “throw the rascals out” as soon as they get a chance. After this realization must come steps to rebuild the leadership. This cannot be done at once. Political leaders, in particular, must work their way up the ranks. However, the existing leadership can make itself more open to new ideas, by allowing more regular channels for the transmission of ideas from outside the government into policymaking.

This government is showing the classic signs of what happens when a ruling group starts to close itself off from external criticism and stifle internal dissent and debate. This closing off is a sign of insecurity, but ultimately brings about precisely what it fears – loss of power. Whether the leadership can rebuild itself will be the surest sign of whether it has the ability to lead in building a new India.

India in 2012: The Year Ahead

January 1, 2012

A year ago, I offered an optimistic and hopeful view of India’s possibilities in 2011. As it turned out, things were much less rosy than I had guessed they might be. I had gone with the then-popular growth forecast of 9 percent. Growth has been much lower. Part of the problem was the ongoing European crisis, and the United States’ slow recovery. Much of the difference came from what has been happening within India.

A year ago, I remarked that the private sector in India has done well despite poor governance. This has remained true, but not to the extent that I had hoped. The general poor quality of governance was compounded in 2011 by uncertain handling of corruption, which surfaced as a major issue for India’s citizens. My view is that India’s ruling coterie is currently weak in its leadership and its vision. Too many of those who rule are focused on short term personal advantage, rather than leading the country well. Will this improve in 2012? It is hard to say what will happen at the national level. However, one can hope for more progress in governance quality in some of the states.

A year ago, I noted the problem of inflation and the challenges of macroeconomic management. There was much talk in 2011, but nothing was done to address structural problems and microeconomic policy mistakes that have made inflation worse. The RBI raised interest rates, but did it slowly, seeming to be behind the curve, while saying they were not sure their policies would be effective. It would have been better to raise rates quickly, speak confidently about it, and talk down inflation expectations, rather than sounding helpless. The RBI has also continued to allow a backward-looking inflation measure to dominate the headlines, rather than giving the

public a clearer sense of what is happening in the present, with a month-on-month, seasonally adjusted inflation measure.

A year ago, we were worried about rupee appreciation. Instead, the currency has depreciated dramatically. First, appreciation was supposed to be a problem. Now, depreciation is supposed to be a problem. If we want foreign capital for investment, and foreign portfolio flows are volatile and lead to currency fluctuations, maybe that is a price we should be willing to pay. One can build institutions that allow firms which are exposed to international trade to do some hedging, direct or indirect. Progress on this front has been slow, but the welfare gains from this more microeconomic approach, rather than trying to control exchange rate fluctuations, are likely to be high.

Perhaps the biggest disappointment of 2011 was India's seeming retreat from its potential position as a global role model: a pluralistic democracy with burgeoning creativity and innovation, addressing the needs of a diverse population with attention and care. Instead, the country has seemed rudderless, preoccupied with reacting to problem after problem, instead of foreseeing them and dealing with them proactively. Will 2012 be different? How the top leadership of the country, both on the ruling side and those in opposition, responds to the current situation will be crucial. It is hard to predict what will happen.

So no predictions, but here instead is a short wish list for 2012.

First, I hope that the government makes public accountability a national issue, and works with all political parties to put in place some institutions to reduce corruption and increase the quality of governance more broadly. India's citizens deserve this. No arrangement will be perfect, but there is clearly room for improvement, and those who ostensibly serve India's citizens have to accept that they have fallen short.

Second, I hope that the government will realize that development comes from the ideas and energy of those same citizens. Instead of struggling to maintain controls, introduce new ones, or keep on doing things that the government should not be doing (running airlines and hotels, for example), there should be a vision of maximizing the capabilities of India's people, and a focus on just a few things that would do the most to help that goal. Freeing up much of the education and health sectors, while focusing solely on the needs of those who will not be adequately served by private enterprise, would lead to a huge improvement. Similarly, giving more Indians an environment in which they can pursue enterprising activities, rather than just giving them handouts (even if still necessary for many), would do more for inclusive growth than anything the government has done so far.

Third, I hope that India's "middle class" continues to grow and shape the country's trajectory in positive ways. It has had a role in bringing government to account for corruption. It now appears to be moving away from the worst manifestation of its bias against girls and women, according

to the latest figures on gender ratios. There is much more it can do. Ultimately, India's own people bear the responsibility for their destiny.

Learning from India's Voters

March 7, 2012

In my last column, I wrote about learning from China. The experience of other countries, especially those that share key characteristics with India, is obviously important as a guide for policy makers. But there are important lessons from India's own experience. Democratic voting allows the individual experiences of citizens to be articulated, albeit in an aggregate and imprecise manner. Drawing the right lessons from India's latest elections is vital.

The stock market seemed to conclude that the outcome in Uttar Pradesh was a bad one for India's economic future. Since the UP state assembly election did nothing to consolidate the political position of the ruling party's heir apparent, it may be that uncertainty and jockeying for position at the Centre will continue, both within the ruling party, and in the wider coalition. Capricious coalition partners and powerful ministers may continue to block or divert needed and potentially beneficial economic reforms.

But the lesson from UP is positive, as several commentators have recognized. Let's put it in context. There are at least three factors that could influence voters: the personal qualities of the leaders, the commonality of group interests, and the track record and predictions of performance in governance. UP teaches us that voters are not much swayed by charm, charisma or even acts of humility. UP also teaches us that voters' perceptions of group interests are undergoing change. It is less about static caste or religious identification, and much more about commonality of economic interests. On both these counts, the Congress seems to have got it wrong, emphasizing individual leadership characteristics, and dimensions of identity that are being overtaken by events.

The lesson of UP is in fact that now the third factor matters most for voters. It always has been important, but now they know better what is possible. UP voters only had to look to neighbouring Bihar to see what a difference better governance can make. Identity and leadership are not irrelevant, of course, but have to part of a credible package of policies that promise sustained improvement in people's daily lives, not just handouts that just perpetuate the status quo. Patronizing the poor will not help India's politicians any more. I would also hazard that voters are not too concerned about corruption – the vote was not a moral judgment. Voters expect a certain amount of patronage and pilferage, and may even be happy to participate. They just do not want corruption to make their daily lives miserable, or keep them from getting ahead. They want good governance (at a very basic level), not moral perfection.

Whether the UP outcome is a positive for India still involves a tradeoff. The tradeoff is between poorer performance at the Centre, because of uncertainty and infighting, versus gains at the state

level. But this is only a short run tradeoff. If UP and Bihar can grow faster, this represents a significant fraction of India's population that was not being given the chance to participate fully in faster growth. This will have longer run benefits. By losing in UP, the Congress party is (unwillingly and unintentionally) promoting more inclusive growth.

Because UP is so large and central, some of the other election results received less attention than they might have otherwise. The Punjab outcome also has lessons. The Congress lost there as well. As in UP, the shifts in vote shares were not large, so one should not overstate the sagacity and determination of voters. But in Punjab, the Akali Dal broke precedent by returning to power. As in the case of the winners in UP, they offered a development message. The fact that they were believed, despite their abysmal performance so far on many fronts, shows that the Congress has failed to formulate and articulate an agenda that voters can believe. The Akali Dal also illustrated the changing nature and salience of group identities in politics. They fielded Hindu candidates, and picked up seats at the expense (indirect, not directly) of their Hindu-nationalist ally.

Punjab is a small state, but its role as a provider of surplus foodgrains to the rest of India gives it a disproportionate significance. All the political parties in Punjab have overseen and implemented policies that are destroying the groundwater table in Punjab, and will turn it into a desert very soon. Perhaps, just as it took a right-wing US President to open up to China, it will take a party that draws support from farmers to fix Punjab's farm policy mess and avert the looming disaster.

The voters are not always right. In UP, they had several clear alternatives, and made what seems to be by far the best choice. It is likely to be rewarded with better governance and higher growth, just as happened in Bihar. In Punjab, the choices were less good. It remains to be seen if the lesser of two evils can actually lead to better outcomes than in the recent past.

The Politics of Emotion

May 20, 2012

Many observers have commented at length on India's apparent policy drift, in which economic reforms are being stalled, or even reversed. The last Union Budget's retrospective taxation and anti-tax-avoidance moves prompted *The Economist* magazine to answer its question, "what does the Indian government want?" with a discussion of "three theories: that it is clueless, that it wants symbolic control, and that it wants cash." The tax and investment policy mess is just one dimension of an odd state of affairs in Indian policy making. What the government wants is perhaps best understood by considering what the individuals in the government want. And here the underlying emotions may be the best guide to understanding what is happening and what will come next.

In 2009, Dominique Moïsi came out with a slim volume titled, *The Geopolitics of Emotion*, with a subtitle, *How Cultures of Fear, Humiliation, and Hope Are Reshaping the World*, which

summarizes his central argument. Moïsi's analysis is impressionistic and broad-brush, focusing on fear in the West and humiliation in the Arab or Muslim world, with hope associated with Asia, particularly China and (ironically) India. Indeed, hope had been rising for many in India for the first decade of the 21st century, making the current mood a stark contrast. The informal nature of the book's arguments should not detract from the theme that emotions are powerful predictors of behavior. With this in mind, one can extend this theme to the level of policymakers in India.

From the perspective of emotions, perhaps the seeming cluelessness, assertions of control and quest for cash are all part of a culture of fear that has pervaded the ruling party. The fear of losing power and position seems to be a common thread in attitudes toward policymaking among many in charge. Hope still exists among some decision makers, and seems to have been important in areas such as India's policy toward Pakistan, but fear seems to have got the upper hand.

Fear is operating in many ways. Those whose positions depend on patronage are uncertain about the future, and with this uncertainty goes fear of losing materially and in status. There is fear that the revenue-expenditure imbalance will only get worse, prompting a search for cash. There is fear that deterioration of the global economy, and the machinations of fickle foreign investors will make life tougher for India's policymakers. Fear may be contributing to decision-making that is defensive and apprehensive, rather than rational and confident.

Bureaucrats may also be reacting to a mild degree of humiliation. The most senior civil servants now were recruited before the liberalization of the economy, and have moved up the ranks to positions of enormous authority, but with liberalization having diminished the rationale and scope for many of the previous forms of exercise of that authority. Not all senior bureaucrats may think like this, but perhaps some do – emotions of pride may matter. The fear and weakness in political leadership may give senior bureaucrats a chance to reassert themselves in exercising discretionary control.

Of course, one can also tell different stories. Perhaps India's rulers are expressing self-confidence in seeking to raise revenue from foreigners, secure in the assumption that India will remain an attractive destination for investment. Also, the insurrections in eastern India's tribal belt reflect increased fear and humiliation, not hope. And the government's welfare policies have been driven by the desire to extend hope to more of India's population, beyond those who already had the skills and capacity to enjoy the fruits of economic liberalization. Uttar Pradesh's electorate must have had some hope of improved governance when they dismissed Mayawati and rejected the Congress. In fact, the latter source of hope is on a firmer foundation than the ephemeral hope generated by welfare payments, or the fake hope of an abstract right to food. Meanwhile, investors both domestic and foreign have already signalled that India's recent policies, even if fuelled by self-confidence, do not inspire confidence in others.

Perhaps, then, the problem is that many of India's politicians do not understand what hope is about. They hope to get even richer than they are, and they fear not being in a position to pursue these personal hopes. This fear is amplified, and is undermining the more modest hopes of the bulk of India's citizens. Hope does not come from handouts, from patronage, or from discretionary exercise of authority.

India's stance toward Pakistan is instructive, and in keeping with Dominique Moïsi's focus on geopolitics. By its actions, including restraint after the Mumbai terror attacks of 2008, and the pursuit of peace and closer economic ties, India has sought to break the cycle of fear and humiliation that has threatened South Asia's stability. Pakistan can also have hope. But if that is so, then why not more hope and less fear for those who wish to invest in India, whether its own citizens, or others? Perhaps a simple hope-fear test can be used for policy-making, when narrow cost-benefit calculations do not work.

Breaking the Spiral of Despair

June 17, 2012

Like it or not, India is on the world stage. Its achievements are being celebrated, but its shortcomings are also being dissected as never before. India has shown enough promise as a successful example of democracy and development that the chance of failure looms larger than it did a decade ago. *The Economist* magazine recently had an editorial lamenting India's lack of leadership and the immense human costs of slower growth. Soon after, the magazine's Asia column, "Banyan," featured reflections from an unnamed senior government official, which seemed to boil down to the need to boost growth with a surge of infrastructure spending.

Banyan also reported on a speech by Kaushik Basu, the Indian government's chief economic adviser, which boldly stood up for economic reform, openness to the world economy, and economic growth as a path to raised living standards. Dr. Basu acknowledged that India's current problems are of its own making, and that a "spiral of despair" must be broken for India to "come out on top" in a few years.

How can that happen?

A few years ago, I suggested that India's Prime Minister displayed "level 5 leadership," a paradoxical blend of personal humility and intense professional will. One saw this in the nuclear deal. One sees it in the dealings with Pakistan. Domestically, one can only guess as to the constraints that prevent such leadership being exercised for economic policymaking. Perhaps India's new president will display the same traits once elected. On the whole, though, this kind of leadership has been sorely lacking in India, despite the amount of talent near the top. Professional will is often present, but distorted by an over certainty of views, leading to a failure to incorporate all ideas and information that may be useful or relevant. In other cases, both will

and humility are absent, in politicians who are mainly concerned with personal gain. India needs level 5 leadership, right away.

Even the best leaders cannot make all decisions unaided. India has been suffering from not having the right people on board, in the right positions. If the PM has to manage the finance ministry as well, or one person has to deal simultaneously with two immensely important ministries such as telecoms and education, one cannot expect that each job will receive the attention it deserves. If senior bureaucrats do not have years of specialized expertise pertaining to their positions, decisions will not be made optimally. On the other hand, fresh ideas can come in if the expertise was developed outside the “government hot-house.” India needs more of the right people in the right positions, right away.

Banyan commends Dr. Basu for supporting openness, globalization and economic reform, but suggests that India’s politicians shy away from doing so. This is not quite true. The PM and all the senior economic team have repeatedly stood up for these principles. The problems have been in implementation, in doing the deals that will move things forward. Many reforms have been creeping along in the background. But what is needed is a prioritization and focused push. Perhaps reforms like FDI in retail, cutting fuel subsidies, and overhauling land acquisition laws are politically too challenging for the moment. But there is one single reform that can strike at the root of several problems besetting India. The central government has been desperate to raise revenue, and reverted to old-style discretionary, if not extortionary, taxation methods. It should focus on the tax overhaul that would do the most good, the rapid introduction of a simple, comprehensive Goods and Services Tax. If the states need to be brought on board politically, this is an opportunity to give them a higher tax share, and the greater spending autonomy that comes with revenue authority. The states are where effective government spending decisions can be made for many things that matter, like health and education. India’s central government should focus on a few things, get them done right, and get them done quickly.

Top leadership, the right team below that leadership, and focus on one or two really major structural reforms. These are obvious ideas for India, as it battles a spiral of despair. Meanwhile, the country of over a billion will keep lurching along, with day-to-day decisions to be made, as well as long-term plans, across a wide range of economic and social issues. Whatever happens with India’s leadership and governance, it will benefit from a more concentrated, focused and interactive attention to this entire range of issues, by the top minds working on India’s economy. Under Dr. Basu, the Economic Survey of India has begun to give a sense of how to bridge the gap between rigorous economic theory and empirical analysis on the one hand, and policy prescriptions on the other. This is something that needs to happen in a more general and continuous way. Ultimately, this bridge of ideas will be crucial to breaking the spiral of despair.

Signs of Hope for India's Economy

October 26, 2012

The latest World Bank report on the ease of doing business in 185 economies provides a mixed picture of India, but with some glimmers of hope. India's overall rank based on a composite index has not changed from last year. It remains at 132, still firmly in the third division of the ease-of-doing-business league. But since most countries are making improvements on this front, India's stasis in the relative rankings is consistent with some absolute improvements.

Since 2005, the greatest percentage improvements – measured in terms of distance from the global best-practice frontier – in India's standing in various dimensions of doing business have come in getting credit, dealing with construction permits, and procedures for starting a business. But it still ranks 173rd in starting a business, and 182nd in dealing with construction permits. To the extent that what matters are the levels of various hurdles to doing business, absolute improvements are good. But low rankings matter wherever global competitiveness is an issue.

Comparisons in rankings and levels of barriers across developing countries for different aspects of doing business do not reveal any obvious patterns, or necessarily a tight link between ease of doing business and growth performance. Where India ranks close to dead last, however, is in enforcing contracts, and the major contributor to that ranking is the length of time taken. This suggests that the state of India's judicial system, particularly with respect to contractual disputes, is a major weak spot for its business environment.

Fixing the judicial system requires a concerted effort by the central government. It has been weakly on the reform agenda, but without making much headway. The sad part of this is that the resources needed to reduce judicial delays in India are probably a fraction of those being thrown by the government at other areas of the economy.

In other cases, there is more hope, because positive change can come at the state level. A recent story in the *Washington Post*, by Simon Denyer, rediscovers the possibility that, despite the central government's difficulties in moving economic reforms forward, individual states have considerable leeway to progress, and have been doing so. Arvind Panagariya, quoted in the story, reminds us that decentralization of economic control was a major theme of the 1991 reforms – he himself is working on a major study assessing the comparative performance of India's states. Ajay Shah, in the same newspaper story, notes the competition for investment among some states, but also the slow diffusion of lessons on best practices in governance.

Part of the problem is that even when one gets down to the state government level, decision making is top-heavy. How a state does seem to depend on who is at the top, and discussions of good and bad performance focus on personalities, whether it is Narendra Modi, Jayalalitha, Nitish Kumar, Chandrababu Naidu, or Prakash Singh Badal. Anecdotes abound about the way in which state leaders shape the culture of administration, and set the tone for how civil servants (the elite Indian Administrative Service in particular) carry out their duties.

Of course, leadership matters, but governance at the state level can display over-centralization, just as at the national level. Ajay Shah notes the need to devolve power to city governments, in the same *Washington Post* story. The 74th amendment set the stage for this 20 years ago, but actual progress has been limited. One of the key problems is the lack of political autonomy, with state level politicians and bureaucrats able to interfere too much at the local level. Another is a lack of funds.

To some extent, the lack of funds is endogenous – with local politicians finding it easier to rely on trickle down transfers, however, small and unreliable, rather than making effective decisions on taxing at the local level. The urban property tax, in particular, has been eroded by corruption in the real estate market and in local tax administration. The national and state governments need to make a concerted effort to improve the design and administration of urban property taxes, while giving cities more leeway in setting rates – as well as allowing them to piggyback on a future GST – as I argued in my last column.

As I argued earlier, getting the states to decentralize to the local level will require giving them more autonomy and revenue authority. States are exercising de facto autonomy in competing for investment, and that can be good for improving conditions for doing business, but it is important that this not lead to competitive reductions in tax effort, with the expectation that the national government will cover the gap. As the government sets up the 14th Finance Commission, rethinking the intergovernmental transfer mechanism in concert with reconfiguring tax authorities should be an important part of the commission's mandate. The goal should be to improve marginal incentives for revenue collection at all sub-national levels of government.

India in 2013: Stemming the Rot

January 5, 2013

The year just ended was a difficult one for India – not dismal, but close to it. The last two weeks of the year, triggered by an act of savage inhumanity, exposed many of the country's weaknesses in a stark manner. Can the country learn the right lessons from what has happened?

The most obvious fault that has been exposed by recent events is India's dreadful treatment of women. As many have already written, rape is just the tip of the iceberg that represents the full scope of the problem. We have known for some time, have seen it documented, have read numerous stories, about the indignities suffered by India's women and girls. But it took one exceptionally brutal and visible act to shake up at least a significant portion of Indian society, which took to the streets. Perhaps this process will follow the course of events we saw in Eastern Europe, where long-suppressed fear and resentment of repressive regimes boiled over into the streets and led to astonishingly rapid change. Of course there are other examples, including India's anti-corruption movement, where little has improved as a result of public outrage. In the current crisis, what is needed is a comprehensive examination of legislation that affects women:

not just the laws and legal processes surrounding the crime of rape, but also education, marriage, inheritance, and other aspects of women's lives. Let us see if 2013 brings some real progress.

One reason to be pessimistic is the kinds of institutional responses we have seen to the crime and its aftermath. Government officials, whether civil servants or politicians, have displayed a remarkable degree of indifference, even callousness, towards the victims, their families, and most of all towards those who channelled their angst at a symbolic violation of their collective dignity and humanity into protests at the gates of power. But those in power have sought to silence those seeking justice and truth. Unfortunately, the nature of the official responses is typical of governance in India, where incompetence and malfeasance are routinely covered up or excused. The problem of government failure to deliver public goods and services is pervasive in India, and affects almost all its citizens, not just the 50 percent who are female. In this case, the failure to prevent such a public crime, and the incompetent response to the victims' need, were two shocking instances of this general problem. The year 2012 was earlier marked by multiple reminders of government failure, and it remains to be seen if India's citizens can instigate positive change in 2013, whether through the ballot box, the media, or direct action.

The predicaments of India's women vis-à-vis the country's men, its citizens in relation to its rulers, its *dalits* vis-à-vis its privileged castes, or indeed, its minorities with respect to its majority, are all symptoms of inequalities of power that deny the fundamental equality of human beings. What happened in Delhi in December provided multiple instances of these inequities, and the violence that they breed. India's political elites are used to distancing themselves from the violence to which their own way of life contributes – if this terrible incident had happened in the home village of one of the victims or perpetrators, it might have received a brief mention in the media and been quickly forgotten. It would have been about “them” – the other India – and not about “us.” The core of this savage attack was that it involved different shades of “them,” but happened in front of “us.” But the elites – whether by birth or position, those who are not among “them” – found that the boundary between them and us is no longer accepted, no longer neatly drawn. India in 2013 will have to confront its many inequalities and inequities directly, not keep suppressing them. This includes not just a government that does not protect its citizens, but the citizens that do not care for each other as human beings, leaving them bleeding in the street.

One kind of reaction to recent events, and the social and economic changes that underlie them, is to blame those changes, and stop or even reverse them. One (male) Indian politician has come out and said that women should stay at home and only men should work. Other commentators seem to be nostalgic for the days before economic reform and globalization, when traditional values made each village a place of peace and harmony. This nostalgia is nonsense. Inequality and brutality have always been present in Indian society, just less visible. On the whole, the Indian elites have not been willing to invest enough in overcoming these flaws, allowing the pursuit of power and wealth to take precedence over the common good. Or they have set themselves up as guardians of that common good, perpetuating inequities of power and wealth in the process. India needs to confront its weaknesses. We need to realize, though, that these

weaknesses are not the result of economic reform and globalization, but predate them. The processes of change have helped expose these weaknesses, and there is no excuse for their persistence.

Obama and India Again

January 22, 2013

Four years ago, when Barack Obama was first inaugurated as president of the United States, I was struck by how much the vision he expressed in his inaugural address was apposite for India. Indeed, there were parallels and connections with ideals that had been expressed by Jawaharlal Nehru in 1947. This should not surprise us, perhaps, in the case of universal human values. And when an Obama focuses on health and education and infrastructure, as he did in 2009, and again just the other day, the parallels with India's own needs are apparent, albeit starting from very different initial levels.

Even more strongly than in his first inaugural speech, Obama again emphasized equality of opportunity as a social goal. For his broader constituency, he also had to acknowledge the importance of individual responsibility and hard work, along with his calls for collective action. But in the end, he could not avoid being lambasted by members of the opposition for his "far-left-of-center" views. The role of government as a means for collective action is one of the debates raging in today's America. In the case of India, initial positions and biases are quite different than they are in the US. But there is a deeper issue in the US that has resonance for India in its current situation.

Obama's speech to begin his second term made a very clear statement about equality in the context of diversity. Whether the source of diversity is gender, race, sexual orientation or citizenship, the ideal of equality being held forth in the US president's vision is an inclusive, all-embracing one. It is my firm belief that much of the small government rhetoric of the right-wing in the US, along with other aspects of their positions, is actually driven by their fear of this inclusive, diversity-embracing vision of equality. Attacks against the presumed "socialism" of the Democratic Party leadership are stoked by this fear of the "Other." Of course, this lines up quite well with the protection of economic privilege.

The Indian situation is somewhat more complex. The closest in character to the right-wing opposition in the US may be the BJP and its fellow travellers, with their own narrative of the Other, and a relatively pro-business stance, though with less of a commitment to a world of globalized capital. But the rest of the Indian political spectrum seems less defined by any clear vision of equality. The Congress, of course, has emphasized inclusion in its message and some of its policies, but there seems to be a gap in practice between words and deeds. Its reactions are often those of privilege and preservation of power, rather than of promoting equality and inclusion. This was very clear in the responses to the Delhi gang-rape. Some senior ruling party

members were more interested in defending the police, and the police more interested in defending themselves and the elite, rather than in acknowledging the gross violation of human values that had occurred, and the role of the powerful in allowing such a situation to develop.

There is a disconnect, therefore, between the professed ideology of the Congress party, and its practical preservation of inequalities of power. There are, no doubt, many historical reasons for the differences between the main political parties in the US and in India. The point I want to make, though, is simply that these differences exist, and they pose a challenge for an agenda of equality of opportunity in India.

Are there any lessons for India, despite the large differences in history and society? Recall that Obama began his political career many years ago as a community organizer, something for which he was even derided by his opponents in 2008. This experience grew into his campaign's fabled "ground game," which delivered victory in 2012. The mobilizing of voters at the local level was not done by local party bosses controlling "vote banks," as would have happened in America's past and still happens in India. It was done by volunteers and party workers who adhered to key components of Obama's vision for the country – with equality of opportunity as a central tenet.

What would India's version of Obama's coalition look like? It will have to cut across caste and class to some extent, and it will have to be united by some vision of social justice, without being mired in any utopian ideology of universal harmony. It may be that the crowds that protested the Delhi gang-rape are the beginning of such a coalition. Whether their composition was broad enough remains to be seen, as well as whether leaders can emerge to build on their disgust with the current state of affairs. The stitching together of grass-roots efforts into a national movement will also be harder in India, because it will have to occur outside the two main political parties, and in a country much more heterogeneous than the US. Nevertheless, Barack Obama's political journey and his vision hold important lessons for India's people, as they struggle for better governance.

Making Government Work

July 8, 2013

India's government works very well in some ways (functioning democracy, stability, responsiveness, and so on) but is maddeningly inept in others (improving provision of basic public services, ranging from health and education to water and electricity supplies). Lant Pritchett, formerly of the World Bank, and now at Harvard's Kennedy School of Government, has coined a new term for this situation. He calls India a "flailing" state: "*a nation-state in which the head, that is the elite institutions at the national (and in some states) level remain sound and functional but ... this head is no longer reliably connected via nerves and sinews to its own limbs*". In many parts of India in many sectors, the everyday actions of the field level agents

of the state—policemen, engineers, teachers, health workers—are increasingly beyond the control of the administration at the national or state level.” It may be debatable whether the deterioration is in absolute terms, or relative to expectations and aspirations, but the question is what can be done to change this situation.

Pritchett’s solution to the problem that so many have identified, and which he has so picturesquely named, is unclear. He suggests that India’s “administrative modernism” is out of step with the country’s politics and society. He argues that political competition focuses on loyalty to identity groups, rather than provision of effective public services. He suggests that India will eventually muddle through with incremental reforms and learning by doing. Here I would like to offer some different perspectives on the problem and the possible solutions.

Ultimately, as Pritchett and others have recognized, a major issue is that of weak accountability of government employees. Accountability can be internal, within an organization (for example, to one’s boss), or external, such as to citizens as voters. There are a variety of ways in which accountability can be improved. Several years ago, O.P. Agarwal and T.V. Somanathan, themselves senior bureaucrats, suggested some structural changes for decision-making within central ministries, including letting more policy implementation be managed below the top level, providing better career incentives for performance by elite bureaucrats, and broadening the input of expertise into policy-making.

The suggested changes can, in fact, be thought of as embodying two fundamental principles, those of decentralization and competition. Decentralization allows for better matching of skills and tasks, at least when training is appropriately provided. Competition provides incentives, sometimes pecuniary, but sometimes non-pecuniary, for better effort. The interesting idea here is that relatively small structural changes at the very top may have significant impacts – the decentralization envisaged is modest, just pushing some decisions one or two levels down the hierarchy. The competition envisaged is also modest – slightly more in the way of performance expectations and appraisals, plus potential and actual competition from outsiders to the bureaucracy.

Such micro reforms can, of course be copied at the level of each state government, and would need to be. A second set of reforms, which are much more macro in nature, apply the principles of decentralization and competition at a different scale. I would suggest that India’s so-called flailing state is very much a result of over-centralization with respect to the different tiers of government. I would argue that more expenditure authority needs to be pushed down to the level of state governments, and from there to local governments, particularly city and town governments. Currently, the states appear to have considerable responsibilities for expenditure, and there is a view that they have failed to meet these responsibilities, necessitating more central government control through transfers with strings attached. I would argue that state governments instead need to be given more autonomy, and that more revenue authority needs to be delegated to state governments, who must then delegate further to local governments. Decentralization is

essential for creating effective external accountability, which in turn will drive internal accountability.

Of course there are issues of inequity, of corruption, and of capacity. However, each of these can be addressed directly. None of these problems is solely associated with decentralization, and none of them has to be a necessary difficulty of decentralization. The initial evidence from India's massive local government reform supports the idea that accountability and effectiveness can increase with decentralization, even as mechanisms are needed to deal with the adverse consequences mentioned. And this has happened without giving local governments even a semblance of appropriate revenue authority.

The two suggestions for government reform presented here – decentralization and competition within top-level government organizations, and across tiers of government – illustrate the problem with Pritchett's metaphor. There is not just one brain that controls nerves, sinews and limbs. Government is made of individuals with skills that can be better utilized, and that can be improved. Democratic governments ultimately serve at the pleasure of citizens, and government workers need to make that connection more explicitly. A focus on these possibilities can make government work better more rapidly than the pessimists might believe.

An Indian Spring?

August 19, 2013

In my last column, I ended by suggesting that India can either have a true Indian Spring, with its economy and society blossoming, or instead something that veers toward what has happened in Egypt. What are the factors that will determine where the country goes? First, I want to emphasize that the current economic debate (now and perhaps forever labelled as "Sen vs. Bhagwati") has tended to miss the interaction of economics and politics. Prescriptions are sometimes offered as if by wise philosophers or technocrats, with the only issue being a sorting out of the facts of the growth process, or agreeing on the relative weighting of the welfare of different segments of society. How does politics enter into the evaluation of different policy options?

The most obvious political process is the use of government transfers to buy votes. Empathy for the poor may matter for many of those involved in the intellectual debates, but a good first approximation to reality is that India's politicians care most about getting re-elected. The policies that get implemented, in this case, are the ones that maximize the chance of winning the next election. India's voters have to keep making it clear to politicians that subsidies and transfers are not going to be enough to secure their votes. There have been signs of this shift (rewarding performance over populism) in how Indians vote, and one has to hope this trend will continue.

But politics is also more complicated than that. Take Egypt, where democratic elections failed to lead to a stable, popular government, and the country is close to descending into chaos or

repression. The winners of the election lost support not just, or even mainly, because they failed to deliver economic betterment. Instead, they were criticized for undermining the people's recently won freedoms. Basically, people want dignity and freedom as well as material improvement.

Economic reform in India has delivered an uneven mix of material and nonmaterial benefits. For example, Dalit entrepreneurs seem to have gained on both fronts. Some of the middle classes have seen material gains, but erosion of their status and of traditional certainties. The upper crust of society has benefited disproportionately. And at the other extreme, many people in rural areas, especially in tribal regions, have seen their exploitation increase. This is a complicated story, with perhaps a couple of clear lessons. First, a majority of the population is frustrated with the corruption of, and exploitation by, those with political and economic power. Second, doling out money to win votes will not work as well as it used to, and will not stop the pot from boiling over. Social conflict in India will increase unless there is a quantum improvement in the quality of governance.

There is also another danger lurking. The growth-redistribution debate has only tangentially addressed India's macroeconomic and financial sector policies. Here, the spectre of corruption also raises its head in the form of the government's push to give new banking licenses to powerful industrialists. But many of the problems have arisen from failure to execute the basics of macroeconomic management. The central government has not done a good job of managing its fiscal deficit, while the Reserve Bank of India has gone backwards in managing inflation and the currency. The RBI has failed to control inflation effectively, even as economic growth has not been protected. Government mismanagement of food and oil policies has contributed to the problem. Most recently, the RBI's attempts to control the exchange rate have ranged from pointless to damaging, undoing a longer-term program of creating a deeper and more robust financial system. The danger is that macroeconomic conditions will deteriorate rapidly, dealing a severe blow to the economy that will further increase social conflict.

The RBI could have used earlier benign economic circumstances to push financial sector reforms that would have improved the functioning of a range of financial markets, improved financial access, and helped capital to flow to more productive uses. It did a little, but not enough, and the futile attempt to defend the rupee has undone some of the certainties of financial sector policy that should have been maintained. Confidence – a valuable commodity itself – has been eroded.

The incoming governor of the RBI has a track record of speaking up for the right policies. Not long ago, he authored a vital report on financial sector reform, covering the issues from top (macroeconomic management) to bottom (financial access at the grassroots of the economy). He does not have to stand for re-election, and he does not have to rely on reappointment for his livelihood or prestige.

Raghuram Rajan has an opportunity to determine the nature of an Indian Spring, both through his immediate decisions on macroeconomic management, and through his shaping of financial sector reform over the next two or three years. What he says and does is what will matter much more for India than the shadings of the Sen-Bhagwati debate. He even has the potential to overcome the economic policy missteps of India's politicians. Let us see what happens.

The Punjab Paradox

October 17, 2013

On October 10th, Rahul Gandhi gave a political speech in Punjab. He made several political points. The Indian Express, in [one story covering the speech](#), listed 10 of these points. The last of these quoted Gandhi (perhaps a translation) as saying, "Punjab gives food to India...the country cannot stand without it." He related Punjab's role in feeding the Public Distribution System (PDS) to the feasibility of the Right to Food effort of the ruling coalition.

This is the paradox of Punjab. The Green Revolution helped Punjab become more prosperous, by supplying grain to the rest of India. This role was consonant with the goals of national policy. This role is being pushed further by national policies such as the Right to Food Act. Punjab's economy is locked in to this role. But Punjab's agricultural economy, based on supplying food grain for the PDS, is heading for disaster. Punjab's economic welfare is not aligned with how the national goal of the right to food is being implemented.

As it happens, I was also speaking in Punjab on the same day as Rahul Gandhi. It was only an academic lecture at Punjabi University, Patiala. But I emphasized that Punjab is heading for disaster. The political and economic equilibrium is leading to an unsustainable depletion of groundwater, and the groundwater table will collapse in a decade, or soon after. Politicians and middlemen are contributing to the distorted use of water and the lock-in of Punjab farmers into a situation that will sacrifice their livelihoods and wellbeing. Praising them for their current role is cynical and counter-productive. A solution is needed to stave off collapse.

In his speech, Gandhi criticized corruption and bemoaned the lack of jobs in Punjab, which contributes to societal problems such as drug addiction. In my talk, I also said that, for Punjab to avoid economic collapse, it needs a more honest and effective government. But this is a no-brainer. What else can one say about a concrete way forward? Here I offered only two suggestions, which must work together.

Given Punjab's social and economic structures, its size and geographic position, it is not a great candidate for large scale labor intensive manufacturing. Instead, it has some chance of succeeding as a place for flexible mass-customized production. An analogy might be to northern Italy, which thrived in this role for decades, but is now suffering from lack of cost competitiveness. Another might be Germany's *mittelstand* of family-run engineering firms. A third example is the Swiss niche in watch making, which has survived over the years by adapting

to technological change that made watches a commodity – the Swiss moved upscale, and emphasized design and status. My first suggestion, therefore, for moving Punjab forward, is to develop a strategic vision of what manufacturing and service niches the state can realistically fill in the global and national economic systems. Japan, South Korea, Taiwan and China have all had strategic visions to some degree, though implementations have varied by time and place.

The secret to success in all these cases was matching human capital to market needs, in particular demand niches, whether for consumer products or industrial goods. So my second and complementary suggestion is that Punjab needs to invest in human capital at a rapid rate. This investment needs to be shaped by the strategic vision, which will determine what kinds of jobs will be available. So local industry needs to help in formulating a strategy for building human capital in the state. The Indian School of Business campus in Mohali is an example of how things might progress. National-level liberalization of entry by foreign education providers should be seized on proactively by Punjab's industry and its government. Such providers, with established brands, have an incentive not to behave as fly-by-night operators. Punjab's hilly areas, and the fading but still palpable grandeur of the former princely states of Patiala and Nabha provide possibly attractive physical locations for new education facilities.

The implementation challenges are enormous, of course, in achieving such dramatic structural change, especially with respect to improving governance. Indeed, if the state government had begun this process of guiding structural change 40 years ago, things could have been easier, and the current situation very different. One can go over the sad story of Punjab's politics over these decades, and it is understandable not paradoxical. Understanding it can help avoid extending or repeating past mistakes. Understanding the past and present brushes away the superficial paradox of Punjab.

Perhaps in the past Punjab was not in a position to break free of the compulsions emanating from New Delhi. But many other states of India have shown that economic development can be vigorously pursued at the state level, and that such a pursuit can be successful. If Punjab can achieve a turnaround, breaking free of its PDS-and-related lock-in, this will have positive spillovers across northern India. The alternative for Punjab is not stagnation, but economic collapse.

Assembly Election Lessons

December 8, 2013

Elections are an essential part of democracy, but only a part. Election results reflect the will of voters, for sure, but they also depend on a complex set of institutional structures (such as first-past-the post rules, caste reservations and campaign financing) and political choices (such as party alliances, candidate slates, and the appeal of leaders). Voters, too, have to weigh many different factors in expressing their “will,” all the things that go into “good governance”: law and

order, stable prices, efficient public services, social safety nets, and more. Put simply, though, in a democracy, citizens demand good governance as they perceive it, and politicians seek to supply it. In that sense, the victors in an election, almost by definition, are those best able to provide what a plurality of citizens want.

Over the decades of Indian democracy, citizens have learned that there are real choices between suppliers of governance. For some citizens, the fact that these suppliers may differ in their conceptions of what it means to be a citizen – does religion, caste or class matter, for example? – may be salient in their choice. For others, the choice is a pragmatic one, based on how their daily lives are affected (though conceptions of citizenship matter for that, as well), in things like finding a job, travelling to work, and paying for food and shelter. There are also intangibles, in how much trust, comfort or identification citizens feel with a political leader or a party ideology: this is related to the first point, since narrow or unequal conceptions of citizenship affect trust and comfort. But it also includes perceptions of politicians' honesty and empathy. These may, of course, be signals of practical effectiveness in supplying governance, but may also be valued in themselves.

What does this tell us about the recent assembly elections? Clearly, the demand for good governance has increased, and it has become more sophisticated. Just as "India Shining" was not enough for the BJP nationally in 2004, the performance of the Congress in Delhi did not satisfy voters' expectations, despite reasonable competence. In the Delhi case, of course, there was a new supplier: the Aam Aadmi Party seems to have tapped into a broad cross-section of support, those seeking a more attractive package of process and outcomes in the supply of governance.

Much has been made of the special nature of Delhi, as national capital and as a big city. But Narendra Modi, in some ways, reflects the same trend nationally. His attractiveness to many voters, one would guess, is based on the perception that he can deliver a package of honest and effective governance. The ideology that accompanies him is, for these citizens, unfortunate excess baggage. One can also hazard that many citizens are also pragmatic about the honesty component of governance, at least at the top. This seems to be the case in Tamil Nadu, for example where both main rival parties are not free of high-level corruption, but compete reasonably well in providing effective day-to-day governance.

Part of this tolerance of corruption comes from a disconnect between citizens as taxpayers and as voters. Over time, as the tax base broadens, tolerance for corruption should come down, since then it is clearer that the dishonest politician is imposing a direct cost on the citizen as taxpayer. It is also true that a more developed, and hence more complex economy requires less corruption in order for governance to be effective – otherwise bridges fall down, buildings get built where they should not, and dangerous products get made and sold.

The hypothesis here, therefore, is that the demand for good governance is rising across the country. It is not only an urban phenomenon, though the precise nature of the demand will differ

between urban and rural populations. That, in turn, is a function of initial conditions, income and education levels, and access to information. Certainly, some policies may favour farmers over consumers, or business owners over workers, and so each group has a different idea of what is good governance and who is most likely to deliver it. But the essence is the same.

The real issue with respect to the Aam Aadmi Party is one of scalability. Its showing in Delhi certainly indicated some ability to scale: the capital territory has a population bigger than that of Belgium. But it is much more compact. Campaigning in a city is much less costly, therefore, than campaigning in the countryside. It is also not easy to build a political organization that can challenge at the level of a single large state, let alone nationwide. The struggles of the Lok Satta Party illustrate the challenges of organization-building.

Finally, the supply of governance depends on actually governing, not just winning elections. Here, too, new entrants are untested. But the central lesson remains that the demand for good governance, in varied local forms, is rising, and politicians have to up their game – election victories will go to those who can credibly promise a supply of good governance. Some politicians have still not figured this out.

India's Choice

March 11, 2014

The choice facing India's voters in the upcoming parliamentary election is not an ideal one. The reason is that the two largest parties offer bundles of characteristics that leave much to be desired. On the one hand, the BJP seems to offer a firmer commitment to economic reform, but this inextricably comes with an ideology of what it means to be Indian that must be uncomfortable for many members of India's minority groups. This bundling is particularly sharp in the case of the BJP's current leader, but it is an issue that always lurks in the background, whoever the leader is. On the other hand, the Congress has no ideology to speak of, though its populism has been consistent with a particular view of equality in society, one that has some pluses. Ideas of economic reform seem to be less firmly integrated into the broader party membership, although some prominent members indeed lean toward reforms as part of a pragmatic approach to economic policymaking. Unfortunately, the Congress' claim to being committed to the equality of its citizens is weakened by its own past record in various regional conflicts.

Perhaps the majority of India's ordinary citizens care less about ideology and more about day-to-day good governance, which includes some possibility of material betterment, but also the absence of regular harassment and extortion (as opposed to the violence against specific groups that government sometimes permits or even encourages). Here, too, the BJP scores better, though not as well as the upstart Aam Aadmi Party (AAP), which has greater honesty in governance as a central tenet. Unfortunately, this desirable characteristic of AAP seems to be combined with a

muddled approach to economic policymaking, including some extreme manifestations of populism.

Hence, wherever one turns, a reasonable mix of economic policy competence, commitment to equal treatment of citizens, and honesty is not to be found. At the regional level, the patterns are repeated in different combinations of corruption, nepotism, group favouritism, and lack of understanding of economics. And yet, there are state leaders and parties that seem to offer more attractive bundles of characteristics than either of the two largest parties. Voters at the state level gradually seem to have figured out that it is possible to have good governance, and to re-elect politicians who provide something that at least partially fits that description. In some states, there is enough head-to-head competition that parties have to compete on the dimension of providing good governance.

Given the choices faced by India's voters, perhaps the best outcome is one where regional parties gain the upper hand, and have a chance of creating a coalition government. Past experience with coalition governments is that they have been unstable, and subject to extortion from pivotal members of the coalition. One difference now as compared to these past experiences is that regional parties have chalked up greater experience of governing. Secondly, the level of scrutiny is greater, and perhaps the possibilities for kleptocracy are therefore somewhat lower. A structural reform is also needed, to reduce the discretionary power and control over resources that central ministries currently enjoy. This discretion has increased in the last decade, and the process of creating more rule-bound, transparent and independent regulatory bodies at the national level has slowed down or halted. It is arguable that a coalition government of balanced regional interests might allow that process to revive. Such a coalition might also support a greater allocation of untied funds to the states. In a new structural equilibrium, with greater decentralisation of resources, state politicians might focus on state level governance, rather than squabbling over who gets to be Prime Minister.

The quality of economic policymaking and control of corruption are somewhat more uncertain in the case of a coalition of regional parties at the centre, versus a BJP-led government, but the shadow of an ideology that denies the right of many citizens of India to self-identify as different in important aspects of their lives makes it, in my opinion, a risk worth taking. If anything, it is possible that regional interests can, over time, coalesce into a more national party that eschews both Hindutva and loyalty to a single family as ingredients of cohesion. Cross-regional cohesion will require a different kind of glue, and that may come from class interests, with rich and poor at opposite ends of the spectrum, and a fluid, shifting, but growing middle class holding the balance. Right now, the middle class has little that is good to choose from in those who might govern them.

It is possible that my pathway to better quality political parties and governance is mere wishful thinking. However, I think it is worth making the choice I have suggested, to break the current political dynamic. If I am right, India can move towards a more inclusive social and economic

vision, without sacrificing growth, and without dynasties. I do not think that a desire for economic progress should lead to sacrificing an ideal of being Indian that respects differences in identity.

What to Vote For

April 7, 2014

As India's monumental and influential election gets under way, surveys of the electorate suggest that they care about their material well being, and will be looking for candidates who can deliver on this front. Many of the politicians who may play a role at the national level in the next government have economic track records in their states, and voters ought to understand these records.

Recently, Maitreesh Ghatak and Sanchari Roy have published an analysis of the economic performance of 16 major states over the last three decades (ideasforindia.in). Their results provide a detailed sense of how different states have done. Only three states, Gujarat, Maharashtra and Tamil Nadu, have had growth of per capita income above the national average in each of the three decades. But, none of the three saw a substantial growth acceleration in the 2000s, versus the previous decades. By contrast, Bihar improved its growth rate dramatically in that decade, versus the 1990s. Whether this performance reflects natural catch up, catalyzed by minimal policy improvements, or a Herculean effort in overcoming substantial barriers of backwardness, remains to be determined.

The Human Development Index (HDI) provides a broader measure of material wellbeing, incorporating factors such as health and education along with income into a single index. The national level improvement in the HDI slowed down in the 2000s versus the previous decade, but fast growing states like Maharashtra and Tamil Nadu had stayed ahead of the national average in the 1980s and 1990s, whereas Gujarat fell to average in this period, staying in that relative position over the most recent decade.

On the inequality front, Maharashtra, Tamil Nadu and – surprisingly – Kerala have tended to be more unequal than average, but Gujarat saw a worsening of its relative ranking in the last decade. On the other hand, poverty reduction in Gujarat has been about average in the 2000s, although Tamil Nadu has done really well, along with several of the poorer states, in which poverty rates would in any case be more sensitive to growth.

Ghatak and Roy's message is that Gujarat's record has been good but not spectacular, and that the leadership of the last decade did not lead to appreciably improved economic performance compared to previous periods. Rana Hasan, Sneha Lamba and Abhijit Sen Gupta of the Asian Development Bank have provided some additional insight into the performance of Gujarat and other states. They focus on structural change as a mechanism for poverty reduction. Structural change involves pulling workers from lower productivity sectors and occupations into higher

productivity sectors, and is more likely to benefit the poor, in that case. States like Kerala, Tamil Nadu, Karnataka and Andhra Pradesh, which did well in poverty reduction over the period 1987-2009 also had higher structural change. Gujarat did well in overall productivity growth, but less well in structural change or poverty reduction. Punjab saw the least structural change of 15 major states, and among the worst overall growth performance.

Hasan, Lamba and Sen Gupta suggest that policy matters for structural change. They find that better functioning credit markets, competitive business regulations, and relatively flexible labor regulations are associated with a larger reallocation of labor from lower to higher productivity sectors. But this is an average result, and the Gujarat case does not seem to fit this story too well.

Ashok Kotwal and Arka Roy Chaudhuri, in the Indian Express last year, offered a critical assessment of Gujarat's performance in various development measures, as opposed to its stellar growth record, and speculate that the state has seen centralized governance that works well for big investment projects but not for grassroots development. That is a plausible way of explaining why Gujarat does not fit the Hasan et al. story. But the Kotwal and Roy Chaudhuri position has an unintended implication. Perhaps Gujarat's leadership style is better suited for the national stage than for a smallish state.

The lesson of these studies is that measuring the impact of leadership and policy on economic performance can be a complex exercise, if done with academic rigor. But voters may make their decisions based on how they feel, what their local choices are, and their hopes for the future. These things may matter more than cut and dried numbers. Voters also seem to want governance that is non-predatory and non-patronizing. How all these factors feed into their choices remains to be seen. What does seem to be true is that the current national government has disappointed citizens across the board by its poor governance, and done even worse in articulating the achievements it could rightfully claim. The Congress party will probably do worse than in any previous national election. But the complex story of state-level economic performance, as experienced by individual voters, means that who voters will choose instead is uncertain. They will vote for change, but this change can involve a specific ideology of nationalism or a more diverse set of promises of state-level performance.

After the Elections

April 15, 2014

The latest opinion polls seem to confirm a months-long trend of increasing support for the BJP and the NDA alliance, with the newest projection indicating that the NDA will get a majority without having to rely on additional coalition partners. What will this mean for India?

Everyone agrees that voters are looking for national leadership that will improve their economic lot, while also reducing the day-to-day travails of dealing with government corruption. Voters

also care about their particular identities (caste, religion and so on), but these factors look likely to be swamped by an overwhelming weariness and frustration with the drift of the last few years.

Voters are likely to be pleased in the short run, and maybe even for the full term of the new government. After all, India's growth potential is clear – at current investment rates, and given the nation's demographic trends, 8 percent growth should be achievable routinely, once the extreme political uncertainty that has weighed down the economy is removed. Global growth, too, looks to be reasonably good over the next few years, barring political eruptions in places such as Ukraine or the Middle East.

Narendra Modi has made it clear that he will be a strong leader, focused on encouraging business investment and economic growth. He is likely to put together a governing team that carries out this mission reasonably effectively. Without the need to placate additional coalition partners, the NDA will be able to avoid the kind of disastrous corruption that the UPA got when it gave the telecoms ministry to the DMK. The new NDA clearly has close ties to Indian business, and Japanese or South Korean style collaboration between government and big business may indeed yield growth payoffs, including structural changes that can come from pursuing large new global opportunities. Foreign investors, too, are likely to welcome the NDA. Despite the economic nationalism of the old-style BJP, that can be no worse than the confusion and rapaciousness of the UPA government in matters such as retrospective taxation.

Sustaining growth will require investment in human capital, and here is where the nationalist ideology may be tested. Higher education needs a rapid increase in investment, and that will require not just money, but human capital that is in short supply in India to begin with. Will the new government be willing to allow foreigners in with ideas as well as lessons for India's youth? The UPA had taken steps in the right direction, albeit halting and confused in some ways, and that progress needs to be accelerated and not put on hold or reversed. Perhaps professional and technical education from abroad will not cross swords with Hindu nationalist views of what education should be. There can be longer-term concerns of how ideology might shape school curricula, in terms of interpretations of history and what it means to be Indian. The new government will deserve kudos if it can put these kinds of goals in cold storage, and focus on delivering the goods, literally, to all of India's citizens.

Another challenge for the new government could be areas such as retail FDI. Its traditional constituency may be hurt by FDI in retail, and the NDA may wish to go slow or halt progress on this front. In fact, the UPA had already been dithering, and had put in enough caveats that potential investors have not been rushing in. In any case, as I have argued in previous columns, there is already FDI in wholesale, and if that has not led to efficiencies in the supply chain, perhaps other, more direct measures need to be taken to improve that supply chain, instead of relying on some magic from foreign retailers.

Providing certainty and boosting confidence will go a long way toward ensuring economic success for the likely new government. What are more specific, positive things that it can do? One is working toward and implementing a sensible energy policy, which includes a range of fuel sources, and puts the focus back on efficiency and innovation, as well as realistic measures for long-run sustainability. Another is an integrated agricultural policy, which should deal with food security, water management, market access and insurance for farmers. A third is the need to finally implement the Goods and Services Tax, which will shore up government revenues and further reduce some tax-induced distortions.

To get things done, the new government will have to coordinate across ministries at the Centre, and work collaboratively with the states. A decisive win for the NDA, with its strong leadership, could make both these avenues of institutional collective action, horizontal and vertical, more likely to succeed. These are all possibilities to hope for. None of them require promoting divisiveness or suffocating the heterogeneous identities and pluralism that are inherently part of India. Realizing these possibilities may be the best possible outcome after the elections.

India Shining 2.0

May 20, 2014

Everyone realizes that independent India has come to an historic moment. For the first time ever, a party that stands for Hindu nationalism has an absolute majority in parliament. Where will the country go from here? Every possible analogy from recent history has been used by various commentators, from Hitler to Thatcher. Let us put these facile comparisons aside, and see how India got where it is now, and use that to predict the future.

Looking at the election, there are four factors that influenced the outcome. The first three were initial conditions, namely the characteristics of the leader, the record of governance and the affinities of the voters. The first of these was immensely important: Narendra Modi was the only one who came across to voters as a strong, competent leader of the nation as a whole (with some concerns about the interpretation of the meaning of that wholeness). The record of governance was also important, particularly with respect to economic performance, but also honesty and general competence. Finally, newer or broader affinities of class and religion (perhaps extending to the “god of GDP”) carried more weight than older, narrower ones of caste and region. Looking at how these three factors have changed in shaping the election outcome, one can easily see that this was India’s first “modern” election, and things will never be the same.

Much attention has also been paid to the campaign process. Here, too, there was some change, in terms of sophistication of methods to woo voters and create the brand and the message. Surely marketing played a role in the strength of the BJP’s performance. But this was possible only because of the nature of the three initial conditions. The successful campaign strategy was built on these fundamental factors. In a way, this was India Shining 2.0. The country did not quite get

that message a decade ago. This time it was embraced, as a promise rather than an achievement (though “Gujarat Shining” was clearly used to establish the latter, though never put that way).

I am arguing that there is a fundamental change in the national ethos in terms of expectations of the governed with respect to those who govern. What does this imply for the future? Clearly there is a long way to go. The failure of the Aam Aadmi Party across the nation (except Punjab) illustrates some limits of the change. So, too, does the continued high proportion of elected legislators with criminal records, or with little real education. But these conditions will likely change over the next two decades, if not sooner. The continued strong influence of big business is also unchanged, though this influence has expressed itself in particularly distorted and inefficient ways under Congress rule.

I think on the economic front, the future is relatively clear. Delivering on the promise of economic growth and jobs will require actions to create a more business-friendly environment, including more certainty, less red tape, more efficient taxation, and better market institutions. Some reforms have been continuing under the UPA, and it will be more a question of bringing those to fruition, rather than any radical new reform agenda. In other cases, removing roadblocks and policy paralysis should also be relatively easy. As I have argued before, 8% is a natural average growth rate for India now. On economic policy, it is also easy to see Modi as CEO, making sure that key decisions get made in a timely manner. There will be no rapacious coalition partners to worry about, nor a reluctant, confused heir apparent waiting in the wings. Simply removing the incredibly dysfunctional internal politics of the previous government will give a significant boost to governance and growth.

The interesting questions for the future lie outside the economic sphere. How will the new government manage international affairs? How will it manage the educational system, which provides skills, but also creates citizens? What will its agenda be with respect to the legal basis of an array of minority group rights? So the key ministries to watch will not be Finance or Commerce, but External Affairs, Human Resource Development and Home. These are the arenas where it will become clear whether the new government really wants to serve all its citizens. Note that these issues are always difficult. Europe created homogeneous national identities, often through violence, before embarking on programs of economic development, and claims of liberal humanism are being tested as those nations become more diverse. Independent India has perhaps stood out in its avowal of pluralism (though always under strain in practice), despite the absence of widespread material prosperity.

Narendra Modi said the right thing when he said, “This new government is for the poor people, for the youth, for the mothers and women and Dalits.” He could have added “religious and ethnic minorities” to that list, but perhaps could not go that far because of some of his followers. The question will be if he can live up to this statement, and bring along the rest of his party on that path.

The New Government's Agenda

June 18, 2014

It is open season on giving advice to the new government on how to fix the economy. The government itself has a long to-do list. The President's address to Parliament had 50 paragraphs. Depending on how one counts, there are perhaps 40 different specific areas mentioned, which the government intends to address. That makes for a daunting collection of potential fixes. Some commentators have said that the list looks very much like that of the previous government. To the extent that these are important, but unsolved problems, that repetition is unavoidable. The concern was also with the tenor of the rhetorical stance, which seemed to some to be too much in the vein of "government should fix everything." But perhaps that is inevitable too – strong leaders will have strong views on what should be done. The key will be balancing direction with delegation.

Indeed, the President's speech quoted the slogan "Minimum Government, Maximum Governance." What might that mean in practice? The continued announcement of central schemes and national missions does not bode well for making the slogan meaningful. The speech implies that the government will fix the problem that the "federal spirit has been diluted," but the idea of "Cooperative Federalism" that is mentioned is a wishy-washy one in my view, and an "organic Team India" seems to require a centralized approach. On the other hand, there are a couple of references to incorporating best practices from the states in specific areas of policy, and a promise to address the concerns of the states in introducing the GST – though addressing those state concerns is unavoidable, in any case.

In practice, the fact that the BJP/NDA rules in many of the larger states, combined with the strong national mandate, means that "Team India" will be easier to achieve than in the recent past. What developing "State-specific development models" means in practice will also be a critical indicator of how things will unfold. Ultimately, the states need to be given more fiscal room and policy freedom, and the Center needs to be comfortable in affording them that space. The current Finance Commission will hopefully take the opportunity to nudge intergovernmental transfers in the right direction of greater delegation and freedom for the states. On topic of state finances, the Center, if it wants to create 100 new cities, has to think about the fiscal model for these, as well as for existing towns and cities, and push for fiscal capacity building for cities through modern and effective property tax systems.

Perhaps paragraph 21 of the President's speech, beginning with "My government is committed to providing a clean and efficient administration focussed on delivery," is the most important one of all the 50. The paragraph mentions transparency, accountability, freedom to innovate, restoring bureaucratic confidence, rationalization of central ministries, digitization of records, and more. The financial cost of doing all this is relatively small, but the non-financial barriers will be enormous. The multiplier effect of improvement in these matters is very large and there is a well-defined set of reforms that can be implemented (see my recent paper on "Reforming India's

Institutions of Public Expenditure Governance”). In this case, the Center can and must also create new best practices for state and city governments to adopt.

As I noted, much of the list of goals and actions in the President’s speech is familiar, obvious and unobjectionable. Health, education, sanitation and infrastructure are all areas where government has a proper role, but has not delivered. Better governance through internal organizational reforms and through decentralization are likely to help improve delivery. Comparing the current stated approach with previous rhetoric suggests some nuances that indicate greater possible attention to actually imparting useful skills, and doing so in a purposeful manner. The previous government did not quite seem to understand what it is like to work at real jobs. But even with greater appreciation for the practicalities, implementation will be an enormous challenge. In fact, India lacks enough people to teach the needed skills at all levels. The speech rightly emphasizes using information technology to overcome this hurdle, including Massive Open Online Courses, but the need for using vernacular languages is surprisingly relegated to a rather different goal of transmitting culture. Practical skilling also needs to occur in vernacular languages to reach those who need it.

The focus on disseminating “classic literature” in different vernacular languages is one example of the threads that run through the President’s speech, expressing the BJP’s “idea of India.” These threads are somewhat separate from the issue of economic policymaking, and how this aspect of the government’s agenda gets implemented will be of vital importance. Protecting minority rights also finds expression in the speech, so there will be cases where diversity and a particular brand of nationalism may not fit well together. These issues are part of the bundle that India got when it voted for the new ruling party, but the government will do well to remember that what the voters chiefly wanted was material wellbeing and dignity in everyday life, not myths of greatness.