

A NEW DEVELOPMENT PARADIGM:
EMPLOYMENT, ENTITLEMENT AND EMPOWERMENT*

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I. INTRODUCTION

Prof. Deepak Nayyar, Vice Chancellor of Delhi University has written, that though the old economic paradigm of the first three-four decades of independence has been abandoned, no new paradigm has replaced it. He believes that the economic reforms carried out since 1992 therefore constitute an ad hoc series of measures without a clear framework.¹ There is perhaps no clear an explicit written statement of such a framework that can be debated and discussed. *Some* policy recommendations during the nineties have, however, been based on a new approach to development policy.² The current paper tries to make explicit and spell out more clearly the underlying principles that were implicit in such earlier policy papers. This does *not* mean that *everyone* involved in, or talking about reforms, was (or is) cognisant of these principles or that *all* the actions taken in the name of reform involved genuine reforms consistent with these principles.³

The old paradigm of development is that of a “Mai-Bap Sarkar,” based on the assumption that the active involvement of the State is essential for economic development and poverty removal. Over the decades this was used to justify intervention in and entry of the State into every sphere of economic activity. Under the guise of noble purpose the government had gradually usurped the space occupied by the private sector, co-operatives, individuals and social groups. This spread of Leviathan has been accompanied by a gradual but pervasive deterioration of governance.⁴ Though this deterioration started with specific areas of government operations and specific regions of the country, by now encompasses the entire country, every State and every field of activity in which government is involved. In some States and in regions of other States Government failure has now reached a point at which government has become non-functional: It cannot even fulfil the basic role, the provision of ‘Public goods’ that it has played for centuries leave alone the

¹ Deepak Nayyar, “Economic Development and Political Democracy: The Interaction of Economics and Politics in Independent India, Economic and Political Weekly, December 1998 and “Democracy and Development: The Indian Experience,” Prem Bhatia Memorial Lecture, University of Delhi, Delhi, August 2001.

² See for instance, Virmani, Arvind, From Poverty to Middle Income, Reforms for Accelerating Growth during the 21st Century, Chintan, April 1999.

³ All change is not ‘reform’. In 1997-8, we coined the term ART or Anti-Reform Trend for policy changes that are anti reform but are passed off under the rubric of reform.

⁴ It has also distorted the attitudes and operations of business, workers and farmers.

grandiose development role envisaged for it in the (old) development paradigm of the second half of the 20th century.

There is therefore the need for a new paradigm at the beginning of the 21st century, that recognises that ‘government failure’ is a much more important problem than ‘market failure.’ ‘Privatisation’ of government services by its employees and government’s monopoly of power are the real problems today. The new paradigm must be based on a clear and non-ideological recognition of the strengths and the weakness of the State and the People. A democratic society has enormous potential for entrepreneurship, innovation and creative development. The people, their diverse forms of activity and association such as companies, co-operatives, societies, trusts and other NGOs must be allowed and encouraged to play their due role. The State must focus on what only it can do best and shed all activities that the people can do as well or better. The heavy hand of government in the form of incentive distorting laws, rules, regulations, procedures and red tape, have also corrupted industry & business and other organised interest groups. These must be removed so as to release the energy of the people. The State should confine itself to managing the economy so as to accelerate *employment* and income growth in a self sustaining manner, ensure that all citizens receive their *entitlements* of basic public goods and services and *empower* the poor so that they have equal rights (and responsibilities) with the better of citizens.⁵

⁵ Rights cannot be divorced from responsibilities without serious adverse consequences.

II. DEVELOPMENT EXPERIENCE

A. REFORMS & GROWTH

The Indian economy grew by an average of 3.5% per annum during the seventies. This gave rise to Prof. Raj Krishna's inimitable phrase, the "Hindu Rate of Growth." There was a spurt in distorting policies from the mid-sixties to the mid-seventies, but even some politicians began to recognise these distortions is evidenced by the appointment of a "Committee on Controls and Subsidies (chairman Mr Dagli) soon after the Janata government came to power in the late seventies. This was followed some years later by appointment of the Alexander committee on "Import-Export policy," by the returning Congress government.

The eighties were characterised by a mix of liberalisation measures in some areas and a persistence of *anti-reform trends (ART)* in others. The stagnation in economic growth prevailing during the seventies was broken during the eighties. The controls and distortions had become so oppressive during the seventies that even gradual, piecemeal reform in the eighties yielded large dividends. As a result the growth rate went up to 5.4% per annum during 1980-1 to 1992-3. This growth period ended in the BOP crisis of 1991 and the fiscal deficit problem, acerbated if not created, during the eighties is still with us. The causes & consequences of this crisis have been analysed elsewhere.⁶

The economic reforms of the nineties were much more broad based and comprehensive. Consequently the growth rate of the economy increased further to 6.5% per annum during 1993-4 to 1999-2000. As a result the real wages of agricultural labour increased by about 3% per annum during this period and the proportion of people below the poverty line fell from 36.0% in 1993-4 to about 26.1% in 1999-2000.⁷ These facts are logically consistent as the distribution of income (rural & total) has been largely stable for the past 20 years.

This is not say that there are no problems or areas of concern. Among these is the downtrend in growth rate over the past five years and the slowdown in employment growth during the nineties.⁸ Though part of the latter is due to the larger proportion of "adults" (aged 15 & over) in educational establishments, the slow down

⁶ Arvind Virmani, "India's 1990-91 Crisis: Reforms, Myths and Paradoxes," Planning Commission Working Paper No. 4/2001-PC, December 2001.

⁷ These are weighted averages of rural & urban poverty. Prof. Angus Deaton has corrected for the 30 day- 7day comparability problem to obtain a revised estimates that averages to 28.7% for 1999-2000.

remains a potential problem for the future.⁹ The former has reduced the 1993-4 to 2001-2 average growth rate to 6.1% per annum.

B. COMPARATIVE PERSPECTIVE

Where do we stand in an international context? In the late fifties or early sixties we stood on the same plane as other East Asian countries. In the mid-sixties the NICs (S. Korea, Taiwan, Hong Kong & Singapore) and in the mid-seventies the new NICs (Malaysia, Thailand, Indonesia) started to pull ahead of us. Even though China pulled ahead of us in the eighties and nineties our relative performance improved dramatically in these two decades. India was among the ten fastest growing economies in terms of *per capita income* during this period as well as in the two decades compared separately.¹⁰ Prof. Raj Krishna's catchy phrase, however, persisted almost mid-way into the nineties, as newly interested foreign commentators echoed the pessimism of our academics, while finding it a convenient phrase to summarise their frustrations with our oppressive controls & bureaucratic procedures.¹¹

India is now the fourth largest country in the world in terms of Purchasing Power Parity (the correct way to compare relative size). It is, however, still one of the poorest, with a per capita GDP ranking of 153 out of a set of 207 countries. Our illiteracy rate of 35% is a disgrace even in comparison to other low-income countries. Poverty should not however be confused with inequity. Our consumption/income distribution is one of the better ones in the world, measured in terms of the Gini coefficient and the income received by the bottom 20% of the population. Data available till 1999 showed that only 15 countries, of which one was a developing country, was better on both criteria.¹² Recent more extensive data for 112 countries suggests that only seven developing countries are better on both criteria.

⁸ In the Indian context of surplus labour we use the terms "open" and "disguised" employment. In the developed country context the terms used are "voluntary"(or search) unemployment and "involuntary" (a la Keynesian) unemployment.

⁹ Given the over-manning in most Public sector units and several sub-sectors of private organised industry, a legacy of labour policy rigidities.

¹⁰ This was first documented in the following papers (available on <http://finance.nic.in/avirmani>): (a) Arvind Virmani, "Star Performers of the 20th (21st) Century: Asian Tigers, Dragons or Elephants," September 1999. (b) Arvind Virmani, "Potential Growth Stars of the 21st Century: India, China and The Asian Century," October 1999.

¹¹ The phrase continued to be used not just in newspapers, but also in FII investment reports and World Bank/ADB publications. It took years (mid-nineties) of pointing out the contrary, for these commentators to start changing their views on the comparative performance of India.

¹² See reference in footnote 5. Most of these were Scandinavian & E. European countries.

C. LESSONS FOR INDIA

The development lessons from the Asian high growth economies, including India (in recent decades) and Japan (in earlier ones), are that growth is necessary for development and poverty removal. A number of commentators have however, raised the issue of whether growth is also 'sufficient'? Our answer is yes and no: Yes, high growth, sustained over a period of three or four decades, is 'sufficient' to eliminate poverty. No, in that high growth cannot be sustained over four decades without development of and change in government, market and social institutions.

The more specific lessons from the 'Asian miracle economies,' or the 'Asian model of development' for us are as follows:

1. Unity & Single Mindedness

One common feature of these economies during the period of high growth was the single-minded focus on economic growth, a goal shared by all elements of society. In a few countries, the fastest growing ones, it was almost a national obsession to catch-up with a former enemy or competitor. Thus for instance Japan (S Korea) strove to catch up with the West (Japan) and China is trying to catch up with the USA. Only these three have grown at more than 7.5% per annum for over two decades.

In democratic India, unity of purpose is desirable and achievable, single mindedness is not. It is the right and the duty of the opposition to point to the lacuna and dangers in specific policies, without opposing for the sake of opposition (as is demonstrated in mature/rich country democracies). Such unity and single mindedness is, however, both possible and achievable within the governing party, its associated organisations and coalition partners. In our experience the latter is essential if growth of even 7% to 7.5% is to be sustained over two decades.¹³

2. Sharing of Fruits

In democratic India sharing of fruits of development with the poor have been an inalienable part of democratic objectives and the Planning process from the start. It is therefore less of an issue than it was in Asian dictatorships. Our problem is the inverse, in that vested interests have hijacked these issues to better serve themselves

¹³ With a free & open media constantly exposing, internal debate has to be carefully distinguished from leaked criticism. In recent years even this ambiguity was absent such as when the SJM criticised the governments FDI & other policies in 1998 & 1999.

3. Policy Focus

Success requires a relatively narrow policy focus, on modernisation and productive investment.

a) Modernisation

This refers to scientific/logical approach to economic interaction. Despite Nehru ji, this objective has been swamped in recent times by religiously sanctioned superstition, Caste pressures against meritocracy and nepotism. Strengthening of culture, and other traditions & social practices is, however, compatible with modernisation.

b) Investment

Productive and profitable investment generates jobs and self-sustaining growth. Promotion of such investment should be the primary focus of the economic bureaucracy, undiluted by multiple contradictory objectives. Savings without investment leads to “Keynesian unemployment,” while profitable investment led growth creates its own savings. Contrasting social attitudes towards brahminical learning and less educated entrepreneurs have sometimes distorted policies, procedures and attitudes towards investment. The rise of highly educated software entrepreneurs has barely begun to change this attitude, as uneducated entrepreneurs are still looked down upon by the ruling class in some regions.

4. Quick Adjustment

The greater the adaptation and responsiveness to shocks the longer is the period over which high growth is sustained. In contrast to East Asia India has generally been slow to react, for instance to the emerging BOP crisis in the late eighties and the 1998-9 & 2000-1 slowdowns.¹⁴

¹⁴ See article in foot note 2 and Arvind Virmani, (a) “The Puzzle of Growth Recession,” The Business Standard, New Delhi, 4th June 1997, (b) Demand Recession and Economic Policy, The Economic Times, New Delhi, 31st July 1997 & (c) Policy for Investment Revival, Chintan Policy Paper No. 21, October 2000 (also in <http://finance.nic.in/avirmani>). Even E Asia had started to suffer from arteriosclerosis by the mid-nineties and did not respond to weaknesses that were emerging.

III. VISION: E CUBED

A. EMPLOYMENT, ENTITLEMENT & EMPOWERMENT

India, a highly populated country, is characterised by “hidden” or “disguised” unemployment. Woefully poor people cannot afford to be unemployed. They therefore end up doing low productivity jobs in Agriculture or informal service sector. The problem of poverty is closely linked to this problem of disguised unemployment. At least for able-bodied adults they are two sides of the same coin and the elimination of “surplus labour” is almost synonymous with the elimination of poverty. Productive *employment* generates income that allows workers to buy private goods.

All citizens, including the poor, are also *entitled* to an equitable share of basic public resources. The most important are Public Goods & Services that by definition cannot be bought separately by and/or sold separately to individuals. They have to be supplied publicly by the government. The classic public goods are (local) roads, police & public security, judiciary and national defence. Public health services are perhaps equally if not more important to the poor. These include control of communicable diseases, clean drinking water, sanitation & sewerage.

Entitlements also include a basic level of social security for the old, disabled and infirm, for children and those who are unable to get any work. A 21st century society cannot let its citizens starve or suffer from chronic hunger and government must provide food to the destitute.

A 21st century democracy must in fact go further and *empower* the poor who cannot afford to pay for their education. Government must ensure that all its citizens are literate and all children attain some basic level of education, which we currently define as primary/elementary level. Education not only empowers the public but also ensures that the employed can do the productive jobs that open up and helps to sustain economic growth over the long term.

Access to information is an important element of empowerment. The poor and their well wishers must have the right to information about expenditures that are routinely justified in their name. The Internet and Internet telephony can play a role in breaking the rural areas’ informational isolation. Excessive taxation, in the form of revenue sharing and charges for surplus (free) spectrum, hinder such a development.

B. GOALS

The basic goals of economic development have remained unchanged for decades though their expression may have varied over time. We can restate them in the context of 21st century democratic society & economy, as,

- Eliminate Poverty
 - Over the next 15 years or so. Under the current definition that is similar to the 2001, \$1 a day definition of the World Bank.¹⁵
 - Poverty is closely linked with, “under-employment” or “disguised un-employment” and therefore to “higher productivity” jobs (rather than to make-work jobs)
- Human Development
 - 100% literacy & primary education.¹⁶
- Public Goods
 - Basic public goods of reasonable quality and adequate quantity.
 - Democratic access to public goods & services is a right of the Public
- Empowerment of the Poor
 - All citizens must get basic human rights
 - They must also fulfil their civic responsibility, for instance public cleanliness (not spitting, throwing trash)

C. OBJECTIVES

The concrete objectives that must be fulfilled for achieving these goals include,

- High growth between 7% and 7.5% for the next two decades.
- Efficient, self-sustaining labour intensive growth.
 - This focus must continue as long as there is ‘surplus labour’ or ‘disguised employment.’
 - To be self-sustaining, these jobs must be ‘productive’ & ‘value creating’ in contrast to make work government employment.
- Supply of basic public goods & services.

¹⁵ The poverty line can be raised (doubled) at that time.

¹⁶ On attainment, the goal-post can be shifted to, ‘universal secondary education.’

- Basic, un-glamorous items like clean drinking water, roads, sanitation, sewerage & waste processing/disposal, communicable disease control, personal safety & security, rule of law.
- Government must also deal with positive (e.g. literacy) & negative externalities.
 - Population stabilisation & environmental sustainability. Population takes a heavy toll on environmental resources (quality of water, air, forests, natural vegetation).
 - Pollution of water sources by industrial effluents & sewage in scenic areas and future availability of water.

Population growth & reduced financial resources for public good provision.

Achievement of these objectives requires a new economic policy framework based on a new development paradigm.

IV. PARADIGM SHIFT

The old paradigm of a moral, benevolent, omniscient and all-powerful state has failed. Though this paradigm had some validity in the mid-20th century, post-war and newly independent India, it gradually lost its validity, to reach a point at which it became counter-productive. The *deterioration in governance* is broad based & universal: Civic amenities, publicly provided utilities, public education and health law & order and justice have deteriorated, in some places beyond belief. Both availability and quality continue to decline. The TV image of Delhi slum roads flowing with sewerage during the monsoon some years ago captured this most starkly. What one had heard about law & order in Bihar for several decades and began hearing about UP during the last decade, can strike even in Delhi & its suburbs.¹⁷ The lack of interest and motivation to fulfil the basic functions of government is a more fundamental cause than fiscal bankruptcy.

A paradigm change is needed to achieve the enumerated goals and objectives. The proposed new development paradigm for a democratic India with its much more complex economy operating in the global environment of the 21st century can be summarised as follows:

- ***Government failure is now much more pervasive than Market failure. Personal economic incentives, are as, if not more, important than moral prescriptions or social strictures. In too many places government is part of the problem and not part of the solution. We must recognise the strengths and weakness of the people and the State and allow & encourage each to play its due role in economic and social development. To the extent that the State has usurped the democratic rights/power of the citizens, power must be restored to the People, and the former made accountable to the latter.***

Among other things, this will require a change in the mind-set of the government and the governed. The semi-feudal, zero-sum rent seeking game must be dismantled and replaced by modern *value creation* through sustainable technological change. The view of government as a “milch cow” or a “Mai-bap sarkar,” must be replaced by a more self reliant public that acts as a watchdog on the government.

¹⁷ Kidnapping in Ghaziabad, police extortion in the heart of Delhi- a beat constable asking a small scale factory owner for hafta, backed by the threat of overnight theft of materials lying in his premises.

A. Old Paradigm

The old paradigm was characterised by approaches and policies that had two underlying problems. These are, distorted incentives and the corruption of power. Existing systems have distorted the incentives for working efficiently & productively and for investment & entrepreneurship. In the case of Public servants (bureaucrats & politicians) the dis-incentive is compounded by the imbalance of Power between the State and the Public: Power corrupts and absolute power corrupts absolutely.¹⁸ As the systems of governance deteriorate under rent seeking, rent creation and corruption, the power to do good falls relative to the power to harm. The result is that today, the latter is much greater than the former, so that the rare employee wanting to do good has the dice loaded against him/her.

The insights of modern economics that incentive structures are important for how economic agents behave, were largely ignored in setting up institutions and in devising economic & other policies. The role of moral & social conventions in ensuring respect for and implementation of law was given undue weight. Though post-independence leaders in India were imbued with ideals that defied economic incentives, this has long since ceased to be true. Countries that built institutions and systems with some recognition of economic incentives have sustained good governance much longer.¹⁹ Unfortunately, this was not so in India, so that we are now faced with comprehensive failure of governance.

B. Government Failure

There are four related and interconnected dimensions of this government failure that are important in determining the new approach to development policy. These are monopolisation of power, employee privatisation of public services, Over-extension of government and Fiscal mismanagement.

1. Monopolisation of Power

Though the monopolisation of economic power started from the 2nd Plan, the peak period of monopolisation was from the mid-sixties to the mid-seventies. By the eighties it covered every area of economic activity as well as the related institutions and social activity. It involved excessive and oppressive interference in all areas of

¹⁸ These are a modification of the famous remark by Lord Acton that, “power tends to corrupt..”

¹⁹ Singapore is the widely cited outlier.

private activity including for instance ‘co-operatives’ that were supposed to be an alternative form of private activity. As a consequence the innovative potential and productive genius of the people has been stifled.

2. Employee ‘Privatisation’

Employee Privatisation of Public Services is an extreme form of the principle-agent problem that has been known to economics for some time but has been largely ignored in India. This is the problem of how large institutions, including the political system and government bureaucracies, can ensure that the workers in these institutions follow the goals of the institution. This problem has reached epidemic proportion with perhaps 80% of ‘public servants’ maximising their own personal interests,²⁰ rather than working for the professed goals of the organisation in which they are employed.²¹ The proportion of such people in the upper bureaucracy, which generally constitutes about 2% of the total, may be around one-third and perhaps fall even further in the top most reaches which are much more in the media spot light.

3. Leviathan Spread Thin

Buchanan’s analysis of government warned us that the government was a Leviathan whose interest was in expanding and spreading over more and more areas. The Indian government is over extended & spread thin over too many areas and doing things that are beyond its capabilities. While extending itself to newer areas of activity, the government took the basic functions of government for granted, giving progressively less attention to them. In a country that invented planning in a market economy in the fifties, this is best illustrated by the absence of even the most elementary planning in digging & re-surfacing of municipal roads. As a result the provision of public goods & services has suffered and their quality has deteriorated. The untreated sewage pouring into lakes in Nainital & Srinagar and the rivers in Himachal Pradesh and other tourist havens, open sewers running along the roads in towns across the nation, the pathetic state of the sewerage system in the cities (even Delhi slums) are only a few examples.

²⁰ This is a guess based on conversations with knowledgeable people including IB officers.

²¹ ‘Public servants’ covers the entire government system including the police & the semi-autonomous agencies of the govt.

4. Fiscal Crisis

Occasional largesse is Populism, continuing largesse is Fiscal crisis. Most States have no money left to address the basic problems, even when they become aware of them, because they are over extended and pre-committed in many areas that they have no business to be in. This crisis will not be solved by ‘tinkerisation.’

C. Corporate Failure

Our arguments about government failure should not be taken to mean that those who run and work in the government are morally inferior in any respect to those who run private companies or work in the private sector. By the same token corporate malfeasance and siphoning of investors funds cannot be used to justify misuse of public power and money for personal ends. These arguments buttressed by examples of fraud by Indian tycoons are particularly ironic in the Indian context, where the Department of Company affairs (DCA), the Controller of Capital Issues (CCI) and Government owned/managed monopoly financial institutions (UTI, IDBI, IFCI, SBI, Nationalised Banks) had complete and absolute control over private (public limited) companies till the early nineties. Any indictment of the private sector managers under these conditions is an even stronger indictment of the pervasive and smothering system of government controls that cocooned them.

The analysis of this paper is focussed on how policies, laws and institutions provide incentives and dis-incentives for socially beneficial and socially harmful behaviour. The government and its regulatory agencies can and must act as a direct check on corporate fraud, private corporations cannot act as a check on government malfeasance. Thus there is a basic asymmetry: The State has absolute power to control and coarsen private business, while the latter has none vis-à-vis the State. Such awesome power is best kept in reserve as a check on private behaviour rather than used for muscling in on the production and supply of goods and services that the private sector is equally (even if not more) competent to produce/supply. Government should focus on good policy and effective law enforcement a much more effective & efficient method of reducing corporate fraud.

V. TOWARDS A NEW PARADIGM

Any new approach must correct the incentives for productivity and create disincentives for corruption. It has long been said that Democracy is the worst form

of government except all the others. The greatest advantage of a market economy is that it is based on the most realistic assumption that every individual will act in his/her best interest. Economic theory also tells us that under certain conditions market competition produces results that are the most efficient. As the obverse of monopoly it is a useful goal even when the ideal is not attainable. It has therefore come to be widely accepted over the last two decades that market incentives are the most sustainable incentives for business, workers and farmers and that market competition is the best handmaiden of the social purpose. The best antidote to exploitation by corrupt businessmen & bureaucrats, lazy organised sector workers and shoddy products and services is competition.

Competition is also the best means of dispersing economic power.²² In an ideal system (Schumpeterian) competition would ensure that wealth could only be garnered through innovation, acquisition of special skills, hard work and thrift. Such wealth generation is therefore in the interests of the entire society. Monopoly (or oligopoly) is the anti-thesis of such competition as it allows generation of profits without any such meritorious activity. Government created monopolies, whether deliberately created or the indirect result of distorting policies, are the worst culprits in this regard. 'Natural' monopolies have to be regulated to ensure that 'monopoly profits' are minimised.

Ideal competition is just that and market incentives are not perfect. There will be market failure and non-existence of markets. Market economics itself help identify, analyse and suggest the best way of dealing with such problems; Appropriate policies, developmental actions and regulatory institutions.

The second underlying problem can only be addressed by the dispersal of the government's enormous power. This requires right sizing of government, shedding of activities that can be performed by others, decentralisation of governmental functions to lower levels based on the principle of subsidiarity, the creation of countervailing power, transfer of regulatory functions to independent professional regulators, empowerment of citizens and civic groups, giving voice to the under-employed and creation of checks and balances.

²² A credible "Threat of competition," for instance through potential imports, is an even more powerful incentive for change than actual competition/imports.

A. INCENTIVES, EFFICIENCY & PRODUCTIVITY

1. Law & Incentives

Laws, particularly economic laws (including contract law), do not merely define what a citizen/resident can or cannot do. They create a system of incentives and dis-incentives for economic agents and those charged with implementing the law. Most economic laws have had consequences that the originators had no inkling off. The common result of the myriad such laws are to create incentives for rent seeking, rent creation, bribery and corruption. The rules & procedures for public institutions, such as universities, research institutions, and hospitals, are equally oppressive.

Recent studies have demonstrated the (static) costs imposed on producers by the bureaucratic red tape and harassment that results from oppressive rules and procedures. The dynamic costs, in terms of discouragement of creative, innovative & knowledgeable people from entering business, though much harder to measure may be more devastating in the long run. It is necessary to systematically audit all economic laws from the incentive perspective and modernise them keeping in mind the results that they have produced. Laws, rules and procedures must be modified to minimise the time & money cost of compliance to relatively honest economic agents.

Labour laws, though made with the best intentions have in many instances had the opposite of the intended affect. Labour laws that focus on health and safety of the workers are essential and should be extended to unorganised workers. Similarly the right of assembly, formation of labour and right to strike are democratic rights of workers. Harmful laws are those that try to overturn market demand, supply and pricing principles, such as elements of the contract labour act Industrial development and regulation act and the Industrial disputes act. These elements of laws by protecting existing organised sector workers provide an incentive for them not to work sincerely & efficiently and also provide a dis-incentive to hire new workers. They need to be made more flexible so that organised labour-intensive manufacturing & services are encouraged to generate higher productivity jobs.

2. Competition & Efficiency

The same basic principles of competition apply to infrastructure services and factor markets as to the goods market. De-control and de-licensing must be completed in the remaining items such as drugs, fertilisers, coal, petroleum, sugar and

small industry.²³ SSI reservation is perhaps one of two main reasons why India, unlike China, has not become the 'manufacturing base' for the world supply of labour intensive goods. Lacs of new jobs have been lost in exportable industries in a futile attempt to preserve the profits of existing small-scale industrialists.

Similarly the key issue for a sick consumer is whether the drug is genuine and will cure the sickness that it claims do, or whether it is one of the myriads of spurious drugs that are flooding the market. The price is a secondary consideration, and the governments health programs are the appropriate channels for insuring that poor patients have access to basic drugs at an affordable price.

De-control and de-licensing must also be extended to services, including infrastructure services (e.g. telecom) and factor markets (labour & management). Contrary to some assertions, the same principles apply to infrastructure service, with the addition of measures to unbundled and regulate natural monopoly segments.

3. State Monopolies

State monopolies, whether they are departmental public enterprises or Public sector units, have proved to be as inefficient and antithetical to consumers/public interest as private monopolies. Such monopolies not only invite extraction of monopoly rents and X-inefficiency but also confer additional power on government departments & their ministers that is easy to misuse. Introduction of competition and dispersal of this power requires, free private entry, un-bundling of all natural monopoly elements and their regulation by independent regulators, and privatisation of all contestable elements (core & non-core) so as to introduce genuine competition into the latter. Public sector & nationalised banks also constitute a near-monopoly as around 80% of the entire banking system is owned by the government. This is the highest percentage in the world. As we already have one of the better regulatory systems (RBI) and banking has no natural monopoly elements, the banking system will only become competitive if these are privatised.

B. ROLE OF GOVT

The role of government must be redefined to abandon the many functions accumulated over decades where the government adds no value (even theoretically under ideal conditions) and focus on the basic functions of governance that only the

²³ Though notionally the petroleum sector has been de-controlled the reality is much more ambiguous.

government can perform, but have been neglected. Right sizing of government requires both downsizing and re-focussing of government attention on essentials.

1. Down Sizing

Downsizing of the government requires privatising of production, shutting down of control department and ministries and eliminating producer and middle class subsidies. All these add to the power of government and thus undermine the power of the public and accountability of the elected representatives to the people. This is particularly so when the power to harm is so much more than the power to do good. Use of such production units and producer & middle class subsidies for personal vote yielding populist measures is one of the reasons for fiscal bankruptcy.

a) Privatised production

The government must get out of the production of (what are technically defined as) “private” goods and services, i.e. those “that can be sold to and consumed by individuals on an exclusive basis. These are not “Public goods” in the sense that consumption by one individual does not diminish the consumption by another (non-rivalry) or are non-excludable, or they are “Quasi-Public” in that they meet the criteria approximately and have some element of externality.²⁴ There are several reasons for this. Firstly they can just as well be produced and sold by non-government (commercial, co-operative or non-profit) organisations, so there is no positive reason for government to produce them.²⁵ Their production has been usurped by a ‘Leviathan’ government in its unquenchable thirst for power.

Secondly, the incentive structures in government are not conducive to efficient commercial operation. The rigid financial rules (e.g. sale by auction) do not allow even the honest and sincere public servants to run producing enterprises in an efficient manner.²⁶ The layers of government hierarchy (PSU/DPE, concerned ministry, cabinet & parliament) as well as the CVC and CAG system is not conducive to

²⁴ For instance even though urban piped water & education are ‘private’ good/service, I would define ‘clean drinking water’ as a “Quasi-public” good as consumption of dirty water can lead to public health epidemics. Similarly literacy & primary education have externalities in that the entire society (including the educated) benefits from the expansion of the pool of literates. Further, in rural areas, even piped water and primary education may not be private good/service.

²⁵ That is government does not have any advantage even at a theoretical level.

²⁶ One such secretary level officer told me of his personal experience of being charge sheeted for selling in the market, without due auction process, a by-product of the industry that had traditionally been dumped into the surrounding areas.

making management decisions in a complex economy or to risk taking in an inherently uncertain world. Thirdly, the rate of return on the assets employed in these units is less than the interest rate that could be earned on the sale value of these assets and much less than the rate of return of similar units in the private sector.²⁷

Privatisation of competitive and contestable goods (including units producing civil & dual use items for defence forces) can be done with all deliberate speed, while that of natural monopoly (such as power distribution) must be accompanied by setting up of appropriate regulatory systems. Regulators already exist for the financial system (RBI & SEBI), so privatisation of banks & other financial institutions (e.g. UTI) can be initiated without delay.²⁸

b) Eliminate Departments

Many areas have been de-controlled and de-licensed; yet the staff, divisions, departments and ministries set up to implement such controls and licenses continue. These must be eliminated to remove the threat of ad hoc interference and red tape and root out the control mentality that has wormed its way deep into the government. Similarly, there is no need for ministries and quasi-public institutions dealing with 'private' goods & services such as steel, sugar, fertiliser.

c) Phase-out Non-Poor Subsidies

Subsidies must be targeted on the poor, which for this purpose should include the less well off half (50%) of the population. Impact studies show that the poor benefit less than or at best proportionately to the middle-upper income groups. Better targeting requires a systematic effort to *eliminate both producer and middle class subsidies* and search for channels that can be used to focus subsidies on the poor.

The origins of many subsidies have long been forgotten and they continue because large subsidies always build strong vested interests. The fertiliser (Urea) subsidy is a good example. Its original justification was to induce small and marginal farmers to adopt new HYV technologies, as higher fertiliser usage was an inalienable part of the HYV package. Over the years it became a subsidy for large surplus

²⁷ Note that the "resource rent" on natural resources such as oil that have scarcity value can & should be mopped up by government through a royalty or other resource rent tax, whether the producer/user is a government or private company. The proper comparison for oil producer/user companies is therefore net of oil resource rents.

²⁸ Those who genuinely believe that government is to blame for recent financial failures, should realise that systemic tinkering or change of government will not change the basic incentive structures. Similar, perhaps worse crisis are inevitable in the future if ownership remains in government hands.

farmers, particularly those producing food grains for the market. More recently it has become a subsidy for fertiliser producers as the gap between farm price and world prices has disappeared. This subsidy can be eliminated by complete decontrol of fertiliser with the subsidy phased out over 3 years (say). This will allow the fiscal deficit to be reduced and larger funds to become available for irrigation & rural infrastructure that helps all rural poor including small & marginal farmers.

2. Refocus Govt

Broadly speaking the government has three broad functions that it must perform for the economy and society.²⁹ This is the provision of “Public” goods and services, the correction of “externalities” and “social welfare.” The former has been most neglected over the past three decades.

a) Public Goods

‘Public good,’ is an economic concept with a precise technical definition, one element of which is “non-excludability” and another is “non-rivalry.” The classic ‘public good’ (actually service) is ‘defence’ where exclusion is literally impossible and once provided everybody shares in it. Other services that meet the definition are general administration, the judicial system, police, roads & prevention/control of communicable/epidemic diseases. Though in principle government could charge individuals for the use of local roads it is prohibitively expensive to do so (economic non-excludability). Rural roads, once built satisfy the non-rivalry condition in that they the traffic is very light (and they are thus empty) most of the time. Inter-city roads have very strong element of externality (marginal cost \simeq zero relative to average fixed cost), so that they are also considered ‘public goods.’ Similarly public health measures such as public (not individual) supply of clean drinking water, sanitation & sewerage, population control and public education about nutrition, cleanliness etc. correct negative externalities and are accepted as ‘public’ goods. Similarly literacy & basic education have positive externalities for other educated people and can be similarly classified even though it does not meet the exclusion criteria in urban areas.³⁰ Because of limits to divisibility and the sparseness of population, many basic infrastructure services (drinking water, primary education) in rural areas have very

²⁹ The issue here is expenditure related functions, not macroeconomic, tax and other policies.

³⁰ In general both basic public health & basic education services are more accurately defined as ‘quasi-public’ goods.

high average fixed costs relative to marginal costs and can be classified as ‘public goods.’³¹

Fifty years after independence the population coverage and the quality of supply of these basic services is pathetic and globally embarrassing. Much more attention, time and funds need to be spent on these basic public goods & services. Government responsibility for supply means that government must provide the required funds but it need not produce all these services.

(1) Non-Governmental Producers

Private schools have played a vital role in the high educational attainment of Kerala. Production of services must be entrusted to those who can supply the service most efficiently. This implies that the poorest worst performing states have the greatest need to entrust the job to non-government organisations.

The UP government has covered all its districts with secondary schools for girls by giving a one time grant to any organisation that was willing to set up such a school. Similarly there now exist *non-profit organisations* that can provide quality primary education at one-tenth the cost of the government system. Unlike government schools where teachers do not show up these organisations guarantee that on completion students will be able to pass pre-specified tests. Similarly the Gujarat government has contracted the running of several health centres to *non-governmental organisations*. This has solved the problem of perennially absent staff and non-functioning centres. Such organisations must be used wherever they are available to provide universal primary education & primary health services.

(2) Public-Private Partnership

There are, also specific areas within these broad public service categories, for instance construction & management of jails, in which *public-private partnership* can be effectively used to improve efficiency. Again the key concern should be efficiency & quality of output (“biggest bang for the buck,”) not ideology.

(3) Institutional Reform

Defence, Judicial, Police and general administrative services can only be provided by the government, so that the focus has to be systemic reform and introduction of modern management practices for improving efficiency. Archaic laws

³¹ Once a primary school is built and teacher provided, or piping for drinking water established, the marginal cost is almost zero (relative to the fixed cost).

have to be repealed; archaic procedures modernised (written evidence-signed & sworn, limited adjournments based on prior written request & notice to counter party) to provide justice to those who have cases going on for as much as 30 years. The Police system, which has become an instrument of political power for the ruling party has to be refocused on providing personal security & upholding the rule of law. Its slow but steady decline into anarchy has to be stopped and eventually reversed.³²

b) Correcting Externalities

Externalities are a known form of market failure even in a competitive economy and need to be dealt with through government intervention. Apart from the externalities that we have incorporated in the concept of ‘Quasi-public good,’ the most important externalities relate to Knowledge and information & environment /pollution. The significant areas in the former are Science & Technology, higher education in special fields of national importance, development of strategic technology (e.g. aerospace & nuclear)³³ and Research & Development and the spreading of knowledge especially in agriculture (information/extension).³⁴ This is best achieved through a mix of government expenditures and tax/direct subsidies. The optimal mix can be different for different sectors and also changes over time. The private sector can play a much greater role in correcting these externalities at lower cost to the exchequer, but government will also continue to be an important player in this area. Similar solutions apply to environmental externalities, of which control of water pollution is the most important from the expenditure perspective.

c) Social Welfare

The third important expenditure related function of government is social welfare. The definition of Social welfare has a large element of context specificity, in that it cannot be defined independent of the average income & wealth of the country. Equally there is a basic minimum that even a relatively poor, democratic country must ensure in the 21st century. We cannot allow people to die of starvation or to be chronically hungry. Society must also take ultimate responsibility for the old, infirm

³² It has already reached a point where a beat policeman in Delhi can threaten a SSI producer with overnight theft of materials lying on his premises if an adequate ‘hafta’ is not paid to him.

³³ Technologies of power where normal commercial considerations do not apply and availability depend on geo-strategic considerations.

³⁴ Thus government must provide facility grants to R&D organisations and scholarships to PhD students in S&T.

and disabled and for abandoned or destitute children. Every citizen has the right to life, physical security, basic human dignity and equality before law and constitution. The government has the duty to eliminate pockets of feudal oppression and bandit government that still prevail in parts of the country.³⁵ Known criminals, dacoits & murderers cannot be allowed to publicly hold the law to shame because of their muscle power, political power or (sometimes ill gotten) wealth.³⁶

C. COUNTERVAILING POWER

1. Decentralisation

The Central and state governments have accumulated too much administrative power and this power must be dispersed to lower levels of government, the Panchayati Raj institutions (PRI) and Nagar Palikas (NPs). This requires further changes in the PRI and NP & municipal acts. The principle of subsidiarity must be applied so that all functions that are best carried out at the lowest level are devolved to them, and a similar allocation is done to the next higher level and so on up the ladder. In particular responsibility for provision of local public goods (drinking water, primary school, PHC, irrigation water distribution, local roads) must be devolved to PRIs & NPs along with the power over local taxes and any additional funds required. This is, however, only the first step. These PRIs must also be made accountable to the local public, so that powerful caste and other sub-groups do not hijack them.

2. Accountability: Peoples Power

a) User Groups

One way to ensure accountability for provision of particular services is to require the setting up of specialised user groups for monitoring the availability and quality of specific services. Thus for instance a user group that includes parents & grand parents of school going children along with the teacher would have a much greater incentive to ensure proper functioning of the local primary school. The user

³⁵ 'Bandit' or 'Predatory' government is a particular form of pre-feudal government defined in the theory of political economy.

³⁶ The T&D mafia can arrange to steal half the power supply of the capital city of Delhi, its inspectors can institute false charges of electricity theft and set the DESU equivalent of the CBI on a doctor whose employee inadvertently charged his relative and a government servant has to approach the union power secretary to ensure installation of functioning (rather than a faulty) meter at his house, while commentators still refer to 'pilferage' & theft of power by industrialists.

groups for Primary health centres must have majority representation from senior citizens, potential mothers and mothers of pre-school age children, and disabled/infirm/chronically sick or their close relatives. Similarly an oversight group for a 'food for work program' must have adequate representation of the landless and marginal farmers and a water distribution user group must have adequate representation of farmers.

b) Non-governmental Organisations

The government must also actively support and strengthen self-help groups and civic groups doing social work (NPOs). The existence of NGO entrepreneurs siphoning off funds for personal use cannot be used to discredit the entire movement, just as the existence of numerous charlatans who have made religion into a virtual industry does not discredit all religious figures. Vested interests, whether bureaucratic or political, will inevitably make such charges and demands to preserve their own rents.

c) Co-operatives

The inter-state co-operative law as well as the co-operative laws of States must be modernised to exclude ad hoc intervention by government and increase their autonomy & accountability to members.³⁷ Any over sight by government must be through transparent institutions such as an independent professional regulator, who can ensure professional management of co-operatives and accurate audited accounts.

3. Independent Regulators

There are three sectors of the market economy that clearly need regulatory systems for over seeing private (or government) provision and supply. These are infrastructure service segments that have 'natural monopoly', the financial sector because of its fiduciary responsibility and two social sectors (education & health) because of potentially large and irreversible human consequences. The modern approach to regulation is to ensure availability of information, transparency and detection & punishment of fraud, lying in the grey area between outright illegality and bad luck.

Honest, professional suppliers of these services therefore welcome and support such regulation, making them the first line of administration through self-regulatory

³⁷ A few states such as Andhra Pradesh have already reformed their law.

organisations.³⁸ Given the deterioration in Governance in the private sector itself, though for different reasons than in the Public sector (e.g. the low probability of detection, prosecution and punishment for breaking the law), this cannot be taken for granted. Though regulation can never substitute for a deteriorated police-legal system, there is a need for a quantum jump in the quality of regulation in the financial sector (e.g. co-operative banks, NBFCs, Chit funds). Development of Regulatory institutions to meet such grave challenges will inevitably take time. It follows that privatisation of Public sector banks must be done in a gradual manner (i.e. “with all deliberate speed”). It also follows that entry of foreign banks that have a much stronger culture of corporate governance than old private banks, will be an asset to the financial system and the economy.

There are several reasons for removing the regulatory functions from government proper and putting them in a separate organisation. First, the generalist government has neither the expertise nor the professionalism needed to do a good job of regulation. A professional organisation staffed with adequate specialised skills and knowledge is essential for efficient regulation and this is best created within a separate autonomous and independent organisation. Second, such an organisation can be better insulated from the day-to-day pulls and pressures of democratic politics as has been demonstrated in the case of the RBI. Third, it allows government to act as a higher court of oversight in that it is available to act in the (hopefully) rare situation in which the regulator is tempted to extract rents.

4. Civil Service Reform

Even if the government restricts itself to its basic functions, the civil service will still be needed to perform these functions. One view is that the service is too politicised to even perform these functions effectively, unless its autonomy is restored to levels that prevailed during the first few decades of independence. This requires the process of selection, appointment, posting and promotion to be distanced from politics and made relatively autonomous. Another view is that once the government sheds all the lucrative rent generating functions that it has accumulated over the years, it will become less attractive to those who view politics and government as a (privately/ personally) profitable business or occupation. The extreme forms of

³⁸ This approach contrasts with the control approach that assumes that the policy maker or administrator knows exactly what the producer should or should not do in the interest of some higher purpose.

deterioration can then be controlled through the creation of countervailing power and new checks and balances. Though efforts must be made to reform the system as proposed in the first viewpoint, in our judgement these are either unlikely to take place or will be effectively undermined by the system. These efforts must therefore be focussed on the most critical area, namely the police. For the rest of the bureaucratic system it would be more pragmatic to take the latter viewpoint as the working hypothesis.

D. CHECKS & BALANCES

There is an urgent need to strengthen the checks and balances in the political system. Though the framers of our constitution paid a lot of attention to the potential for corruption in the bureaucracy, they made the fatal mistake of assuming that all future elected representatives would be incorruptible and selfless like those who fought for independence. They could not imagine that the judiciary could also be corrupted.

1. Criminal Legislators

There is an urgent need for electoral reform to reduce the currently overwhelming incentive for corruption. If the Neta-criminal nexus is not broken a time will come in the not too distant future when it will become virtually impossible to stop the criminalisation of the entire police force. In our view the minimal elements of a solution are, (a) State funding of elections through a matching funds approach. (b) Freedom to companies to donate funds subject to shareholder approval. (c) Transparent accounting and mandatory auditing of the accounts of political parties that receive State or company funds. (d) Mandatory bar to running for any political office by any one against whom criminal charges have been legally framed, (e) Special courts to try politicians/potential candidates against whom such charges have been framed so that those who are the object of motivated/false charges can be tried and cleared quickly.³⁹

2. Police

The police force has over time become an important instrument of political power. The police are therefore no longer an independent instrument for enforcing and upholding the rule of law and for providing personal security to all its citizens. The misuse of police by the political masters for personal ends as well as the use by

³⁹ Penalties could also be prescribed against those who wilfully make false charges.

the police of state power vested in them, for their own personal ends, is not merely a theoretical possibility but a frightening reality. This enormous power of the police to do harm must be checked before it becomes uncontrollable.

A number of commissions from the Dharam Vira commission to the Law Commission have suggested the creation of a buffer between the political bosses and the day-to-day operation of the police. One approach is to set up an autonomous police commission in each state along with open and transparent process for appointing the senior officers of the commission. There is also need for an independent public prosecutor whose job is to take cognisance of, oversee investigation of and prosecute major crimes (e.g. murder, armed robbery/dacoity, kidnapping, rape, police crimes). To ensure accountability to the public, which has become the object of police harassment, each police commission & public prosecutor would be accountable to an oversight committee of representatives from all walks of life (including the administration & judiciary). This would ensure that the police themselves obey the law and the law-breakers among them are given exemplary punishment.

3. Media

A free media has a vital role to play in checking the abuse of power by the State. One of the less remarked benefits of economic liberalisation during the nineties has been the flowering and expansion of the media. Even traditional media such as newspapers and magazines have been galvanised by the entry of new private TV and other media. A responsible and responsive media can be an invaluable protector of the rule of law and the civil rights of its citizens. Our media has demonstrated over the past decade that it can do so while taking due care to guard the national interest against hostile foreign nations and the terrorists sponsored by them. This role can be further strengthened by further de-control and strengthening of self-regulatory media organisations.

VI. GOVERNANCE FAILURE

A. REGIONAL INEQUALITY

Though poverty has declined over the past decade, it has declined less in the poorer states, because the latter have grown more slowly than the country as a whole,

with the result that inter-state inequality has increased. A number of eminent economists have asked us the question, ‘What is the role of the State in dealing with this issue?’ under the proposed paradigm/approach. Our reading of the ground reality is that most of these States are characterised by pervasive government failure. Consequently, ‘the State is part of the problem and may not be part of the solution.’

The senior most officials of one such State govt. admitted in a meeting with peers from Central and State governments that they were not competent to procure excess production or deliver food to the starving. Hearing this from a member of the elite service, an inheritor of the ‘steel frame of India,’ was a shock. Similarly, the top political leadership of one State admitted the existing State machinery could not spend money productively and that it would be very happy if development activities could be carried out by anyone else, including the provider of the funds.

The only solution to this incredible failure of governance is to create alternative non-State institutions within such States to build physical & social infrastructure and carry out development tasks, perhaps including some of the basic functions of governance. There is an even more urgent need than elsewhere to get the stifling hand of government out of the peoples’ business, by downsizing govt and liberalising State laws, rules and procedures, and focussing whatever positive energy the government is able to muster on the ‘basics of governance,’ given in section V B 2. The mammoth State of UP will perhaps also have be broken up into (about four) smaller States so that the span of state govt. control is more suited to the provision of basic public services and rural development.

B. STRATEGIC MANAGEMENT

Strategic intervention to develop certain industries was practiced by some of the high growth economies such as S. Korea. Though the empirical studies of the results of this intervention give mixed results, such “strategic industrial policy” received fresh support from the new industrial economics. At a theoretical level, government policy interventions designed to correct market failure is consistent with the framework outlined in this paper. The attempts to identify “strategic industries” using the insights of the new economics and to evaluate the potential welfare gains from intervention have again yielded mixed results. In our context, governance factors may swamp other issues, in that the negative effects of rent seeking and political protection overwhelm any potential gains from correction of market failure.

VII. CONCLUSION: INDIAVISION 2020

The State and its functionaries have accumulated excessive power to the point that it has corrupted them not just financially but in spirit. Paradoxically the system's power to do useful work has been undermined, while its ability to do harm has multiplied. Countervailing power must be created to check the power to misuse and to strengthen the ability of the system to do good. Power must be returned to the people from whom it has been usurped and the State and its functionaries made accountable to the people. This will only happen if the State sheds all activities that the people and its institutions, both economic and social, can do, and the State becomes a facilitator instead of a controller. Only then will the State focus on and accomplish what it alone is able to but has neglected to do.

Over the next decade (or at most two), the people must re-establish their democratic power by forcing the Central and State Governments to undertake the following reforms:

- Review Laws, Rules, Regulations and Procedures to remove distortions and harmful incentives (e.g. red tape, corruption).
 - Remove distortions that provide a disincentive to hire labour in the organised sector and encourage capital intensive, non-labour using techniques of production and supply.
- Promote economic freedom and competition in the supply of all goods and services by removing controls on private/non-governmental economic activity and introducing modern professional regulatory mechanisms where needed.
 - Regulatory systems are needed for 'natural monopolies,' fiduciary financial institutions, education (school and college) and health (food, drugs, surgery).
- Privatised Public sector units producing 'private' goods & services. Corporatise, un-bundle and privatise all departmental public enterprises (except those producing nuclear, aero-space or defence systems).
- Privatised Public Sector Banks and Financial Institutions and move from government oligopoly to genuine competition.
- De-centralise the supply of 'Public goods and services' to the lowest possible level of government and empower each level with the appropriate tax and expenditure power based on the principle of subsidiarity.

- o Nagarpalikas and Panchayati Raj institutions must have the power to tax local land and property (within specified bands) and to control the supply of local public services.
- Introduce a Right to Information act that gives the unfettered right to people/poor (& NGOs representing them) to all information relating to the expenditures made in their name and ostensibly for their benefit. **Empower** user groups to ensure accountability of expenditures and provision of service to these users.
- Government must ensure all its citizens (poor, rural, urban slums) the following basic **entitlements**:
 - o Drinking water of acceptable quality for all by 2010. Pollution of drinking water sources should be eliminated and drinking water quality reach global standards by 2020.
 - o Water harvesting, watershed development, tanks, wells for conserving water for personal, agricultural or other uses in all rural areas.
 - o Modern sewerage, sanitation waste collection and disposal facilities in all urban and semi urban agglomerations and appropriate systems for all villages. Emerging economy standards by 2010 and global standards by 2020.
 - o Epidemic and infectious disease control of global quality
 - o Permanent Road connectivity to all villages.
 - o Free and compulsory Primary education for all by 2010, followed by universalisation of secondary education by 2020.

Though government has the responsibility to provide the funds needed for provision of these entitlements it need not produce everything itself. Wherever more efficient non-governmental delivery mechanisms are available they should be used.

- Reform the Police system by setting up operationally autonomous Police Commission in each State. A Public oversight committee, with representatives of government and prominent citizens, would also be set up to ensure that the police do not misuse their authority and obey the law that they are charged to uphold. The monitoring/oversight committee should have the authority to ensure that any policeman that misuses his position or violates the law is given exemplary punishment.

- Set up a National Legal commission to provide similar oversight over the legal system and the neutrality and probity of judges at different levels.
- Introduce a law to debar those against whom criminal charges have been framed in a court of law from holding or standing for election to a public office, till such time as the person has been acquitted. Set up a special tribunal for expeditiously trying all such cases in which the person wishes to stand for public office or is holding public office at the time of notification of the new law.
- Ensure access of the rural areas to information on crops, non-agriculture and related activities through telecom connectivity (internet, internet telephone) at competitive cost. This requires immediate access of the private sector to monopoly networks like the telegraph system, elimination of explicit or hidden taxes (e.g. revenue share) on rural telecom provision, and modernisation of agricultural R&D and extension systems (autonomy, management, accountability).
- Replace the myriads of anti-poverty and related programs for the poor by a *smart card system* that entitles the poor to a consolidated income supplement based on all relevant family parameters (income, health, age, gender) and identification & authentication systems.