

## **Good Governance is Key to Prosperity**

The news on the economic front is somewhat disconcerting. The last quarter growth rate has fallen to 3.8%. What is worse, the revenues of the Union government in the first quarter are Rs.10,000 crores below estimates and the fiscal deficit has risen significantly. Two major credit rating agencies have downgraded India's creditworthiness. There are early days yet, and things could improve in the remaining fiscal year. But news from manufacturing sector is not very happy either. In fact, if services sector is excluded, there is stagnation in much of agriculture and industry. And the growth in services sector is always exaggerated as it takes into account the vast army of government employees and their wage increases without real productivity gains.

One fact not adequately emphasized in India is the relative smallness of the secure wage-earning sector. We have in all about 27 million workers in the organized sector, or about 8% of the total workforce in the country. Of them, an astonishing 20 million, or nearly three-quarters, are in government! About 13 million are directly employed by the government at various levels, and about 7 million are in public sector undertakings. This number in the last decade has actually increased by nearly a million. The problem is not the size of government employment in absolute terms. Many nations have a larger proportion of population employed by government. The real issues are the productivity of those in government, and the relative size of workforce in government as a proportion of the total organized workforce. In many ways both are linked. If government is productive, it creates conditions for economic growth, which in turn promotes employment in private sector. The ratio of government workers then comes down in time.

The productivity of government is critical for economic growth. This assertion may seem strange in the free market era. But there are seven vital functions a government ought to perform to promote growth. Public order, justice, and rule of law are the three most important monopoly functions of government. Failure to deliver these dampens investment, productivity and growth. A lawless society cannot enjoy growth and prosperity. A stable, peaceful and harmonious society is a precondition for growth. Indian governments have largely failed to fulfil this condition. Then we have school education and primary health care. In modern world, these two are widely accepted as state functions. Nowhere in the world has private sector played a dominant role in

school education. Only in India the state's role in schooling is declining for a variety of reasons. The results are catastrophic. An illiterate and unskilled population cannot be productive in a modern economy. Private sector can certainly acquire dominance in hospital care; but primary health burden has to be borne by the state in any civilized society. Again our public health infrastructure and services are in decline. Finally, there are two other sectors in the development of which the state has a vital role along with private sector – infrastructure and sustainable natural resource development. Private investments are necessary but government's investment, policy framework and regulation are critical for these two sectors. Much of rail, and road building will be in government sector. In telecommunications, sensible policy and regulation are vital. In power sector, public investment, policy and regulation are all equally important. Natural resources have to be harnessed largely by the state. It is unlikely that irrigation and soil conservation will attract large private investments. In energy sector there will be private initiatives, but government has to play a proactive role.

The Indian state has increasingly become a stumbling block to our economic growth prospects. The state guzzles vast resources and produces very little in return. The solution does not lie in mindless downsizing. What we need is redeployment and greater productivity. Take a large State like Andhra Pradesh with 900,000 employees in government. About 180,000 or 20% are unproductive for the people, as they are engaged as peons and drivers! Another 30% (270,000) are support staff (clerks etc.) whose only purpose is to allegedly help the decision-makers. There are about 40,000 officials with decision making power at some level or other, and they could perform far more efficiently and economically with a well-trained support staff of a total of 60,000. But we have 450,000 of them employed as clerks, drivers and peons! We have about 310,000 teachers, and the State probably needs another 300,000 teachers of good quality to sustain a credible school education infrastructure. The healthcare system is inadequately staffed. We have 1200 judges in the State, and a total of about 15,000 in India. Germany, with a population of 80 million, has 30,000 judges! We have far fewer police personnel than needed in modern times.

But mere redeployment does not guarantee high productivity and delivery of services. We need instruments of accountability, and decentralized structures which promote competence. All these

and more are needed to bring any degree of competence and efficiency in government. And without government doing its job competently, economy cannot grow fast. The spurt in growth in the first few years of liberalization is largely because of the sudden release of fetters which forcibly inhibited growth. It is like a dam which was breached. Once the reservoir is emptied, we need further sustained inflows. Painstaking catchment treatment is necessary for that. Any further rapid growth demands high level of competence and service delivery by the government. Mere budget making, fiscal projections and economic indicators will not make a dent in poverty or promote growth. Good governance is the key to prosperity. The sooner our parties, governments, economists and media recognize this simple lesson, the better it is for our polity, economy and society.

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