

The Road Ahead

Ideas of India: Political Economy Conference, Goa

August, 2022

- A functioning democracy (Myron Weiner's four postulates):
 - i. Competitive elections
 - ii. Universal political freedom
 - iii. Peaceful transfer of power
 - iv. Real power with elected governments

- Peaceful integration of Princely States
- Deft handling of linguistic diversity
- Strengthening of federalism
- Fundamental Rights and Constitutional institutions that have stood the test of time
- Dismantling of the License-Permit-Quota raj and modest economic growth

Rule of Law

Public Order

Justice

Basic Amenities

Infrastructure

Education

Healthcare

Sustainable
Natural
Resource
Development

- Sustained high economic growth for the next 25 years is key to India's future

Opportunities:

- Stable **political system**
- **Macro economic** environment
- Accent on **infrastructure and investment**
- Significant efforts to remove the hurdles for investment and growth
 - **Market reforms** have taken root
- Impressive **digital growth**

Four Pillars (The Economist, 14th May, 2022)

1. Forging of a **single national market**
2. **Expansion of industry**
 - a. Renewable energy shift
 - b. Move in supply chains away from China
3. Continued **pre-eminence in IT**
4. High-tech **welfare safety net** for the poor

Challenges:

- Failure of **rule of law**
- High degree of **centralisation** – weak local governments
- Ballooning **fiscal deficit** and mounting **debt**
- Mass **migration** to big cities and rise of **urban poverty**
- **Agricultural liberalisation** stalled
- Appalling delivery of **education and healthcare**
- In general, weak **service delivery** at the grassroots level

The Way Forward

Addressing the Challenges

Failure of Rule of Law:

Lowest conviction rate

India's conviction rate (50.4% for IPC crimes, 2019) is far below the norm in other major democracies (80-90%)

Large pendency and long delays in courts

~1.43 crore civil and 3.16 crore criminal cases pending in Trial Courts and High Courts

Criminal cases significantly outnumber civil cases

4 criminal cases for every civil case filed in India

India ranks **79th out of 139 countries** in the Rule of Law Index 2021

Parameter (select)	Rank
Criminal Justice	86
Civil Justice	110
Order and Security	121

Required Action:

Independent and accountable crime investigation separate from law and order policing	Offences punishable by 3 years or more imprisonment (~20% cases registered in a year)
District Attorney system at the district level	Drawn from the judiciary and to guide and supervise all prosecutions
Procedural changes	Criminal Procedure Code, Evidence Act, Civil Procedure Code
Local courts in rural and urban areas	Exclusive jurisdiction: civil – say matters upto Rs. 5 lakh; criminal – offences punishable by 3 years or less imprisonment

Local governments –

current scenario

- **Over-structured**
- **Underpowered**



Resultant adverse consequences:

- No avenue for **leadership** to rise
- No proper **political recruitment**
- Inefficient and corrupt **service delivery**
- Absence of the following linkages –
 - **Vote and public good**
 - **Taxes and services**
 - **Authority and accountability**

*Vote becomes a **purchasable commodity**
and **freebies** become endemic*

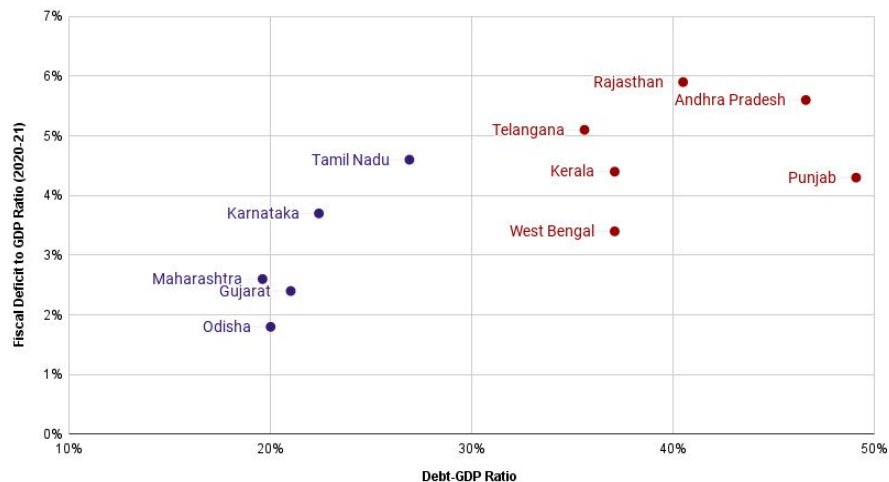
Required Action:

- **Incorporate Schedules XI and XII into Schedule VII of the constitution**
 - Constitutionally devolving powers and responsibilities to local governments
- **Evolve a separate governance architecture** for the 61 cities in the country with population over a million

- **Committed Expenditure and unproductive subsidies** are driving up the fiscal deficit and debt of States
- Cost of debt-servicing for General Government is **6.5 percent of the GDP** (FY 2020-21)

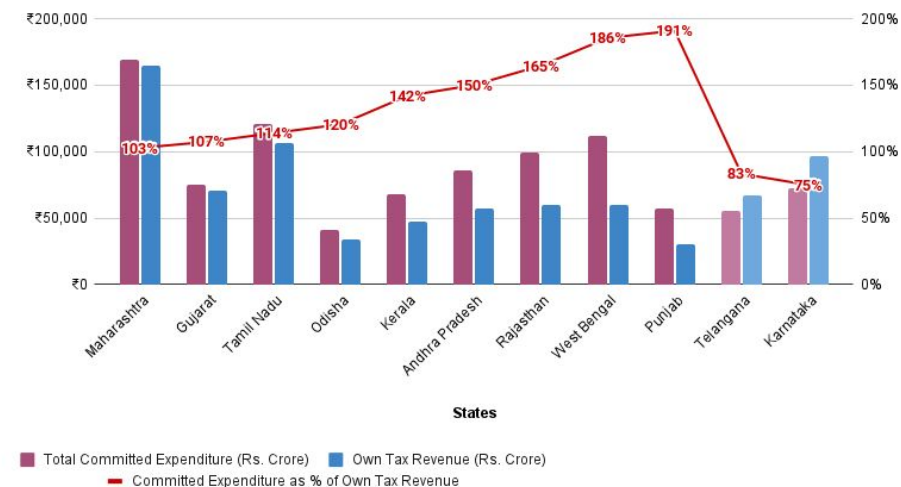
Fiscal Deficit and Debt-GDP Ratio of Select States

Debt-GDP Ratio for TS and AP includes government guarantees. Source: State Budget Documents; Chart: Foundation for Democratic Reforms



Committed Expenditure vs. Own Tax Revenue (2020-21)

Data Source: State Budget Documents; Chart prepared by: Foundation for Democratic Reforms



Required Action:

- **Objective, rule-based uniform application of Article 293(3)** to reduce debt burden
- Entrusting the power of enforcing fiscal discipline on States to an objective and independent body
 - Make the **Finance Commission a permanent body**; or
 - **Constitute an authority**, if political consensus exists

- Cities with a population of over 1 mn - **35 cities (2001)**, **53 cities (2011)** & projected at **71 cities (2030)**
- **25%** of the urban population lives in slums
 - Disparity among states – **6%** (Kerala), **35%** (Andhra Pradesh, Haryana, Maharashtra)
 - **42%** of the households in Mumbai reside in slums; **10.6%** population of Delhi lives in informal settlements
- Increasing urban challenges in light of climate change – water management

Required Action:

In-situ urbanisation

- Reduce **distant migration** of **unskilled and semi-skilled workers**
- Focus on **small town development**
- **Synergy** between rural and urban economies
 - Proper linkages with agriculture and other sectors
- **Livelihood opportunities** and necessary **social infrastructure**

1. The Essential Commodities Act, 1955

- Reform of legislation is not required
- Mere political will and adherence to stated commitment to not apply the law is sufficient

2. Contract Farming

- Currently permissible under law
- Can consider fiscal and other incentives to promote consolidation and contract farming

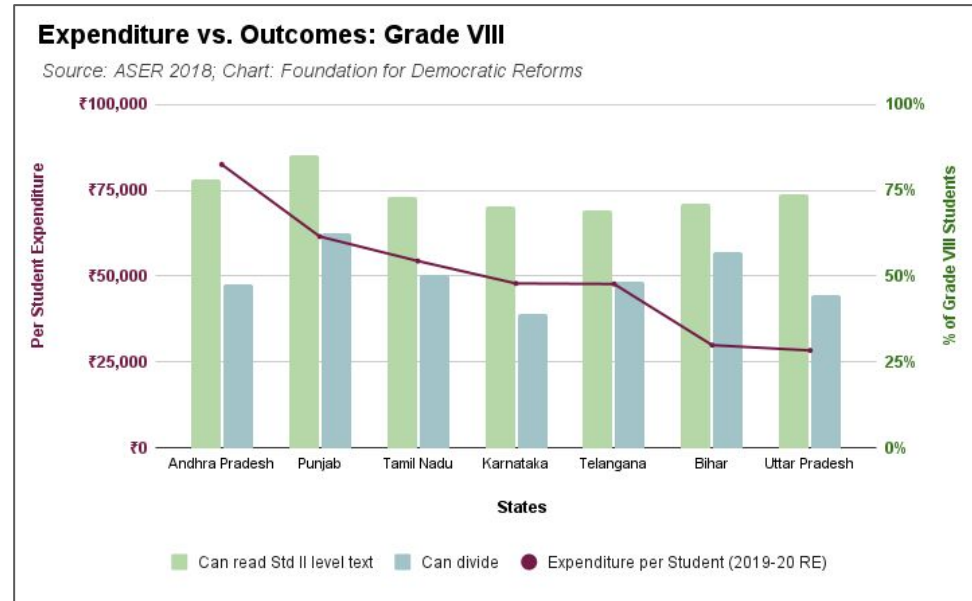
3. The Agricultural Produce Market Committees Reform

- Monopoly of Agricultural Produce Markets continues in case states are unwilling to reform
- Even in states where agricultural markets have been liberalised, implementation is sub-par

Further Action Required

- Promote retail chains
- Compress market chain
- Ensure higher share of end-price to farmers
- Improve logistics
- Overcome non-tariff barriers
- Penetrate global markets

- The challenge is not inadequate expenditure but of **abysmal learning outcomes**
- Although variable across states, **per-student expenditure** is sufficiently high
- Further, with declining birth and fertility rates, the **number of 5-14 year olds is expected to decrease by 44.5 million** between 2011 and 2036
- **Proportion of private school enrolments is on the rise**
 - Grades I-V – rose from 31% in 2014-15 to 38% in 2019-20
 - Grades VI-X – rose from 29% in 2014-15 to 34% in 2019-20



Required Action

- Consolidation of schools
- Improving the examination system
- Effective monitoring of schools
- Judicious utilisation of technology for enhancing:
 - a. Conceptual understanding
 - b. Critical thinking
 - c. Problem solving

- **High Out-of-Pocket (OOPE) expenditure**
 - Over **60%** of all healthcare expenditure in the country
- **6 crore Indians are descending into poverty** every year on account of healthcare OOPE or lost income due to illness
- Insurance is welcome but will not serve India's needs
- India – a **global healthcare hub**
 - This year, **a million overseas patients** are expected to receive healthcare services in India
 - Foreign exchange earned by providing healthcare services to foreigners is expected to reach **USD 13.4 billion by 2026**
 - In ten years, with some effort, this figure can reach USD 100 billion in income
- Currently, only 3.6 million workers employed in healthcare sector
 - Potential to create **10-15 million jobs** in the healthcare sector alone

Focus Areas	Required Action
Primary Care	Family Physician system with choice for patients and competition between providers Accessible locally Public-funded
Secondary Care	Expanding Ayushman Bharat to make coverage universal and include most secondary care services
Tertiary Care	Strengthen tertiary care hospitals significantly and make governance flexible

- Total cost of implementation would be about **Rs. 85,000 crores or 0.5% of GDP**

Required Action:

- **Bureaucratic accountability** through strong service guarantee laws with penalties for non-delivery
- **Restructuring** of bureaucracy to address the following issues –
 - a. Lifelong tenure
 - b. Absence of specialisation
 - c. Monopoly over all key jobs

Challenges:

- Minimise vote-buying and freebies
- Enhance stability in states

Required Action:

- **Direct election** of the Chief Minister in the States
- **Proportional Representation** with bonus seats for the largest party
