

## Is State Only a Necessary Evil?

Classical liberals (libertarians) are intelligent, articulate, freedom-loving people. Unlike the “bleeding heart” liberals of the US, libertarians hate big-government, and are particularly opposed to centralized state or bureaucratic control. In much of this opposition and love of liberty, they are right. The history of 20<sup>th</sup> century is the triumph of liberalism against fascist authoritarianism and collectivist totalitarianism. It is now axiomatic that the government which governs the least is the best government. Public opinion has also come to accept that government has no business to run businesses. Libertarians naturally oppose high taxation or huge public expenditure. As Milton Friedman so succinctly explained, a citizen knows best how to maximize his happiness by spending, as he deems fit, the Rs. 100 in his pocket. The alternative of transferring to the state most of it and hoping that someone, somewhere will take sound decisions for him (an unsound assumption), and receiving only a small fraction of it in the form of public goods and services (after transaction costs, leakages, inefficiency and corruption) is clearly unattractive to most of us. In many ways, the concept of unalienable rights of life, liberty and pursuit of happiness as propounded by the American Founding Fathers appeals to libertarians.

But closer examination of the OECD countries shows that in the real world most states pursue economic policies which combine the libertarian principle of *laissez faire* with expenditure for promoting social good in the form of education, health care and welfare. Notwithstanding Ronald Reagan and Margaret Thatcher, the public expenditure in OECD countries is about 45% of GDP on an average. India’s public expenditure as a share of GDP is lower than every OECD country, except the two city-states of Hong Kong and Singapore. The social expenditure alone accounts for 25% of GDP, adjusting for country-variations. The high-income countries spend 5.6% of GDP on public education and 6.4% of GDP on public health. Medium income countries spend only 4.6% and 3.2% of GDP on education and health respectively, while poor countries spend a measly 2.5% and 0.8% on these two sectors.

What does this indicate? Limited government and political and economic freedom to citizens are vital for individual growth and national advancement. But liberty cannot be construed in a very narrow and negative sense of state not abridging individual freedoms. State is not merely a necessary evil to defend our frontiers, maintain public order, protect citizens and ensure justice. State can, and should, also be a positive institution to create basic infrastructure, develop natural resources, and most of all to provide quality school education and effective primary health care. Liberal think tanks and academics have been vehemently advocating rollback of the state from these areas. While state's role in business is now universally opposed, there are no realistic substitutes to state in school education and primary health care.

It does not mean that state alone should provide these services. Private and voluntary sectors have a significant role, and nowhere in market economies is that role more pronounced than in India. Nor does it mean that state should necessarily provide these services. Stakeholders groups and voluntary organizations often do the job much better. But the financing has to come from the state. And by state I do not mean the centralized, remote, big-government, but localized, citizen-centered government starting with a community of stakeholders, and expanding in concentric circles to local, provincial and federal governments based on the principle of subsidiarity.

We have to recognize that social goods like school education and primary health care cannot be accessed by most citizens without state's intermediation or funding. And in our country, with vertical hierarchies, caste divisions and moral neutrality to social inequities, state's role is critical. With the state failing in these sectors, the bulk of our gene pool is wasted, and educational opportunities are effectively limited to a quarter of our population; poor people end up suffering and spending much more than the rich in market-driven private health care systems. Making education a profit-making enterprise has resulted in mushrooming of countless colleges that produce mostly literate, semi-educated, unemployable graduates.

It is easy for the well-heeled and well-connected to ridicule the role of the state. But the fact remains that the future of the vast majority of our children is dictated by the circumstances of their birth.

The potential of most children remains unfulfilled. Opportunities for vertical mobility are severely restricted for the bulk of the population. Paradoxically in the 1950's and 60's children had better opportunities. But the decline in public education and health care makes the situation increasingly unacceptable. Abdication of state is no solution.

We don't need big-government or high taxation. What we need is a better and more focused state that helps every child fulfil its potential and provides opportunities for vertical mobility. And we need to get good value for every rupee spent. If we are too myopic to see the obvious, the result will be hatred, violence and chaos. We owe it to ourselves to learn the lessons of the last century and act quickly to improve public education and health care.

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