

The Road Ahead

Can we avoid Sri Lanka-type crisis?

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Thanks to the Sri Lankan economic crisis, there is a lively debate in India about government finances, public debt burden and the nature of public expenditure. Prime Minister Modi's strong appeal to curb 'Revari Culture', and the opposition's stout defence of short term welfare to the poor indicate that the main campaign theme of the next election cycle could be how best to spend public money. It will be useful if we examine the issue calmly and logically.

First let us focus on the role of government. Human society is unlike any other species. The capacity to speak and communicate, and the enormous brain power facilitating logical thinking, use of tools and innovation are unique to human species. These unique features allowed us to come together in very large numbers. Animals live and interact in small groups, and collective hunting and defending their turf are the primary functions of the group. Basic instincts – survival and reproduction – guide animal behavior. As humans learned to cooperate and live in extremely large numbers beyond a tribe, they needed elaborate arrangements for individual and collective security and maintenance of order, and for fulfilling the collective needs. That is how government evolved over time.

Most of the decisions affecting us as individuals are made by us personally or in the family – where we live, how we dress, what we study, the school kids go to, the job we do, the profession we practice, or the business we pursue, how much we spend on what, whom we marry, how we raise children etc. But there are other needs in a large society which we cannot fulfill individually, and we need collective action. Defending our territory, punishing crimes, settling disputes, maintaining order, building roads, traffic maintenance, water supply, sewerage, storm water drainage, mosquito control, power supply, education of our children, health of our family – all these needs can only be

fulfilled collectively. No individual or family can perform these functions. That is how government came into existence, and has evolved over time to meet growing needs of society. We pay for some of these services directly – water supply, electricity, sewerage etc, and we fund the government through taxation for other general service, like public order, justice, rule of law, infrastructure, education, healthcare etc.

If we understand the purpose and role of government, it is easy to recognise how our tax money should be spent.

In general, government performs very poorly in our country. On every indicator of infrastructure, rule of law, education and healthcare India ranks in the bottom five of the forty nine countries with large economies along with Pakistan, Bangladesh and Nigeria. We can do better; we need to do better if we are to eliminate poverty, give every child an opportunity to fulfill her potential irrespective of birth, eliminate all avoidable suffering and promote prosperity.

In this debate, we should all agree on two basic things. First, education and healthcare are the basic responsibilities of a modern government in a civilized society. Our educational outcomes are appalling even as we are spending a lot. Better systems to improve outcomes, not merely more spend is the key to better education. Our healthcare is in poor shape, and every year about 5.4 crore people are descending into poverty on account of illhealth. We spend only about 1% of GDP on health, the lowest among all large economies in the world. We need to spend more, and better.

Second, we should lend a helping hand to those in distress: hunger and extreme poverty must be addressed through short-term help. But such short-term measures cannot be the at the cost of the core functions of the government, or at the cost of imparting skills, growing the economy, creating jobs and enhancing incomes. Skills to allow participation in economic activity, health to increase productivity, infrastructure and sensible policies to promote investment and creation of new jobs, and raising incomes are the only sustainable route to ending poverty. Government can only employ

a small number of people with our tax money to fulfil our needs; we must grow the economy and create jobs and prosperity.

Our government finances are not in good shape. Governments are spending a lot more than the tax income, and most of the expenditure is for current needs, not for building a better tomorrow. And government is very ineffective in delivery of basic services that are critical for harmonious society, opportunities for our children and economic growth. We cannot burden our children with our debts. Every family practices thrift and adds to the assets and wealth so that the next generation is better off. Our governments are borrowing to meet our current expenditure. In effect, we are stealing from our children; that is against Indian ethos and culture. Is the condition irreversible? Or do we have to stop all short-term welfare measures? Not at all. Poor people need help. We are a growing economy. If we simply freeze the current expenditure on short-term welfare, and focus on better education, healthcare, infrastructure, rule of law and investment promotion, that will solve the problem. With economic growth government revenues will increase. All we need to do is to limit current expenditure, and utilize all borrowings for investment. If short-term spend is frozen, its share in total public expenditure will decline and government finances will be healthy. We simply need a more healthy balance between government's core functions, long term growth and prosperity, and short term welfare of those in distress.

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